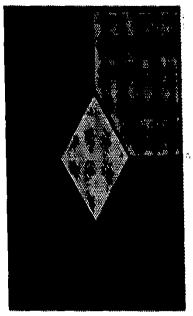

The USCIS ACADEMY

BUILDING THE WORKFORCE OF TOMORROW

3 DECEMBER 2012

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U.S. Citizenship and Immigration Services

AILA InfoNet Doc. No. 13020145. (Posted 2/1/13)

STARTUPS 101

the early stage innovation landscape

AILA InfoNet Doc. No. 13020145. (Posted 2/1/13)

The History & Anatomy of a Startup

AILA InfoNet Doc. No. 13020145. (Posted 2/1/13)

SOME HISTORY – SOME STATISTICS

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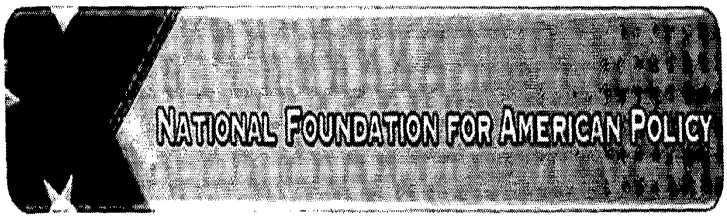
Impact of Immigrant-Funded Public Companies



» Over the past 15 years, immigrants have founded or co-founded 40 percent of U.S. venture-backed, publicly-traded technology companies

» Current market capitalization of publicly-traded immigrant-founded or co-founded venture-backed technology companies in the U.S. exceeds $500 billion

» Immigrant-founded or co-founded, venture-backed, public technology companies today employ an estimated 220,000 people in the U.S. and over 400,000 people globally

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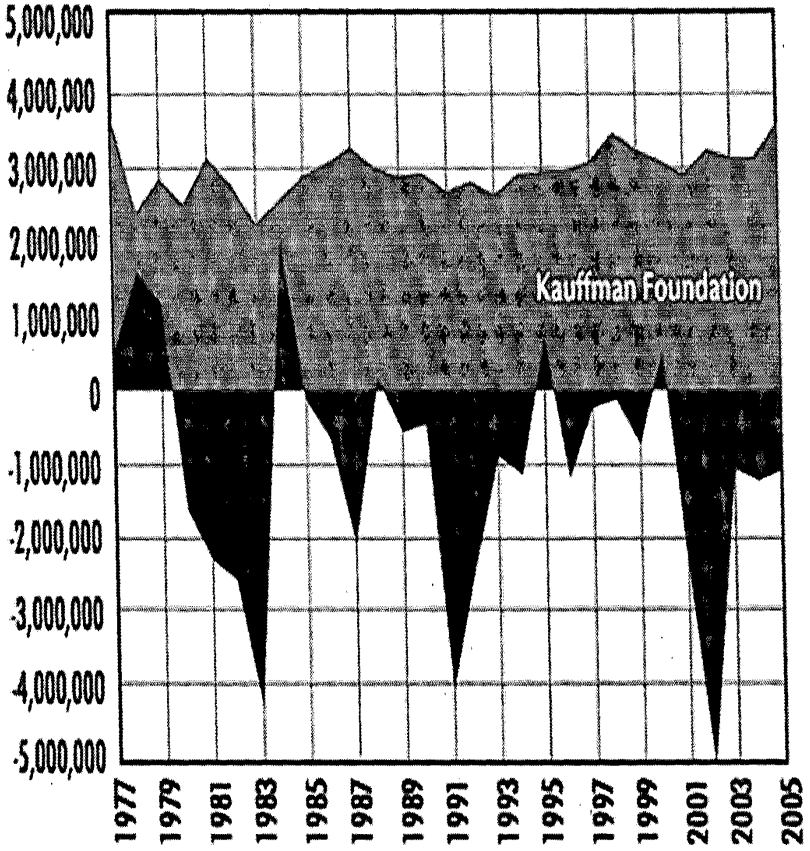
Who Are These Publicly-Traded Companies?

INTEL	GOOGLE	SUN MICROSYSTEMS	YAHOO	eBAY
Andy Grove Hungary	Sergey Brin Russia	Vinod Khosla India	Jerry Yang Taiwan	Pierre Omidyar France/Iran
100,100 Employees	33,077 Employees	38,000 Employees (at its peak)	12,000 Employees	27,700 Employees

Impact of Startups on the U.S. Economy

Startups Create Most New Net Jobs in the United States



"When it comes to U.S. job growth, startup companies aren't everything. They're the only thing." – Kauffman Foundation

Source: http://www.kauffman.org/uploadedFiles/firm_formation_importance_of_startups.pdf

Immigrant-Funded Startups

NATIONAL VENTURE CAPITAL ASSOCIATION
Funding innovation. Empowering entrepreneurs

» Almost half of the top venture capital backed U.S. companies have at least one immigrant founder or co-founder

» 37 of the top 50 venture capital backed companies employed at least one immigrant in a key management position such as chief technology officer

NATIONAL FOUNDATION FOR AMERICAN POLICY

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Startups Create ***Lasting*** Jobs

KAUFFMAN
The Foundation of Entrepreneurship

» In 2000, startups created 3,099,639 jobs

» By 2005, the surviving companies had total employment of 2,412,410 — or about 78 percent of the jobs that existed when these companies were formed

» By 25 years after companies' start, the employment numbers appear to level off at around 68 percent of their initial values

Source: http://www.kauffman.org/uploadedFiles/firm_formation_importance_of_startups.pdf

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Why the United States?

"Once you're in America, the environment, particularly with the venture capital community and network that exists in Silicon Valley, encourages ambitious people."

"It's a filter system: First, ambitious people come. Second, an environment for growth exists that encourages and accelerates ambition, which doesn't exist in other parts of the world."

– U.K.-born Ronnie Vasishta
CEO of eASIC

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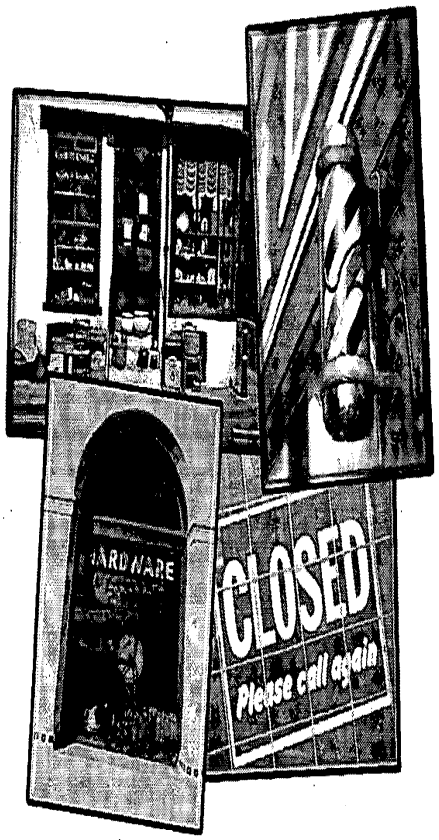
The Problem

Current laws and regulations were written in the 50s, updated in the 90s



Designed to address brick-and-mortar businesses

The concept of a modern technology startup does not fit neatly within existing regs

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The Problem

A "Brain Drain" by Implication

"It's a gamble whether an entrepreneur should stay or leave right now, and that's not how the immigration system should work."

Mark Heesen, President
National Venture Capital Association

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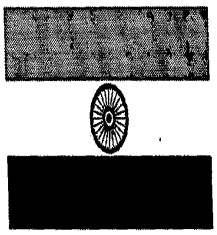
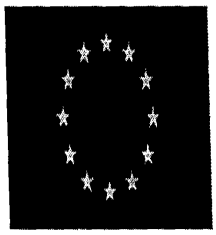
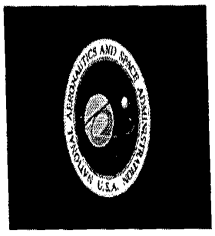
Why and How Is this Happening ?

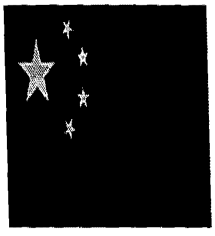
GOING LOCAL, GOING GLOBAL

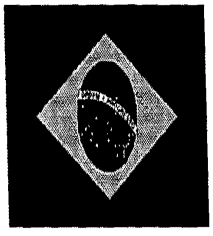
WEB GETS BIGGER → WORLD GETS SMALLER











THE TEAM

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Technology Startups of Today

Where Do Founders Come From? No One Path!

- "Smart Kids" – may have been coding for many years with no college or university degree
- Colleges and universities
- Post-graduate researchers and scientists
- Employees from other startups
- Entrepreneur-in-Residence (EIR) programs
- Repeat entrepreneurs
- Incubator programs
- Meet-ups, hack-a-thons, start-up events
- "Imports"

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Technology Startups of Today

Founders and What They Do

- Stress
- Dream big
- Build their team
- Empty bank account
- Take family and friends on a roller-coaster ride
- Build initial product/prototype
- Get feedback and iterate

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Technology Startups of Today

Technical Founders

- Write code
- Test infrastructure
- Research and development
- Write grants and proposals
- Source suppliers
- Recruit/hire

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Technology Startups of Today

Non-Technical Founders

- Sales
- Business development
- Design user interface/user experience
- Raise capital ($)
- Regulatory stuff (FDA, etc.)
- Write marketing materials and social media
- Recruit/Hire

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Technology Startups of Today

Changes in the workplace
(or . . . workspace)

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Technology Startups of Today

Early-Stage Startups May Have No Centralized Workplace

» Low cost is key to getting up and running

» Technology to connect teams over vast distances is widely available, and cheap

» Early stage investors are cool with this, and, in fact, prefer the cost savings of this kind of arrangement early on

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Technology Startups of Today

Many Startups Work in Collocated Workspaces

» Single-address workspace for several or more startups

» Provides Internet connection, wi-fi, snacks, and "community" at a very low cost

» Many co-working spaces are located near investors, which gives them a place to meet

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Technology Startups of Today

Co-Working Spaces Are the Startup Offices of Today!

		SOFTLAYER CATALYST WORKSPACE	INTREPID LABS	CAMBRIDGE INNOVATION CENTERS	GEEKDOM	DUMBO STARTUP LAB
RATES (Per Person/Month)	Shared	$150	-	$530	-	-
	"Floating"	$50	$300	-	$50	$200
	Dedicated	$250	$500	$500-$1000 (Depending on office size)	$150 (Desk)	$300
Per Team/Month	Group/Team	-	-	-	-	$1,200
FREE WIFI		✓	✓	✓	✓	✓
24/7 ACCESS		✓	✓	✓	✓	✓
Mailing address		✓	X	X	Only for Dedicated	X
Parking		✓	X	$225/month	Only for Dedicated	X
Conference room use		✓	X	✓	Unlimited(For Dedicated) 2 Hours/M (Shared)	✓
Beverages and snacks		✓	✓	✓	✓	✓
Event space		✓	X	✓	✓	✓
Free hosting		✓	X	X	X	X

Source: SoftLayer Technologies, Inc.

Why We're Here Today

Bottom Line: What it takes to create, grow, and maintain a viable technology company has forever changed the business landscape ...

... and entrepreneurs from all over the world want to start their companies in the United States.

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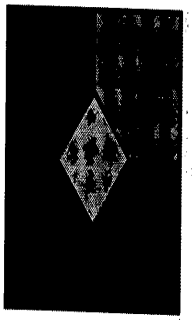

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Business Structures & Fundamentals

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Disclaimer

The brief explanations following regarding different types of business structures are working definitions and general-overview descriptions only, and NOT formal, textbook definitions or comprehensive descriptions.

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Business Structures

» Sole Proprietorship

» General Partnership

» C Corporation

» S Corporation

» Limited Liability Company (LLC)

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Business Structures

» **Sole Proprietorship:** Is an unincorporated business owned by a single person.

» **General Partnership**: Is when two or more people join to carry on a trade or business.

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Business Structures

» **C Corporation** – Is a business entity owned by shareholders (e.g., individuals, trusts, estates, other business entities, etc.) who exchange either money, property, or both for the corporation's capital stock. The corporation, not its shareholders, is legally liable for the actions of the corporation.

» **S Corporation** – Is a corporation whose shareholders and board of directors elect to pass its corporate income, losses, deductions, and credits through to their shareholders for state and federal tax purposes.

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Business Structures

» **Limited Liability Company (LLC)** – Is essentially a hybrid between a corporation and a partnership.

» An LLC is similar to a corporation in that it provides its members and managers with the protection of limited personal liability for the debts and actions of the business.

» An LLC is also similar to a partnership, because an LLC provides members with direct control over the business, thus giving the members management flexibility.

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Business Structures

» Startups tend to choose one of these business structures:

  » C Corporation

  » S Corporation

  » Limited Liability Company (LLC)

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Founders

» The founders determine the business structure and become the directors, officers, and original shareholders of the corporate structure.

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Corporate Players

- **Shareholders**: own shares (or ownership interests) in the corporation. They have the rights to do the following:
  - Elect and remove directors
  - Amend articles of incorporation and by-laws
  - Approve the sale of corporate assets
  - Approve mergers, acquisitions, and reorganizations
  - Dissolve the corporation

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Corporate Players

- **Directors** – set the policy, direction and financial decisions for the corporation, including the following:
  - Elect corporate officers
  - Authorize the issuance of stocks
  - Make financial decisions regarding:
    - Use of loans (either to or from the corporation)
    - Real estate (mortgage, sell or lease of)
    - Decides salary amounts for officers and key employees

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Corporate Players

» **Officers** – responsible for the management of the corporation. Most states require, at a minimum, a president, secretary, and a treasurer. Depending on the size of the corporation, all officers can be the same person.

» President – responsible for management decisions

» Secretary – responsible for corporate records

» Treasurer – responsible for corporate finances

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Forms of Equity (Ownership)

» **Founders Stock** – Term that refers to stock issued at the time of the company formation. Often subject to vesting restrictions or repurchase agreements.

» **Common Stock** – Typical form of ownership; called common to distinguish it from preferred stock.

» **Preferred Stock** – Stock with liquidation preferences or other rights over common stock. Typically issued to investors.

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Forms of Equity (Ownership) – cont'd

» **Options & Warrants** – A right to purchase stock in the future at a specified price ('strike price') and may be subject to conditions (vesting). Options are typically granted to employees and warrants are typically used in financing or other partnerships. Options are a significant form of compensation in startups – used to close the gap between market salaries and for employee retention.

» **Restricted Stock** – Can be any form of stock and refers to stock subject to certain conditions that must be met to be transferrable or not subject to repurchase.

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Vesting and Dilution

VESTING

» Startup employees usually do not get their stock upfront

» The stock is earned ("vested") over time

» "Cliff Vesting" means you do not begin vesting until a certain period of time

» Exercising options refers to converting (by purchasing) vested options into stock.

Example: Employee A is granted 10,000 shares with 4-year vesting, with a 1-year cliff, and monthly vesting for years 2, 3, and 4

DILUTION

» Occurs when additional shares issued or stock exercises or conversions occur (e.g., options vested and exercised)

» The increase in shares outstanding reduces the ownership % of current shareholders

» Fully diluted refers to ownership if all outstanding forms of possible shares are converted/, exercised, or vested

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Equity Documentation

» **Capitalization (Cap) Table** – Lists who owns what equity in a startup. Usually presented in a table or spreadsheet format. Most common way for startups to communicate ownership.

» **Stock Ledger** – Record of stock transactions for a company.

» **Stock Certificates** – Document certifying ownership of certain number of shares in the startup. Stock certificates are often held by corporate counsel and only distributed if requested.

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Equity Documentation

» **Stock Purchase Agreement** – Documents the terms of the purchase and sale of stock in a company to investors.

» **Statutory Stock Option Plans & Grants** – Options are issued under a shareholder approved plan outlining the general terms. Notifications of grants are given to the employee that specifies the number of options and terms of the option grant.

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Other Documentation

- **Term Sheet**
  - A statement of intent to close an investment or loan transaction
  - Summary of economic and control terms
  - Usually includes summary capitalization table
- **Voting Agreement** – Outlines board composition and how major corporate events will be voted on
- **Investor Rights Agreement** – Includes rights investors will get associated with the investment

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INCOME STATEMENT

- Sometimes called a Profit and Loss Statement (or "P&L")
- Reports a company's income (revenue), expenses, and profit (loss) over a period of time
  - Income – A company's revenue or sales (how much customers paid them)
  - Cost of Goods Sold (COGS) – The costs that go directly into creating the products or delivering the services the company sells
  - Expenses – All other expenditures in operating the business
- Startups often operate at a loss for long periods of time

INCOME STATEMENT	
	2011
Total Revenue	$ 331,500.00
Total COGS	$ 115,050.00
Gross Profit	$ 216,450.00
Salaries & Wages	$ 98,400.00
Fixed Operating Expenses	$ 210,000.00
Depreciation	$ 6,571.43
Operating Expenses	$ 314,971.43
Operating Income	$ (98,521.43)
Interest Expense	$ 5,573.96
Earnings Before Taxes	$(104,095.39)
Taxes	$ -
Net Income	$(104,095.39)

BALANCE SHEET

- Shows the value of assets, liabilities, and equity at a certain point in time
  - Assets – things of value that can generate cash flow (e.g., cash, accounts receivables, inventory, buildings, patents)
  - Liabilities – debts or obligations (e.g., accounts payables, loans, accrued expenses)
  - Equity – money invested in the business (e.g., stock, retained earnings)
- Assets = Liabilities + Shareholder Equity

BALANCE SHEET	Balance	2011
Cash	$225,000.00	$ (98.96)
Accounts Recievable	$ -	$ 97,750.00
Current Assets	$225,000.00	$ 97,661.04
Fixed Assets	$ -	$ 40,000.00
Less: Accumulated Depreciation	$ -	$ (6,571.43)
Net Fixed Assets	$ -	$ 33,428.57
Total Assets	$225,000.00	$ 131,079.61
Accounts Payable	$ -	$ 33,925.00
Loan 1	$ 75,000.00	$ 56,250.00
Loan 2	$ 25,000.00	$ 20,000.00
Loan 3	$ -	$ -
Total Liabilities	$100,000.00	$ 110,175.00
Investor 1	$100,000.00	$ 100,000.00
Owners Equity	$ 25,000.00	$ 25,000.00
Retained Earnings	$ -	$(104,095.39)
Total Equity	$125,000.00	$ 20,904.61
Total Liabilities & Equity	$225,000.00	$ 131,079.61

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CASH FLOW STATEMENT

- Summarizes cash in and cash out of a company used in operation, investment, and financing activities over a period of time
- Shows the timing of the cash flow – which may be different than when the expense is incurred (income statement)
- Startups use cash flow statements to determine their "burn rate" (need for money)

CASH FLOW STATEMENT	
	2011
Net Income	$(104,095.39)
Depreciation	$ 6,571.43
Increase in Working Capital	$ (63,825.00)
Cash From Operations	**$(161,348.96)**
Capital Expenditures	**$ (40,000.00)**
Increase / (Decrease) in Loans	$ (23,750.00)
Increase / (Decrease) in Equity	$ -
Cash from Financing	**$ (23,750.00)**
Change in Cash	**$(225,098.96)**

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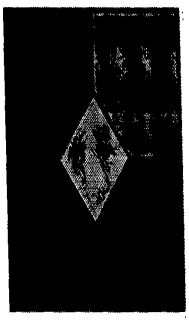

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The Stages of a Startup

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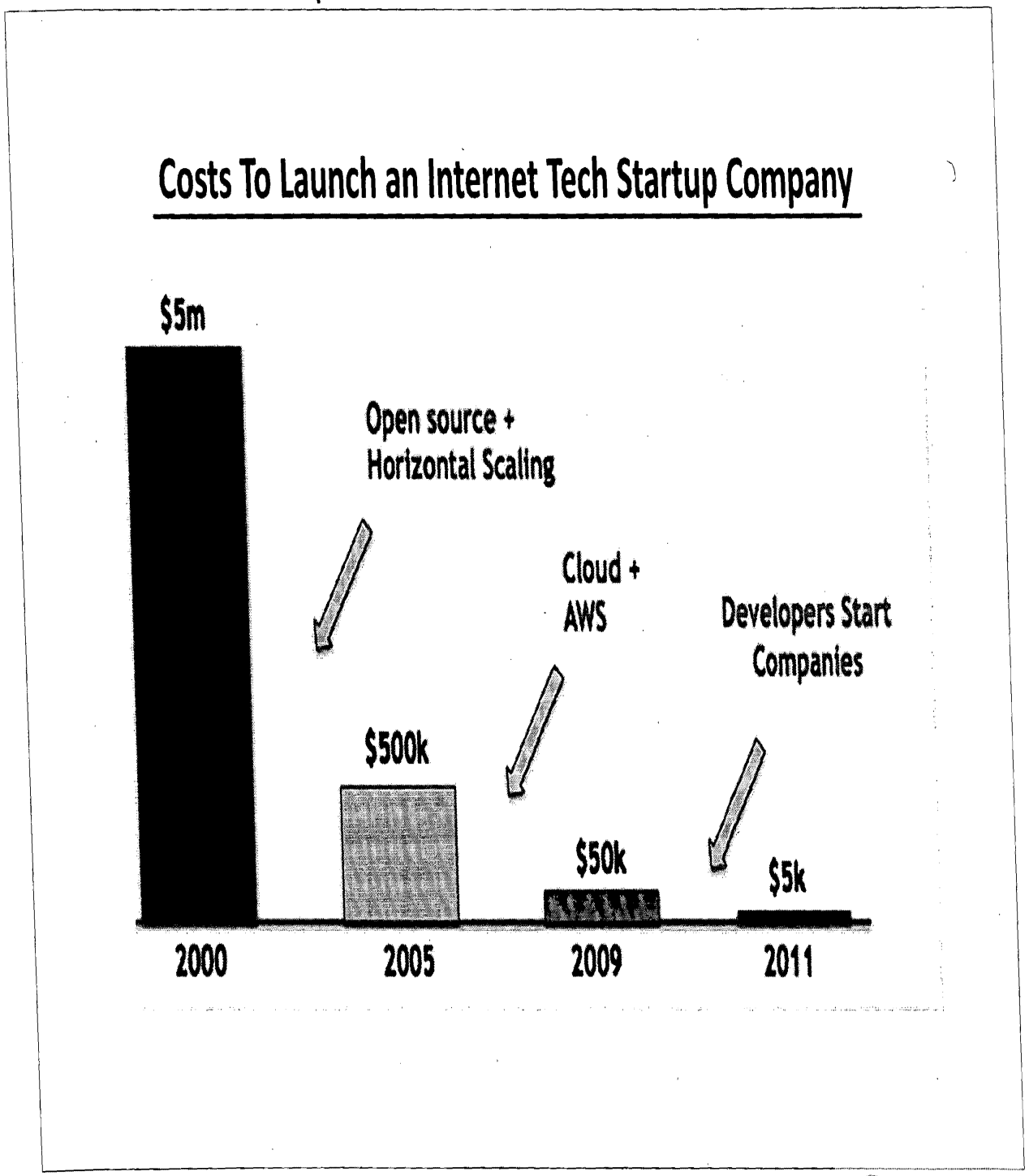
Startup Launch Cost . . . Then and Now



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Startup Launch Cost . . . Then and Now

2000	2012
⟩⟩ 100 million people online	⟩⟩ Billions of people online
⟩⟩ Connected via PC at the office	⟩⟩ Always connected
⟩⟩ Dial-up access at home	⟩⟩ PC, mobile, tablet, game devices
⟩⟩ Distribution is HARD	⟩⟩ Broadband
	⟩⟩ Social distribution

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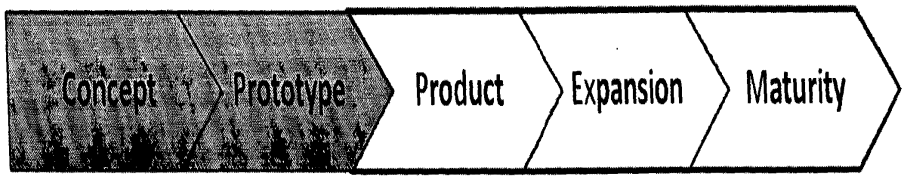

Product Validation: First ~6–12 months

- Discovery – what do people want?
  - Founding team is formed: Hacker, Hustler, Designer
  - Create a business plan
  - "Minimum Viable Product" is created & launched
  - Determining business structure
- Validation – small but meaningful traction
  - Refine core product features & identify important analytics/metrics
  - First hires: often more engineers/developers
- Results – survival of the fittest
  - Failures are often absorbed by other startups
  - Winners move on to market validation . . .

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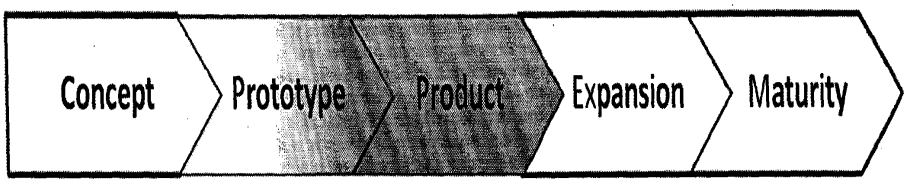

Market Validation: Next ~6–12 months

- Discovery – how big is the market?
  - Test marketing channels + cost
  - Test revenue generation, find customer segments
- Validation – "Many people use it and they pay"
- Results – survival of the fittest
  - Failures are often absorbed by other startups
  - Winners move to the next stage: growth . . .

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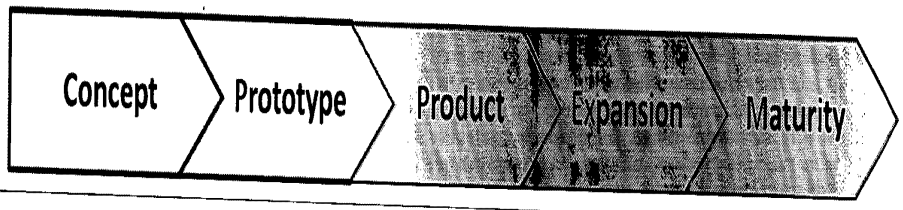

Revenue Validation + Growth: Next ~12-24 months

- Push to pull: Product development follows demand
- Make Money (or Go Big!)
  - "We can make (a lot of) money!"
  - Large number of hires: 100s–1,000s
- Profitable/Sustainable + Exit Options
  - IPO and/or much more growth (read: hiring)
  - Closing the loop: early employees now funding the next wave of startups

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Startup Evidence

- The further along a startup is, the more evidence will exist
- For early stage startups you might look for:
  - Articles of Incorporation & Bylaws
  - Federal Employer Identification Number (or Tax ID)
  - Bank account
  - People working on it full-time
  - Web site
  - Product development activity
  - Funding
  - Expenses (vendor contracts or payments)
  - Customer contracts or payments
  - Patent filings (early stage, usually provisional application)

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Business Plans

Startups Are Less Likely To Have a Traditional Business Plan

Most **will** have:

- » Executive Summary
- » Pitch Deck
  - » Team
  - » Market opportunity
  - » Solution (product/service)
  - » Competition
  - » Business model
- » Financial Plan

Some **may** have:

- » Other forms of business plans
  - » Timelines
  - » Objectives/strategic initiatives
  - » Plan outlines
  - » Business model canvas
  - » Detailed financial model

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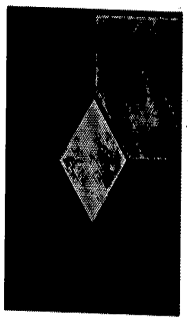

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BUILDING THE WORKFORCE OF TOMORROW

AILA InfoNet Doc. No. 13020145. (Posted 2/1/13)

Funding & Sources of Capital

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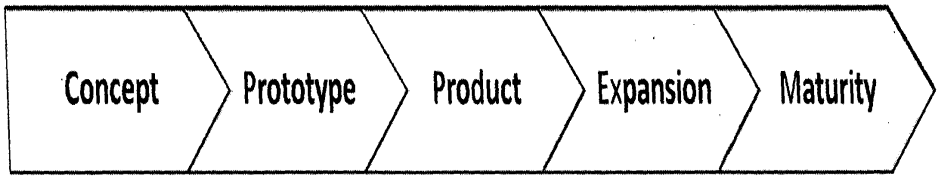
Tracking Progress



» Concept Stage

» Planning, market assessment, customer discovery

» Prototype Stage

» Product-development milestones, working prototype, technology validation, customer validation, initial team, possible funding

» Product Stage

» Customer adoption, paying customers, revenue growth, funding, product-development milestones

» Expansion Stage

» Customer adoption, scalable sales model, cost-per-customer acquired, revenue growth, margin growth, progress to profit/breakeven, funding

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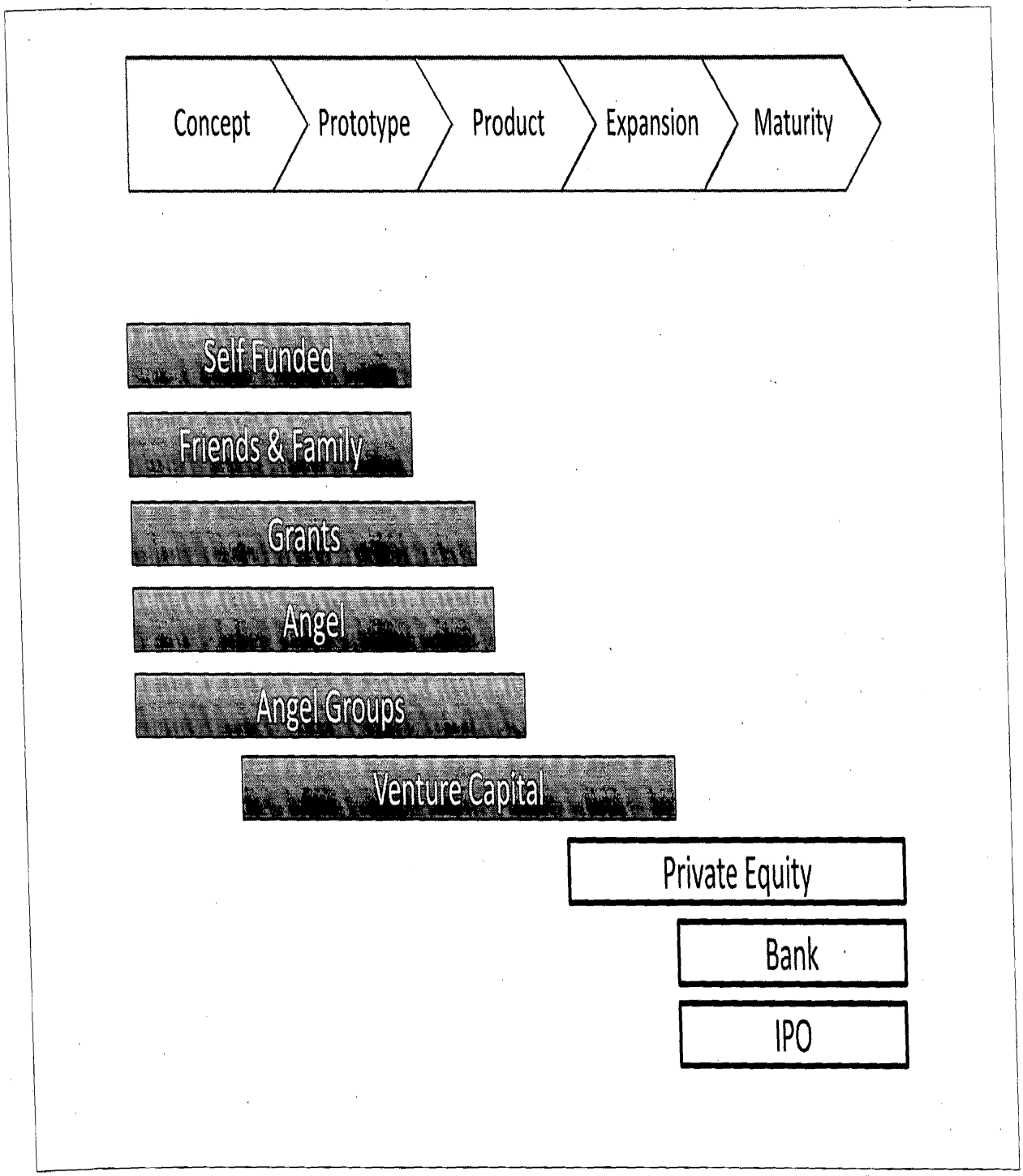
Sources of Capital



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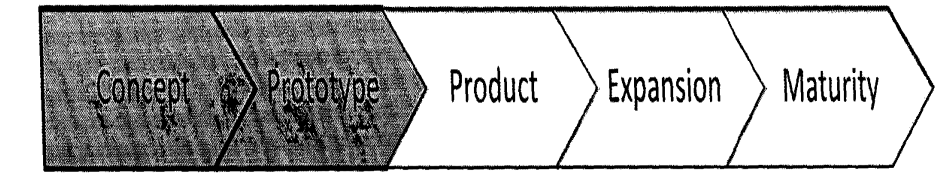
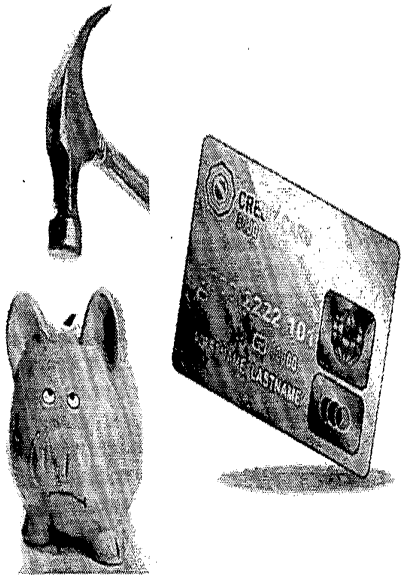
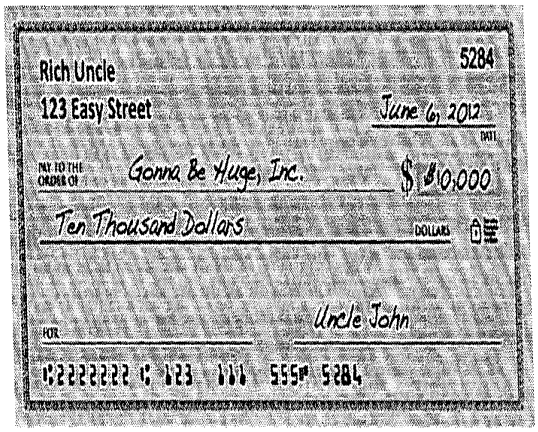
Getting Started





Bootstrapping
(self funded)

Friends & Family



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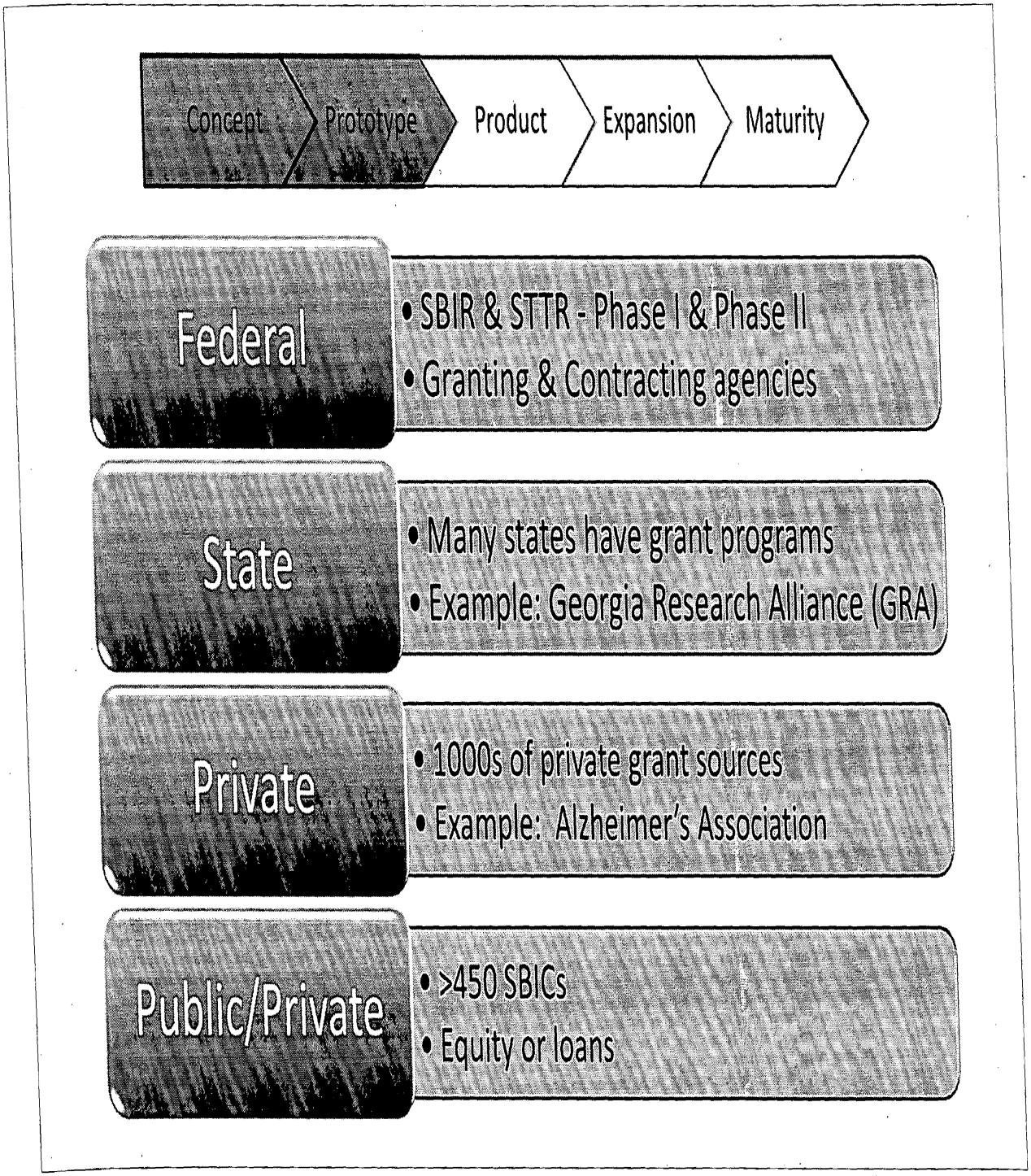
Grants



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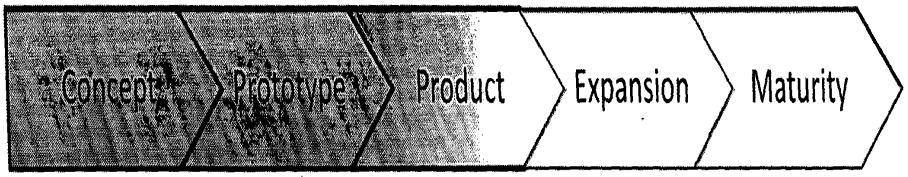
Angel Funding



250k Angel Investors **invest** **$2B** Per Year **into** **30k** Companies*

<5% of technology startups

Angel Investors

» Accredited High-Net-Worth Individuals (HNWI)
» Investing their own money
» Usually invest in exchange for equity or convertible note

Angel Groups

» Groups of Angel investors that pool their deal sourcing, research, and funding

*Small Business Administration

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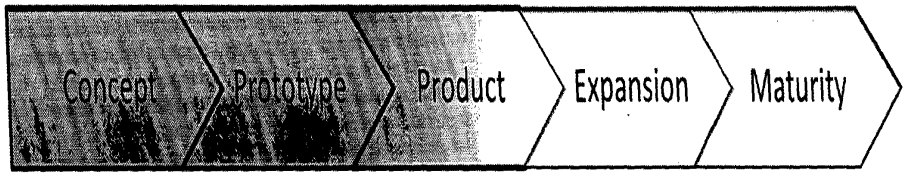
Incubators & Accelerators



Incubators

- Provide space, mentoring, and education to nurture startups until they reach a certain size (or fail)
- Often have economic development or R&D missions
- Usually funded by states, cities, companies, and universities
- Work with in-house startups for longer periods of time – usually several years
- Most include structured learning programs

Accelerators

- Entrepreneurs receive small amount of funding, mentoring, and education
- Often in return for a small amount of equity
- Venture backed
- Most include structured ~3 month learning programs

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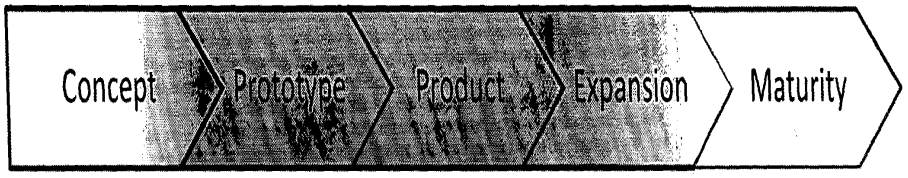
Venture Capital



» Invest in high-growth, high-risk startups in exchange for equity

» Other people's money

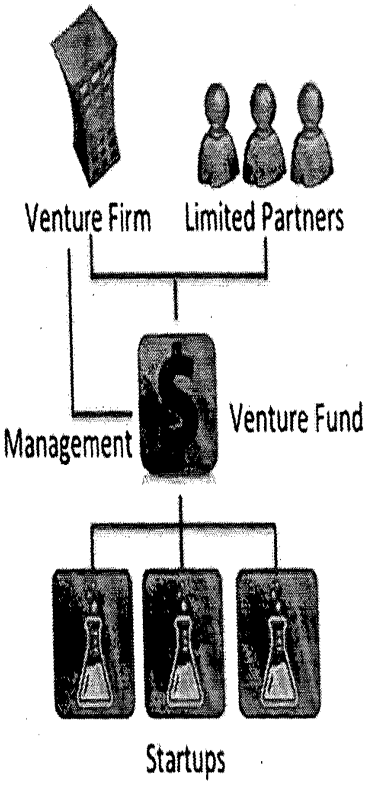
» Fiduciary Responsibility

» Venture funds target by:

  » Industry – Internet, software, biotech, clean tech, hardware, etc.

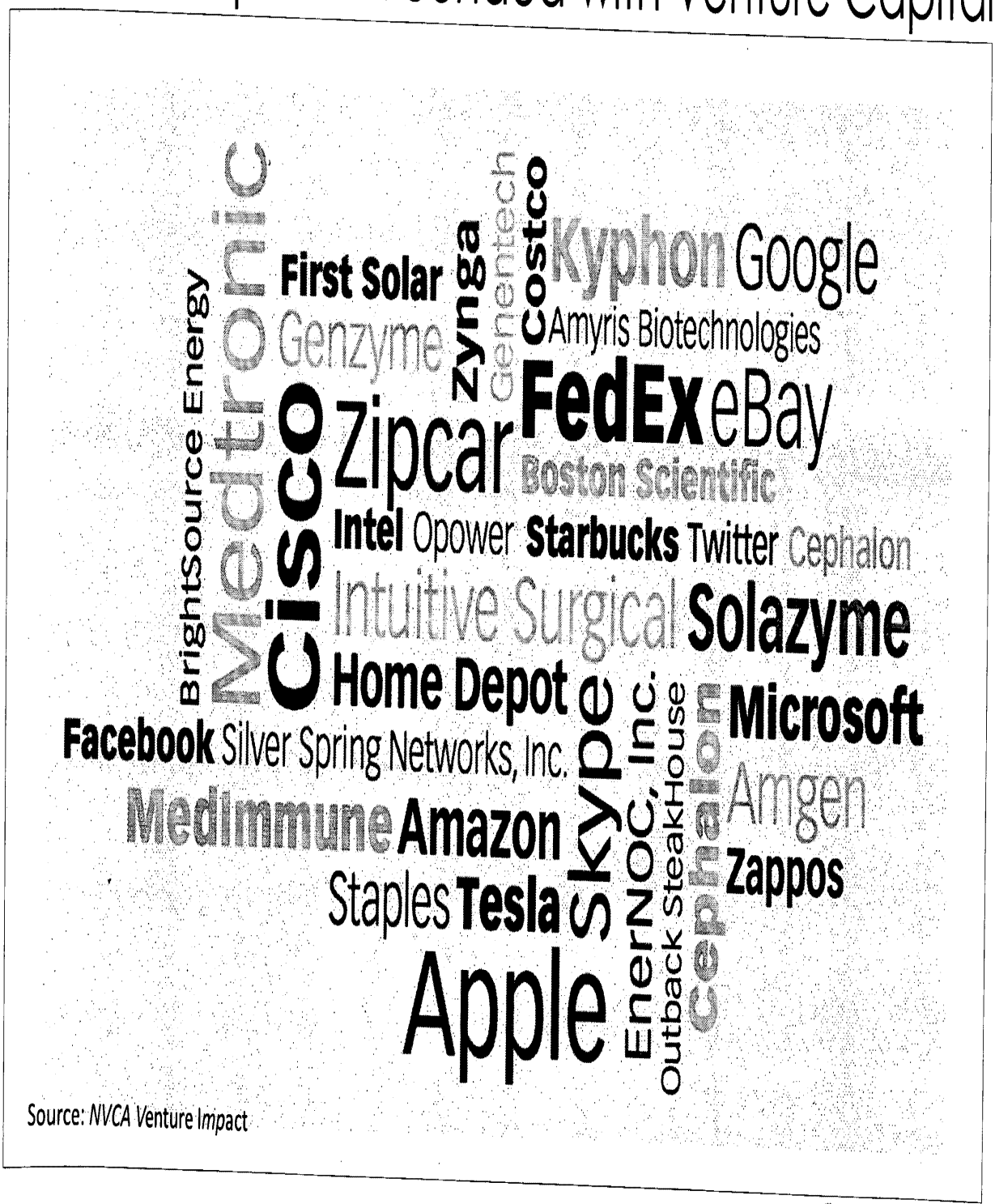
  » Stage of growth – Seed, Early Stage, Growth, Expansion (late)

» Financing rounds designated by letter of alphabet
(1st round = A, 2nd round = B, etc.)



<1% get VC funding

Companies Founded with Venture Capital



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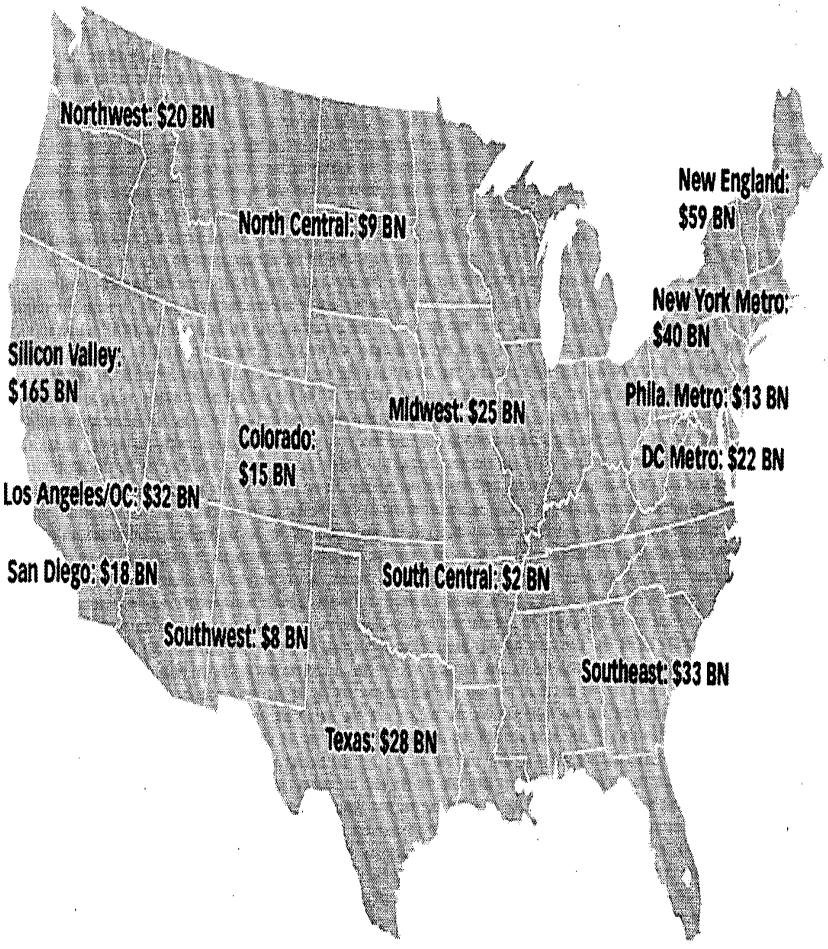
Not Just Silicon Valley



Source: The MoneyTree Report by PwC and NVCA based on data from Thomson Reuters

2800
companies received
$23.3B
funding in 2010

11.9M
VC backed jobs
11%
of private sector employment

<0.2%
annual funding % GDP
21%
VC backed revenue % GDP

Source: *NVCA Venture Impact*

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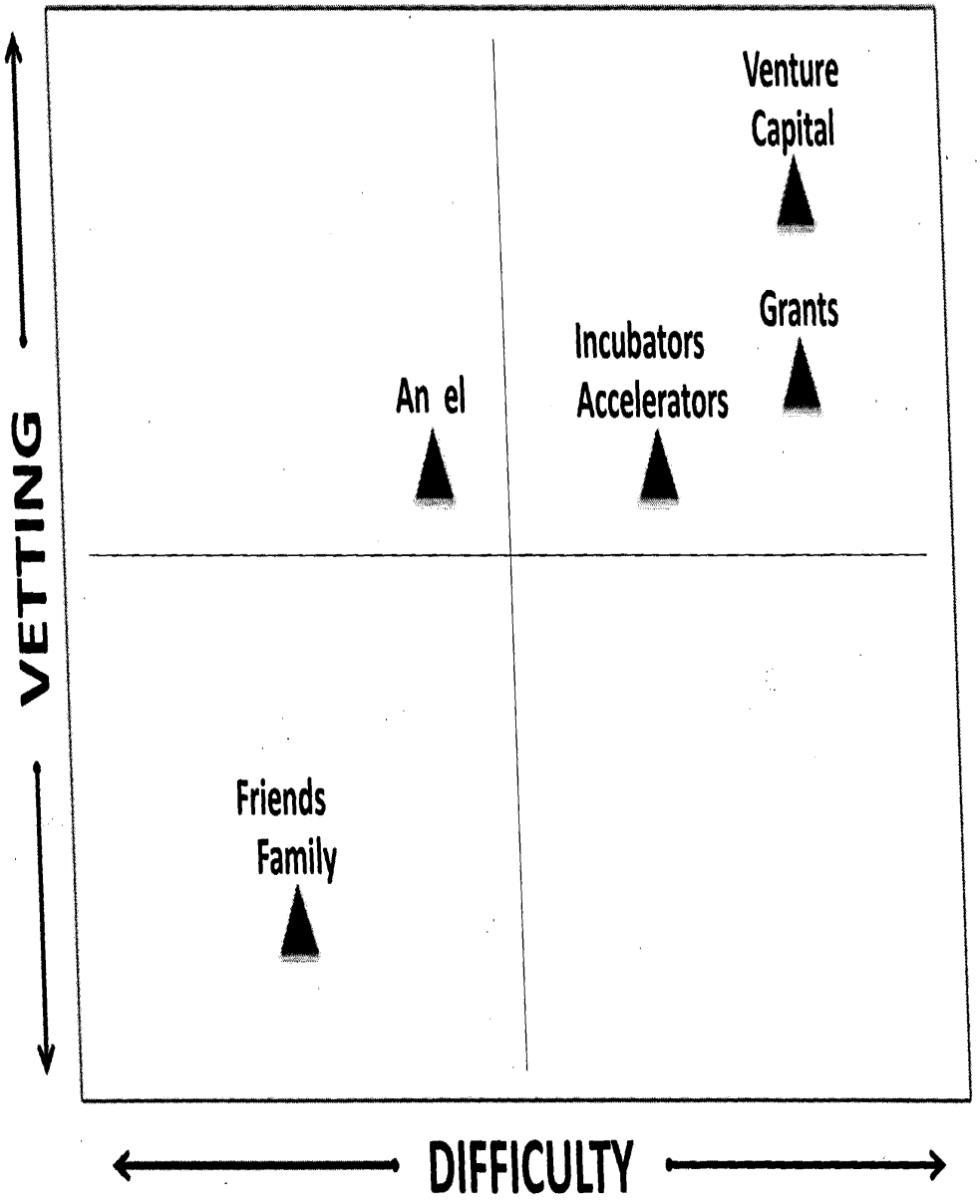
Getting Funded



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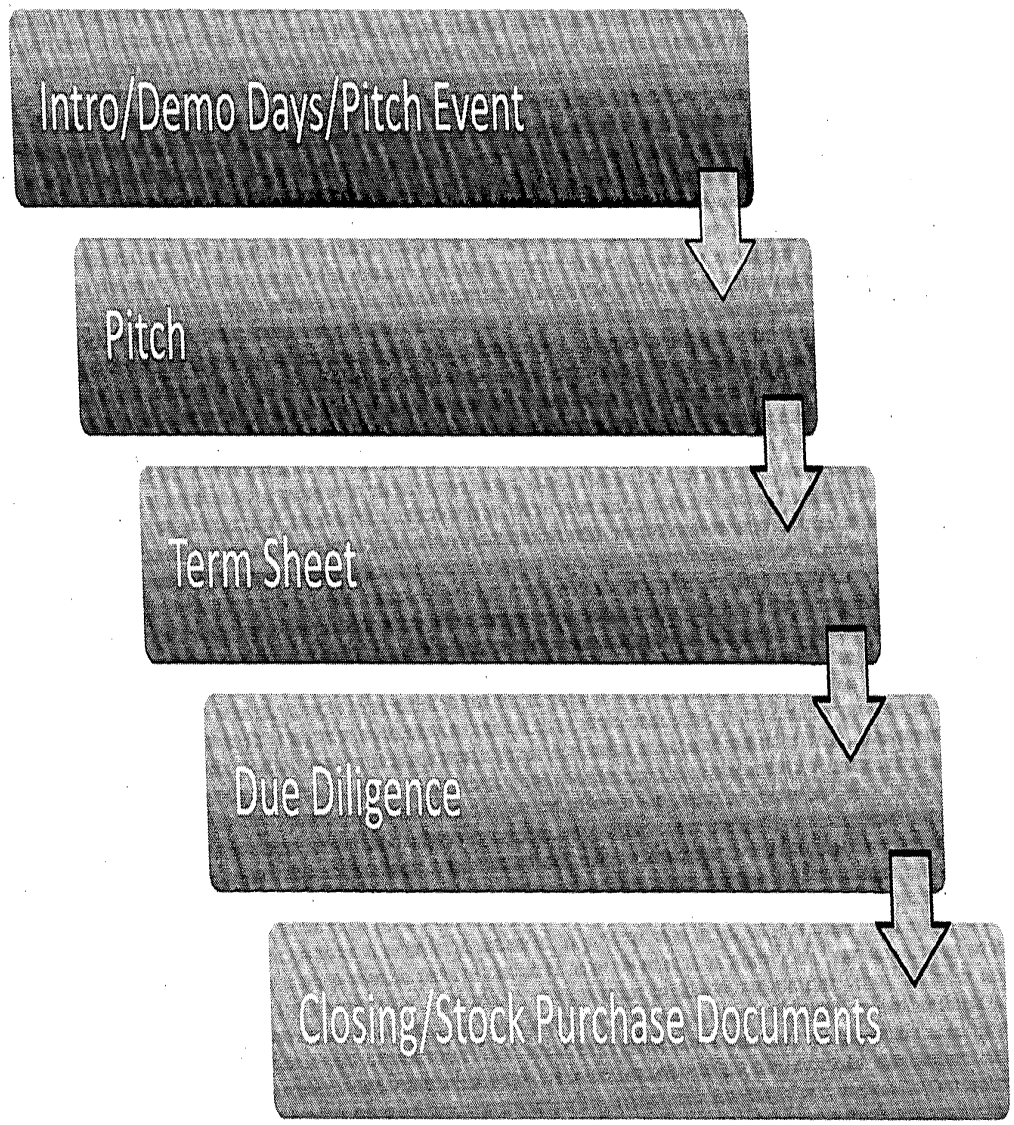
Funding Process



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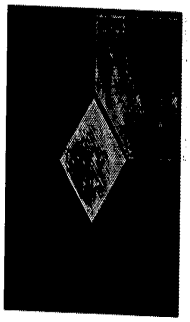

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