Fallingst Technologies LLC
NextGen Technology Advisory and IP Valuation Firm

FAQ
IP Backed Non-dilutive Financing Program

FAQ 1
What is the IP Backed Non-dilutive Financing Program?

Innovative companies today are using new and exciting leveraged financing options that articulate the value of their Intellectual Property (IP). We treat **Intellectual Property (IP) + Technology Readiness (TR)** in a fashion that translates into **measurable economic benefit** for our clients.

- Significant venture debt financing should not be pursued until underlining IP has undergone a third-party assessment and valuation process.
- We leverage a client's IP portfolio into a **real capital asset**, thus allowing ability to secure a significant amount of non-dilutive debt financing for entrepreneurs and investors.
- The Borrower's Documentation Package and IP Valuation Report process typically takes 7-8 weeks in duration.
- Once Process is complete, we work with insurance company partners to **underwrite the valuation**.
- It is the insurance company's underwriting amount of the IP assets that is used by asset capital markets partners ('original lender') for **fund sourcing**.
- The **due diligence process** is typically less exhaustive compared to equity (~6 weeks).
- The overall Non-dilutive Financing Program from start to finish is 3.5 – 4 months in duration.

FAQ 2
Why Venture Debt vs. Equity Investment?

- Venture debt and equity investment are **not mutually exclusive**. In fact, in many cases the two work in complement of the other.
- For **pre-revenue** companies, relatively small equity raises even at attractive pre-money levels can cause significant dilution levels.
- **Faster to secure** than equity investment.
- Venture debt offers a **balance between flexibility and dilution**. When utilized appropriately ('**smart debt**'), venture debt can reduce dilution, extend a company's growth acceleration without taking equity and thus more dilution.
- Venture debt is ideal for a **pre-revenue** company with no stable revenue streams nor receivables.
- To add runway and enable the company to **reach additional milestones,** and raise its next equity round at a higher valuation.

FAQ 3
How much IP is required to qualify for the program?

There is no minimum IP Matter threshold requirement.

Relevancy is generally what helps decide which IP assets are included in the valuation stage. Once the client's IP inventory is completed, the Firm decides with the client which IP makes sense to include in the valuation exercise.

FAQ 4
Why use insurance companies to underwrite the IP Valuation?

Insurance underwriting protects our capital markets lending partners against the risk of financial losses.

- We work with insurance providers to underwrite risk transfer solutions for intangible assets such as **intellectual property portfolios**.
- Given varying risk profile considerations, insurance companies will apply a **risk discount factor** to the baseline IP asset valuation (25-35% range) to achieve values which are "stable" and can be carried for a period.
- The value of the insurance underwriting amount provides a formal vehicle for the client to cover the **capital commitment** over a designated number of years.

FAQ 5
What are the lending obligations & different types of debt instruments?

Term, interest rates, financial covenants and other parameters / obligations are contingent on the selected structured capital instrument of choice and are typically negotiated AFTER the insurance underwriting stage.

- Venture Debt: A **non-convertible**, senior term loan that can be used like equity, and generally can include warrants as an optional trigger.

- Working Capital Line: A revolving line of credit that is **leveraged by capital assets**; may or may not include warrants as an optional trigger.

- Convertible Debt: A loan that **converts to stocks** in the next equity round, usually at a discount or with warrants. There would be some dilution with this option but far less dilutive than an equity distribution.

FAQ 6
Do I need to use all the debt that is made available?

No. We encourage clients to leverage only a portion of the insurance underwriting amount as given expected revenue projections, working capital funds should be strategically deployed over a designated time period and in conjunction with expected revenues.

FAQ 7
Will there be liens added to IP as part of the program?

Yes. With any debt facility there will be collateralized assets. Normally, tangible assets such as real estate, equipment and inventory are used to secure asset-based loans, however, the collateralization of IP can also increase the amount of available credit. In cases where borrowers pledge their patents, trademarks or copyrighted works, the collateral pool increases in value and the potential for a successful loan is increased.

With the IP Backed Non-dilutive Financing Program the IP is the collateralized asset. What this means is, that in case a borrower default occurs, the dedicated IP would be collateralized by the insurance company and considered first lien position and acted upon and lender is paid out from the policy at hand.

Fallingst Technologies works closely with its clients to mitigate any default risks and to ensure proper payment strategies are in place for such scenarios not to come into play.