

Structuring a Small-Check Friends-and-Family Round

One clean instrument. Bigger checks earn the better terms. How to stay quiet, stay legal, and let small aligned holders become evangelists.

Not legal advice. Jeff and Claude are not lawyers and nothing here is legal or tax advice. This is plain-English, informational research to help you and Colin think clearly and then have a fast, cheap conversation with real counsel. Securities rules carry real penalties when you get them wrong, so a short review by a securities attorney before any paperwork goes out is strongly recommended.

01 THE CORE IDEA

Bigger checks get the better terms. Everyone is on one clean instrument.

The whole round runs on a single, identical instrument: **direct LLC membership units in Affirmology LLC**. No SAFEs, no convertible notes, no special side letters for the small checks. Investors buy real ownership at signing and become members the moment they wire funds, with distribution rights from day one. One document, one type of unit, one clean cap table.

What changes with check size is the **price per unit (the valuation), not the instrument**. Larger checks earn the more favorable entry. Smaller checks come in at the standard friends-and-family entry. Same paper, same rights, different price. That keeps the cap table simple and keeps the math honest.

Josh stays the lead. Josh keeps his Strategic terms and the extra structural package for going bigger: a lower pre-money (more equity per dollar), board seat with a path to a voting seat, pro-rata and right of first refusal on Round 2, optional advisor equity, and the optional hybrid loan. The small-check tiers below sit *underneath* Josh on the same instrument. They do not compete with his lead position; they fill out the round.

The grounded numbers from the existing term sheet anchor everything: **\$1.5M post-money** is the headline valuation, with the lead ladder of **\$150K = 10.0%**, **\$200K = 13.3%**, **\$250K = 16.7%**. The tiers below extend that same valuation logic down to \$5K to \$30K checks.

02 THE SMALL-CHECK TIER TABLE

What each check buys, and the math behind it.

Ownership is simple division: **your check ÷ the post-money valuation = your percentage**. At the standard \$1.5M post-money, every dollar buys the same slice no matter who writes it. The right-hand column shows the same checks at a more generous \$1.0M post-money, the deepest "small-investor

standard" floor a founder might extend to the very earliest tiny checks. Lower valuation means more ownership per dollar, so the \$1.0M column is the more generous read. The point of showing both: the entry price is a lever, and where each investor lands on it is a deliberate choice, not an accident.

CHECK	% AT \$1.5M POST (STANDARD)	DOLLARS PER 1% AT \$1.5M	% AT \$1.0M POST (FLOOR)
\$5,000	0.33%	\$15,000	0.50%
\$10,000	0.67%	\$15,000	1.00%
\$15,000	1.00%	\$15,000	1.50%
\$20,000	1.33%	\$15,000	2.00%
\$25,000	1.67%	\$15,000	2.50%
\$30,000	2.00%	\$15,000	3.00%

The math, in one line. At \$1.5M post-money, \$15,000 buys exactly 1% ($15,000 \div 1,500,000 = 0.01$). So \$5K = 0.33%, \$30K = 2.0%, and everything scales linearly in between. The lead ladder is the same rule: $\$150K \div 1,500,000 = 10.0\%$. The whole round, lead and small checks alike, is one straight line off the same valuation.

How bigger-gets-better shows up concretely. A small check at the standard \$1.5M entry pays \$15,000 per 1%. Josh, going bigger at his Strategic pre-money (roughly \$750K to \$800K pre-money in the lead scenarios), pays less per point and gets the board seat and Round 2 rights on top. Same instrument, better price for the bigger, lead-defining commitment. That is the reward for size, and it is fully transparent.

03 ILLUSTRATIVE ROI SCENARIOS

What a small check and a lead check could become.

Illustrative only. Not a promise, projection, or guarantee. The figures below are simple arithmetic on hypothetical future company valuations to show how ownership scales. They assume the holder's percentage is not diluted by later rounds (in reality a Round 2 would reduce these unless the investor exercises pro-rata). Most early-stage companies return zero. Treat these as illustrations of mechanics, not expected outcomes.

A representative small check: \$10,000 = 0.67% at \$1.5M post-money

HYPOTHETICAL FUTURE COMPANY VALUATION	VALUE OF A 0.67% STAKE	MULTIPLE ON \$10K
\$5,000,000	\$33,333	3.3x
\$15,000,000	\$100,000	10x

HYPOTHETICAL FUTURE COMPANY VALUATION	VALUE OF A 0.67% STAKE	MULTIPLE ON \$10K
\$50,000,000	\$333,333	33x
\$150,000,000	\$1,000,000	100x

A lead-size check (Josh): \$150,000 = 10% at \$1.5M post-money

HYPOTHETICAL FUTURE COMPANY VALUATION	VALUE OF A 10% STAKE	MULTIPLE ON \$150K
\$5,000,000	\$500,000	3.3x
\$15,000,000	\$1,500,000	10x
\$50,000,000	\$5,000,000	33x
\$150,000,000	\$15,000,000	100x

The multiples are identical across check sizes because everyone enters at the same valuation. That is the honesty of one clean instrument: a \$10K believer and a \$150K lead ride the exact same curve, just at different absolute dollars. On top of equity upside, the direct-ownership structure also pays **quarterly distributions once the company is profitable and reserves are funded**, so a holder can see real income even without a sale.

04 SECURITIES-LAW GUARDRAILS

The plain-English do and don't list.

Start from the rule that catches most founders off guard: **LLC membership units are securities**. "Friends and family" describes *who* you sell to, not a legal exemption. Every sale must either be registered with the SEC (expensive, not happening here) or fit a registration **exemption**. For a quiet round like this, the natural fit is **Regulation D, Rule 506(b)**, the most-used private-placement safe harbor under the broader Section 4(a)(2) exemption.

Why 506(b) and not 504 or bare 4(a)(2)

- **Rule 506(b)** lets you raise unlimited capital from unlimited accredited investors plus up to 35 non-accredited (but financially sophisticated) investors, with **no general solicitation**. It preempts state "blue sky" merit review, so you only file notices. This is the standard friends-and-family vehicle.
- **Rule 504** caps the raise at \$10M in 12 months and does **not** preempt state blue sky laws, so you can face full state-by-state registration. More state friction for no benefit at this size.
- **Bare Section 4(a)(2)** is the broad statutory private-placement exemption, but it has no bright-line rules. You would be guessing whether each investor is "sophisticated enough," with no safe harbor. 506(b) is 4(a)(2) with a checklist you can actually follow.

Accredited vs non-accredited (current SEC thresholds)

- **Accredited individual:** income over **\$200K** (or **\$300K** with a spouse/partner) in each of the last two years with the same expected this year, **or** net worth over **\$1M excluding your primary residence**.
- **Newer knowledge paths:** a person also qualifies as accredited by holding a Series 7, Series 65, or Series 82 license in good standing, regardless of income or net worth. (The SEC added these credential-based paths in 2020, and Congress has been weighing an additional knowledge-test route, but the financial and license tests above are the live, reliable ones to plan around.)
- **Non-accredited investors:** Rule 506(b) allows **up to 35**, and they must be financially sophisticated (alone or with a representative). The moment you include even one, you trigger **mandatory disclosure documents** (audited-style financials and offering information similar to a Regulation A filing). That is a real cost and complexity jump.

Practical call for this round: the cleanest path is to keep the small-check tiers **accredited-only**. If you sell only to accredited investors under 506(b), there is no mandated disclosure package and far less legal lifting. Including non-accredited friends is allowed up to 35, but it pulls in the disclosure obligations, so do it deliberately and with counsel, not by accident.

General solicitation: why staying quiet matters

Rule 506(b) **forbids general solicitation and general advertising**. No public posts, no "we're raising" broadcast emails to strangers, no pitching from a stage to a room you do not know, no press about the open round. You may only approach people with whom you (or your team) have a **real, pre-existing, substantive relationship**. This lines up exactly with Jeff's instinct to stay quiet until he is genuinely excited: under 506(b), staying quiet is not just good taste, it is the legal requirement. If you publicly advertise the raise, you blow 506(b) and fall back to 506(c), which requires verifying that every investor is accredited. Stay private and you keep the easier path.

Filings: Form D and state blue-sky notices

- **Form D** is a short electronic notice filed with the SEC **within 15 days** after the first sale of securities in the round. It is a notice, not an approval, and it lists basic facts about the company and the offering.
- **State "blue sky" notice filings:** because 506(b) preempts state merit review, you generally file a **notice** (often a copy of the Form D plus a fee) in each state where an investor resides. You do not have to register the offering state by state, but you do owe these notices and fees.

The do / don't list

DO	DON'T
Stay inside Rule 506(b). Keep the round private.	Don't advertise, post publicly, or pitch the open round to rooms of strangers (no general solicitation).
Prefer accredited investors; if you include non-accredited, cap at 35 and accept the disclosure duties.	Don't slide non-accredited friends in casually. Even one flips on the full disclosure package.

DO	DON'T
Give every investor the same simple instrument and the same core documents.	Don't hand out a patchwork of different terms, side letters, and instruments. That is the messy cap table.
File Form D within 15 days of first sale; file state blue-sky notices where investors live.	Don't skip the filings or assume "friends and family" means no paperwork.
Keep clean records: who invested, how much, when, accreditation basis, signed docs.	Don't commingle the optional founder loan with company capital. Keep it transparently separate.

05 "YOU DON'T NEED TO RAISE IN THE AI AGE"

The confident reframe.

It is true that a lean AI-native company can be built on very little, and Affirmology is. The demo runs cheaply, the margins are high, and the product is already live. So this round is not a survival raise. It is a **choice**, and a strategic one.

- **Every \$5K check helps a lot this summer.** Small capital, deployed now, buys speed at the exact moment speed compounds: the Faena activation, the demo polish, the runway to say yes to the right opportunities instead of scrambling.
- **This is mission and community capital, not desperation.** You are inviting aligned people into something they already believe in. The point is shared ownership of a story they want to be part of, not filling a hole.
- **Small aligned holders become evangelists.** A friend who owns 0.33% talks differently than a friend who just likes your app. Ownership turns warmth into word-of-mouth, introductions, and durable advocacy. That distribution is worth more than the dollars.

The one-liner: "I can build this without you. I'd rather build it *with* you. A small stake makes you an owner of the outcome, and owners show up differently than fans."

06 WHAT TO TAKE TO A LAWYER

Make the counsel review fast and cheap.

Walk into a securities attorney with this already decided so the meeting is a confirmation, not a discovery session: we are a Wyoming LLC selling **direct membership units** at a **\$1.5M post-money** valuation in a quiet **Rule 506(b)** private placement; we intend to sell primarily to **accredited investors** (and will tell you if any non-accredited friends are included, knowing that triggers the disclosure package); we are using **one identical instrument** for every check from \$5K up through Josh's lead position; we will **not** generally solicit; and we plan to file **Form D within 15 days of the first sale** plus **state blue-sky notices** where investors reside. Ask counsel to (1) confirm 506(b) fits and the units are sold cleanly under it, (2) review or supply the subscription agreement, accreditation questionnaire, and the operating-agreement amendment admitting new members, and (3) handle or confirm the Form D and state notice filings. Bringing the structure pre-baked is what keeps a securities review measured in hundreds of dollars rather than

thousands.

07 DISCLAIMER & SOURCES

Read this before acting.

This document is informational and not legal or tax advice. Jeff Parker and Claude are not attorneys. Securities law is fact-specific and penalties for getting an exemption wrong are real. The deal numbers come from Affirmology's own term sheet and pitch materials; the legal points come from the public sources below, current as of June 2026. Confirm everything with a licensed securities attorney before any paperwork or money moves.

Sources

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