

## SECTION ONE: OVERVIEW

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The process of raising capital to fund a start-up or an early stage developing business can be a very complex and intimidating experience for an entrepreneur. Yet, it is an experience an entrepreneur needs to confront to start or grow his or her business. This publication is intended to acquaint entrepreneurs, who are considering raising capital for their businesses, with the variety of legal and business issues that should generally be addressed. We have written the publication for entrepreneurs and other business people rather than for lawyers.

Accordingly, we would like to mention a few precautions to keep in mind as you review this publication:

- *First*, of necessity, some rather complex legal topics are summarized and distilled to fit into the space and content limitations. The reality is that raising capital is an area that you will need to seek expert outside advice—legal, accounting and perhaps investment banking.
- *Second*, failure to comply with federal and state securities laws can have significant consequences—including criminal penalties—for those involved. Moreover, the laws, rules and regulations discussed in this publication are constantly changing. Therefore, we would like to emphasize that when you seek to raise capital for your business it is very important that you work with experienced legal counsel who is familiar with such matters including federal and state securities laws.

- *Finally*, in choosing your advisors to assist in your capital raising, including lawyers, accountants and investment bankers, we would strongly urge entrepreneurs to look for advisors who are not only technically competent but also have been through the process many times before. It is the practical, as well as technical experience of your advisors that we believe will prove critical to the success of your efforts to navigate through the capital raising experience.

With those precautions out of the way, here is a brief overview of the topics which we will cover:

- ***Section Two: Preparing the Company***—What should an entrepreneur do to get ready to raise capital for the first time? What should be included in a well-done business plan? What does it mean when an investor says he wants to perform “due diligence” on the company? This chapter is intending to provide a practical overview of what a business should do to get ready to raise capital and what to expect once the process begins.
- ***Section Three: Securities Law Considerations***—What are “securities laws” and why is it important to comply with them when a business is raising capital? Do the legal requirements change depending on how much capital is being raised or who is providing the capital? This chapter is intended to provide an introduction and overview of the federal and state laws and regulations (including exemptions) which govern the raising of capital through the sale of securities. Particular attention is given to the Uniform Securities Act as enacted in Minnesota.
- ***Section Four: Venture Stage Financing***—What is the process for obtaining venture capital financing? What are venture capital investors typically looking for in their investments? What are some of the terms that venture capitalists will

likely require be part of the deal? This chapter provides an overview of what to expect if you are seeking an investment from venture capital sources.

- ***Section Five: Private Equity Offerings***—What is a “private placement”? What is the process to obtain capital through a private placement? Why does the private placement memorandum need to have so many “risk factors”? This chapter provides an in depth look at the process and issues involved in conducting a private placement of debt or equity securities.
- ***Section Six: Strategic Alliances***—What is a “strategic alliance” and how does it provide capital to an early-stage company? What are some of the pros and cons of entering into a strategic alliance? What are some of the key elements of a successful strategic alliance? This chapter discusses one of the alternative methods of raising capital—seeking a joint venture or strategic alliance with an established company.
- ***Section Seven: Initial Public Offerings***—What are the advantages and disadvantages of “going public”? How do you select an underwriter and how is the underwriter typically compensated? What is the process of doing an “IPO”? This chapter explores the ins and outs of the “IPO” process (i.e. “going public”), including the impact of the Securities Reform Act on the IPO process.
- ***Section Eight: Loans, Leases, Grants and Other Financial Resources***—Suppose you don’t want to dilute your equity ownership. What are some non-equity alternatives to raising capital? This chapter reviews a variety of alternative sources of non-equity capital—such as commercial loans, lease financings and governmental grants.

- *Section Nine: Private, Public and Offshore Offerings on the Internet*—How has the Internet impacted raising capital efforts? Do the regulators permit entrepreneurs to use the Internet to distribute information about their company to raise capital? Are their websites which investors can go to for investment opportunities? This chapter summarizes how the Internet is currently being used to raise capital and what legal restrictions apply.