



Raising Capital

Over 20 Different Strategies

www.RaisingCapitalReport.com

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Famous Quotes:

*It is no use saying 'we are doing our best.' You have got to succeed in doing what is necessary. - **Winston Churchill***

*The toughest thing about success is that you've got to keep on being a success. - **Irving Berlin***

*The secret of success is constancy to purpose. - **Benjamin Disraeli***

*You always pass failure on the way to success. - **Mickey Rooney***

*Behind every successful man there's a lot of unsuccessful years. - **Bob Brown***

DISCLOSURE

The author of the “Raising Capital Report” is not an attorney or a CPA. Any legal, ethical, financial, investment, or other type of advice given in this report is only my opinion. External links have been provided for verification of facts. Any samples agreements or exhibits provided are purely for educating the reader as to the possible structure and are for informational purposes only. Do your own research before acting on anything that is discussed in this report.

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Chapter 1 – Raising Capital Introduction and Overview

This report on raising capital is for start-up companies and companies in need of a few million dollars. It will guide you through all your options and what you need to do to have the highest degree of success in your start-up, buying new equipment, expanding or providing additional working capital. We will discuss the possible sources of capital, probability of success, costs, requirements and time frames ranging from Friends and Family (F&F) to Venture Capitalists.

Before you raise capital, it's critical that you know how much money you will need to achieve your short-term and long-term objectives. Develop a budget with detailed line items to account for all the possible costs that you could incur and then add a 20% contingency.

Think like an investor when pitching investors. Investors want solid returns, especially for the high risks they are taking. There are three things you need to know the answers too. First, know how your company will or is making money, second, when it turns profitable (i.e. 18-24 months) and third when investors can expect a return **of** their investment in addition to a return **on** their investment. If you can answer those three questions you will be better than 90% of the other people out there trying to raise capital.

You will need to have "skin in the game" so get ready to fund your start-up for some time. Investors will also ask "What's your burn rate?" which equals your negative cash flow. This will allow an investor to estimate how long you can survive with their capital infusion.

Selling equity in your company is the most expensive form of capital if your company is successful. If the buyer can provide you with benefits such as potential customers, contacts with vendors and employees it maybe worth the cost. This is why multiple smaller financing rounds are a great idea, especially in a start-up, when your company's value is low. Your investors will also like to see the company's share price going up in each subsequent round. This is a great marketing tool but make sure you are adding value to the company that reflects the increased share price.

Returns on Investments (ROI) vary significantly by capital type and risk; senior lenders require an annual return of 6.0% to 7.0%, asset-based lenders demand on average 13%, mezzanine funds expect 18.5%, private equity groups expect 25%+, and venture capital funds expect 38.2% ⁽¹⁾. The higher annual return ranges for mezzanine funds and venture funds also take into account warrants. A warrant is a security that entitles the holder to buy stock of the issuing company at a specified price, which can be higher or lower than the stock price at time of issue.

There are dozens of techniques used to evaluate potential investments but the most common are Internal Rate of Return (IRR), Discounted Cash Flow (DCF) and Payback period. Various investors and lenders have different hurdle rates, finding the right one will be a big challenge.

When dealing with sophisticated investors, banks and institutions, your time frame to close the deal and fund will be a few months, especially after signing the LOI (letter of intent). The term "Close in 30 days" is always used but rarely achieved. A good rule of thumb is to double the time and costs in order to close the deal and hopefully you exceed those expectations. One expense that entrepreneurs almost always overlook is the cost of raising money. It will take a lot of your time and your key manager's time, so spend the time wisely while also growing the business.

Few things earn an investors trust like showing that with your expertise you can do more with less. Weed out everything that doesn't directly help accomplish your goals. What will help you achieve your specific, measurable, realistic, and time-bound objectives? It can take months to find the right investors. Plan on financing your venture as long as possible; the stronger your company is without outside investment, the more likely you'll attract the right investor.

For free assistance on developing a business plan I recommend SCORE, which is a nonprofit association dedicated to educating entrepreneurs and helping small businesses start, grow and succeed nationwide. SCORE is a resource partner with the U.S. Small Business Administration (SBA). They have over 12,400 volunteer counselors have more than 600 business skills. Visit them at www.score.org.

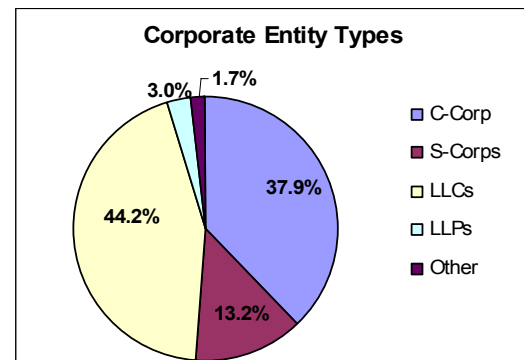
Chapter 2 – Most Common Business Structures

There are two popular forms to structure a business. The first is a corporation which offers personal liability protection, tax savings, and increased opportunities for raising capital. Corporations are also required to perform certain formalities such as holding annual meetings and keeping detailed corporate records (minutes). You can choose to incorporate as either a C or an S corporation, see the differences on the chart on the next page. The second form is a Limited Liability Company (LLC) which offers the same personal liability protection as a corporation, but with fewer of the corporate formalities. They typically are not required to hold formal meetings or keep detailed corporate minutes. LLCs also offer great tax flexibility. Members can choose to be taxed as either a traditional corporation or as a "pass-through" entity. The DBA allows for business owners to operate under a business name without having to creating a business entity.

Traditionally you domicile your LLC or Corporation in the state you operate in or you form it in Delaware where there is significant precedent already set. The term domicile refers to the place where an organization (e.g., a corporation) is chartered or that is the organization's principal place of business. The domicile of an individual or organization determines the proper jurisdiction and venue for legal process, including taxation. In common law legal systems, a precedent or authority is a legal case establishing a principle or rule that a court or other judicial body may utilize when deciding subsequent cases with similar issues or facts.

The most common structure is the LLC at 44.2% followed by C-corporations at 37.9% of all entities formed in the United States. Within these types of entities you can issue common stock, preferred stock, and subordinated debt. ⁽¹⁾

On the following page is a chart outlining the pros and cons of four different structures. Our recommendation is to either structure your business through (www.LegalZoom.com) if you're a do it yourself type of person or hire a lawyer. Structure fees vary by state but range between \$500 to \$1,500. Proper legal agreements are critical at the start and need to be continually updated. Every lender or investor eventually will want or need their money back, and a legal document covering everything from the terms to the timing can avoid lawsuits and costly disagreements.



| | S Corporation | C Corporation | LLC's | DBA |
|--|---|---|---|---|
| Recommended For | *Owners wanting the liability protection of a corporation with the simplicity of pass-through taxation of income | *Owners needing maximum tax and ownership flexibility combined with liability protection | *Owners wanting the simplicity of pass-through income taxation and the liability protection of a corporation with less formalities. Great for passive income and real estate investments | *Owners wanting to legally do business as a particular name without having to create an entirely new or amend existing business entity |
| Ownership | * Shareholders * (restrictions against corporate shareholders, nonresident aliens, and > 100 shareholders) | * Shareholders | * Members | * Owners |
| Personal Liability | * Shareholders typically not liable for corporate debts | * Shareholders typically not liable for corporate debts | * Members typically not liable for debts of LLC | * Owners are personally liable for all debts of the business |
| Formalities & Record Keeping Requirements | * Formal board and shareholder meetings with minutes * Annual state reports | * Formal board and shareholder meetings with minutes * Annual state reports | * Annual state reports | * Must renew your application and publish (if required) every 4-5 years depending on state |
| Taxation | * No tax at entity level * Income/loss passed through to shareholders | * Taxed at entity level * If dividends distributed to shareholders, dividend income taxed at individual level | * By default, no tax at the entity level if properly structured * Income/loss is passed through to members (as in a partnership or sole proprietorship) * May opt to be taxed as C or S corporation | * No tax at entity level * Income/loss passed through to shareholders |
| Tax Reporting | * Income on Form 1120S * Salaries on Form W-2 * Profit distribution on Schedule K-1 | * Income on Form 1120 * Salaries on Form W-2 * Profit distribution on Form 1099-DIV | * Income on Form 1040, Schedule C OR Form 1065 & Schedule K-1 for profit distributions | * Schedule C * If Partnership Schedule K-1 |
| Management & Operation | * Managed by directors, elected by shareholders * Day-to-day operations run by officers appointed by directors | * Managed by directors, elected by shareholders * Day-to-day operations run by officers appointed by directors | * Flexibility similar to a partnership * An operating agreement typically outlines management duties * Optional board of managers | * Managed by owners |
| Formation Requirements | * State filing * Subchapter S election with IRS typically required within 60 days of formation. | * State filing | * State filing | * State or county DBA filing required generally before using your DBA, and in some cases within 30-40 days of your first business transaction * Some states require a published notice in local newspaper. |