Venture Capital

Venture capital can be used as a source of capital to start up a new business or to expand a current business. The following information is a summary of financial instruments that can be used to raise the capital to a new business venture.

With the various economic stimulus packages recently passed in Washington D.C., it is absolutely necessary to seek advice from qualified, experts in the area of business vehicles, tax regulations, and security laws and regulations.

There is the possibility of using personal or company assets as collateral to secure a business loan for the capital needed for the planning and construction stage. These short-term construction loans may require incremental annual interest only payments and/or combined with a lump sum payback.

It is relatively easy to get money through private placements. Private stock offerings are easier than trying to get a public stock offering underwritten, an SBA loan, or venture capital.

The challenge is raising business capital from a non-equity position to avoid burdening the company with excessive debt to your company’s bottom line. A positive equity position reduces the expense of acquiring the necessary capital without adding an unsustainable debt burden.

Private Stock Offerings

Raising money can occur through exempt Private Stock Offerings. U.S. Government regulations allow raising up to 12 million dollars per year without the high costs of Initial Public Offerings (IPO’s), red tape, time and expense of a public offering registration.

Venture Capital

Acquiring venture capital requires giving up a large portion of your company. Venture Capitalists usually require controlling your Board of Directors and your company’s management.

Raise business capital without a Venture Capitalist owning and/or controlling the company.

Financial Statements

Business Plans and Executive Summaries are not legal documents to raise capital from investors. Don’t risk encountering problems with the Securities and Exchange Commission (SEC).

A company’s future success cannot afford cutting corners! Raise business capital from investors legally by using SEC approved Stock Offerings and Limited Partnership Offerings.

Use proven methods for raising business capital with active and accredited investors.

Private investors are anxious to be a part of your success! The people that invest in your business are looking to share in future profits.

Financial service companies generally charge a percentage of the offering as their fee for marketing the offering to their database of accredited investors.

Stock Offerings, Limited Partnership Offerings and SCOR Offerings written and/or prepared by financial consultants, reviewed by CPA’s and marketed via Financial Security Services with years of experience in obtaining funding and a list of satisfied clients who have previously invested to prior projects.
Financial consultants can provide:
- Helps write Private Stock Offerings.
- Financial Consulting & Financial Preparation Services to write offerings for you.
- Contacts to qualified, active investors matched to your type of business venture.

Public stocks traded openly on the New York Stock Exchange, the Pacific Stock Exchange, and over the counter (OTC). Few people, however, are aware of the power of private stock offerings in raising capital for business ventures. It has become much easier to produce these private offerings and raise the money needed.

An Initial Public Offering (I.P.O.) and SB2 public offerings require a company have:
- $5 million in net worth
- Require lengthy and expensive paperwork
- A full review by the SEC.

The Public Stock Offering process can be quite expensive and take up to two years or longer to complete.

Private offerings can be prepared quickly and inexpensively - allowing you to raise capital in a short time frame and at minimal cost.

Private Stock Offerings
The best way to raise capital is issuing stock in a private company. Depending on the amount of capital to be raised, most organizations issue 15 to 45% of the company stock, which guarantees the majority of the shares, will be under the control of the company.

A stock offering does not guarantee any payment to investors and there is no risk of personal assets. Each stock certificate represents money (capital) to your business.

There are three popular and distinct types of private (non-public) stock offerings:
- Regulation D Series or Private Placement Memorandum P.P.M.),
- Limited Partnership Offering (L.P.O.),
- Form U-7, Small Corporate Offering Registration (SCOR).

Each type of private offering requires different forms, which must be prepared and filed. With the aid of computer software, the task of preparing this information becomes less odious than previously.

There are financial service companies that specialize in filing these different types of offerings have the knowledge and experience combined with powerful software programs that use step-by-step instructions to write professional private offerings.

An extremely important part of the process is developing or acquiring an up-to-date list of accredited investors for a marketing effort.

Each type of private offering is most often used for specific types of businesses. Become informed about each of the offering types to determine which investment vehicle will be best for your business type:

- Regulation D Offerings (PPM) http://www.cfss.com/reg_d.htm
- Limited Liability Partnership Offerings (LPO) http://www.cfss.com/limited.htm
- Small Corporate Offering Registration (SCOR) http://www.cfss.com/scor.htm

- Grant Funding Small Business
- Funding for Woman Owned Business
- Minority Owned Business Funding
- Business Funding
• Funding For A Business
• Funding To Buy An Existing Business
• Small Business Startup Funding

**Bank (SBA) loans add overhead (principle and interest payments) to monthly business payments. Usually principle payments start 30 to 60 days after signing the loan documents**

The interest payments can be quite costly and drastically affect your bottom line, not to mention the down side of losing everything you own if the business fails. These concerns and costs are just a few that come with borrowing capital.

**Overview of Stock Offerings**

**RULE 504: Simplifying the Sale of Stock:**

A private placement, under Rule 504, can help you avoid many of the costly and time-consuming requirements usually associated with the sale of stock.

Raising capital for a small business can be expensive and time consuming, but a private placement under Rule 504 of Regulation D can minimize costs and delays while giving your business access to equity capital. Consider the advantages of using this popular financing technique if your business’ current financing needs are under $1 million,

**REGULATION D:** A popular option

Most issuances of equity securities must be registered with the Securities and Exchange Commission. Registration documents include detailed disclosure, historical financial statements, and third party audits that take time to assemble.

The process requires many hours of assistance by attorneys and accountants, and the SEC review can last from 20 to 60 days. Registration alone can cost a business thousands of dollars even before the offering actually generates any revenue.

A private placement is exempt from federal registration. Regulation D, sets forth the rules for exemptions from federal registration. Offerings exempt under these rules 504, 505 and 506 have become the most common cost and time saving methods for small and growing businesses to raise capital from private investors.

Rule 506 provides an exemption for limited offers and sales without regard to the dollar amount of the offering. This exemption does not limit the number of accredited investors, but the number of nonaccredited investors may not exceed 35 investors.

An accredited investor is defined as any investor with a specific net worth and or experience in the purchase of stocks. All nonaccredited purchasers, either alone or together with a designated representative must have the knowledge or experience necessary to evaluate the merits and risks of the investment.

An offering company typically determines the sophistication of its investors with a questionnaire subscription agreement. Rule 506 requires detailed disclosure of relevant information to potential investors; the extent of disclosure depends on the dollar size of the offering.

**Rule 505** An offering may not exceed $5 million, less the total dollar amount of securities sold during the preceding 12-month period under Rule 504, Rule 505 or Section 3 of the act.

This exemption limits the number of nonaccredited investors to 35 but has no investor sophistication standards. Rule 505 requires disclosure similar to that required for Rule 506 offerings, under $7.5 million.

In a **Rule 504** offering, a business can raise a maximum of $1 million, less the total dollar amount of securities sold dur-
ing the preceding 12-month period, under Rule 504, Rule 505 or Section 3 of the act.

However, a business can raise only $500,000 by the sale of securities to persons residing in the states of Montana and Alaska, which have no disclosure laws applicable to the offering. In the 48 of the 50 states that have disclosure laws, a business can raise up to $1,000,000.

Rule 504 has no prescribed disclosure requirements, no limit on the number of purchasers, and no investor sophistication standards.

Rule 504 is the most commonly used Regulation D exemption. Offerings that are exempt under Rule 504 are relatively simple to prepare, which reduces cost and delay and can generally be underwritten by the offering company (the securities being sold by the company’s own officers, directors and employees).

The Value of an Offering Document

Rule 504 does not have prescribed disclosure requirements; however, for your own protection, always prepare and use an offering document.

The exemptions from registration provided by Regulation D do not include exemptions from the anti-fraud or civil liability provisions of any of the federal or state securities laws.

Anti-fraud provisions are broad and include civil and criminal penalties for the misstatement or omission of facts that are relevant to making a fully informed investment decision.

If your company makes a Rule 504 offering without providing investors with an offering document, your company, its board, and its principals are at an extreme disadvantage in defending themselves if your business is confronted with a securities fraud action.

A Rule 504 offering document does not require the detailed disclosure of a Rule 505 or 506 offering, but it should include the following information:

1. A description of the business being conducted and/or intended to be conducted along with the general development of the business during the preceding five years or as long as it has been operating, if the business is less than five years old.

2. A description of the principal products or services, their principal markets, and the methods of distribution.

3. A description and cost summary of any research and development activities during each of the last two fiscal years.

4. The number of full and part-time employees and their special qualifications.

5. A description of any special characteristics of the company’s business or industry, which may have a material impact on future financial performance. These may include existing or probable governmental regulations, dependence on one or a few major suppliers, unusual competitive industry conditions, etc.

6. Summaries of the principal factors that make the investment risky. These factors might include:

- An absence of an operating history.
- Lack of profitable operations in recent periods.
- The company’s general financial condition.
- Lack of a trading market for the securities or restrictions against transfer.
- Conflicts of interest between the company and its management.
- Reliance on the efforts of a single individual.

7. If there is a material disparity between the initial offering price of the securities and the effective cash cost to officers, di-
rectors, promoters and affiliates for shares acquired during the preceding three years, there should be a comparison of such prices.

8. The uses and allocation of the proceeds.

9. A brief description, including the location and character of the company's principal facilities and other important physical properties. If any are leased, include the basic lease terms such as length of lease, rent, renewal options, etc.

10. Relevant information regarding directors, officers and significant employees. Include information such as ages, educational backgrounds and business experience, as well as any special information such as criminal convictions, bankruptcies, etc.

11. The aggregate annual compensation of the three highest paid officers and directors, and the total for all officers and directors.

12. The security ownership of each officer and director, and the identity of each person owning 10 percent or more of the company's shares. Also include the ownership of outstanding warrants or options to purchase additional securities by any of these individuals.

13. All significant transactions between the issuing company and any of its officers, directors or principal security holders within the previous two years or those presently contemplated.

14. A detailed description of the securities being offered. Include such matters as dividend rights, voting rights, liquidation rights, preemptive rights, conversion rights, redemption provisions, sinking fund provisions, liability for further calls or assessments, restrictions against sale or transfer of the securities, etc.

15. A description of how the securities are being sold, the purchase price commissions percentage, if any, the minimum number of securities that must be sold for the placement to be effective, etc.

16. Financial statements that conform to Generally Accepted Accounting Principals.

**An offering must contain accurate and complete information**

It is necessary to provide accurate and complete information to prospective investors in order to eliminate potential liability. The exact scope of these disclosures will vary depending on your business and the transaction.

In most cases, there is a market for your company's securities, and a Reg. D Series Offering, Limited Partnership Offering, or a U-7 Offering can make sense.

Most security offerings will require costly preparation and involve financial risk for your business, but a Rule 504 Private Placement, Limited Partnership, or U-7 can reduce costs and risks while enabling your company to obtain the growth capital it needs.

The information obtained from these procedures will form the basis of the offering documents, Form D (a simple statement of the offering and the only document that your company must file with the SEC under Rule 504 and U-7).

Once the offering documents are complete and the applicable state filings, if any, have been made, use them in connection with all offers and sales.

Do not make any oral representations to prospective investors or give any supplemental documents that have not been reviewed by securities counsel. Generally speaking, if you give supplemental information to one potential investor, you should give it to all.
This is especially true if the information in question alters the decision of the potential investor. Under these circumstances, it is most likely material information, which you should have included in the first place.

Disclose any additional material developments or changes in the terms of the offering in amendments or supplements to the offering documents, and distribute them to all offerees.

**Partnerships**

**Limited Partnership Offering**

The structure of your new business can greatly affect your financial results and potential exposure to litigation. Increasing litigation is often aimed at the business owner.

The business owner may have an advantage, if organized in a manner that does not encourage litigation. Many frivolous lawsuits are pursued on a contingency fee arrangement; therefore, attorneys may not accept cases that do not have a "deep pockets" defendant.

An operating corporation, having little or no assets, but having the liability exposure, affords a first line of defense. A Limited Partnership, owning the corporate shares and business assets, may be an advantageous structure for your business, as an alternate structure to a "C" or "S" type corporation, a general partnership, or a proprietorship.

*Limited partnership equity shares have protection under law against judgments that other business structures do not.*

A Limited Partnership is designed for limited liability for the limited partners and asset protection. Limited partners may have their liability limited to only the amount of their investment.

A Limited Partnership, with the appropriate clauses and provisions, may afford protection against judgments and liens. In the event of a charging order (lien), the general partner may elect to distribute no earnings, accumulating all earnings in the limited partner's capital account, for business purposes.

The attacking party thus may receive no funds and in addition, be required to pay all income taxes on the amounts added to the partner's capital account. This element may discourage litigation against the business owner.

The offering circular for Limited Partnerships is designed to be used with a corporate general partner. It may be modified to be used with one or more individual general partners.

**Organize Business For Protection of Assets**

Limited Partnerships should be used by anyone planning a business for maximum asset protection and using a combination limited partnership, corporation, and living trust structural form.

**Use of a limited partnership**

The Limited Partnership can offer liability of the investors limited only to the amount of the investment and protection of assets of the business from charging orders (liens). Today's business environment is characterized by lawsuits against "deep pockets".

Today's entrepreneurs are well advised to take preventative action to prevent loss of assets or their personal time as a result of legal actions. In a limited partnership you would be the general partner with full responsibility for running the company, and the investors would be the limited partners, with legally no say in how the company is run.
Protections Afforded by a corporate structure

The corporate structure can offer liability limited to the assets of the corporation. The major assets may be held in the limited partnership and leased to the operating corporation, leaving the operating corporation, who has the major risks, with little assets, thus being quite uninteresting to persons looking for a deep pocket for legal actions.

Small Corporate Offering (Form U-7)

U-7 SCOR Offering as adopted by NASAA on April 30, 1989

Introduction

In recent years there have been attempts by state legislatures to simplify securities laws for small businesses wanting to sell stock to the public. Small Company Offering Registration (SCOR) is now legal and available in over 40 states, and the rest are likely to be on board soon.

Once a company registers in one of the named states, stock sales can also be made in Delaware, The District of Columbia, and New York. For a current list of eligible states, contact the North American Securities Administrators Association at 202-737-0900. Even if your business is not based in one of these states, you may still register and sell your securities in the states, which have adopted SCOR.

SCOR permits the sale of securities to an unlimited number of investors, accredited or nonaccredited. For this reason SCOR is known as a REGISTRATION BY EXEMPTION because it is basically a hybrid between a public offering and a private placement.

SCOR was based on Uniform Limited Offering Registration Exemption (ULORE) in which provisions were used in the state of Washington. ULORE was a way for small companies to avoid the costs and complexity of public offerings by selling their securities only in their own state.

SCOR stock sold under a SCOR offering can be freely traded in the secondary market, making the investments more liquid and thereby appealing to investors.

While companies filing a SCOR are subject to some requirements and an application process, SCOR securities can be resold into established secondary markets. Until recently, however, this was unlikely because most of the companies were too small to meet listing requirements on any of the exchanges.

The Pacific Stock Exchange has created special rules and a review process for SCOR securities that will hopefully improve the secondary market for these offerings. In addition, various bulletin boards have been established on the Internet for SCOR securities, adding to the potential liquidity of these investments. As the Internet grows, so should the secondary market for securities in smaller companies.

Under a SCOR offering, a company can advertise for investors, and sell securities to anybody who expresses an interest. Obviously, this gives businesses a much-needed tool for raising capital.

Small companies have successfully used SCOR to sell stock without a securities underwriting firm. This works particularly well with an established customer base or other supportive source of investors.

Form U-7 has been developed pursuant to the Small Business Investment Incentive Act of 1989 (now contained in Section 19 of the Securities Act of 1933) which prescribe state and federal cooperation in furtherance of the policies expressed in that Act of a substantial reduction in costs and paperwork to diminish the burden of raising investment capital particularly by
small business, and a minimum interference with the business of capital formation.

Form U-7 is the general registration form for corporations registering under state securities laws, securities that are exempt from registration with the Securities and Exchange Commission (the "SEC") under Rule 504 of Regulation D.

It is designed to be used by companies and their attorneys and accountants, which are not necessarily specialists in securities regulation.

Historically, state legislatures have generally followed two approaches to the regulation of public offerings of securities, such as those made under Form U-7. Some states deal solely with the disclosure made to investors.

In addition to disclosure, other states also apply substantive fairness standards to public offerings, in order to assure that the terms and structure of the offering are fair to investors. In particular, those standards are designed to require the promoters of the enterprise to share its potential risks and rewards fairly with the public investors.

Standards vary from state to state and as a general rule must be complied with by a company in order to register its securities in those states.

You may anticipate receiving comments from examiners in many of the states in which Form U-7 registration is sought. Depending upon the regulatory approach taken by the state, those comments may be limited to request for disclosure of additional information or may also require that certain terms of the offering be modified to comply with the state’s substantive fairness criteria.

**Failure to resolve outstanding comments can lead to denial of an application for registration.**

A company, prior to using Form U-7, may wish to contact the staff of the securities administrator of each state in which the offering is to be filed to review applicable substantive fairness standards.

It may be possible to arrange a prefiling conference with the administrator’s staff. The states that apply such standards may identify those standards in an appendix to these instructions or may use other means to make them available.

We have found that the competition does not tell you everything you need to know. We provide you with every detail for you to make an informed decision.

Be careful of anyone telling you the only way or the best way to raise capital is by using a SCOR offering.

SCOR offerings have their place and at times may be the proper method to use to raise capital, but don’t be lead into believing that SCOR is a one size fits all method. In many cases it is not the best method for a business.

Due to the fact that each state where the stock will be sold requires a comment and review process and each state charges fees for you to submit your offering, you can have a time consuming and costly procedure. Consult a financial expert in this area to help you evaluate which method will be best for your business.