SPECIAL REPORT

How to Raise Capital ... Without Giving Your Company Away

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First, thanks for spending your time in seeking to learn more about how to successfully raise capital in today's market.

The sad fact is that raising capital is DIFFICULT.

There are no short-cuts (unless you have a wealthy uncle).

Raising capital is a process. A process that takes time and it takes some money.

In this Report, we will lead you through the exact process needed to be successful in raising capital.

Does that mean that if you follow the process exactly that you and your company will raise the capital you seek – unfortunately not.

Successfully raising capital is the match between an entrepreneur with vision, and an investor that shares that vision and is willing to risk money to give the entrepreneur a chance to succeed.

This dynamic between the entrepreneur and the investor is based on a relationship, and relationships can't be hurried.

Ready? Let's get started.

THE PROCESS OF RAISING CAPITAL

Perhaps the most important take away from this Report is that raising capital is a process. We are just 2 pages into the Report and I've already used the word five times. There's a reason.

In some respects, raising capital is like driving a car. You can't start the engine before unlocking the car, opening the door and getting in the driver's seat. If the car is in the driveway, the driver needs to back up first before putting the car into drive. There is a process. Certain tasks need to be completed in sequence for a driver to successfully get out of the neighborhood.

Think of raising capital in these 12 steps:

1. Build a detailed financial plan
2. Write a detailed operational plan
3. Determine how much capital is enough capital
4. Determine the terms of the offering
5. Determine type of offering
6. Write a PPM
7. Have your attorney draft subscription documents
8. Decide whether to use an escrow agent
9. Determine your investing audience
10. Create your investor presentation
11. Determine the marketing plan
12. Execute marketing plan and close on investment

As you can tell by looking at the list above, the process of raising capital will take some time, and some investment. The amount of both time & investment is highly dependent upon you and your company's contacts and in some cases, your company's social media presence. While we generally do not think of raising capital and social media in the same sentence, the fact is that the most successful Reg A raises were done because the company had a built in, natural base of investors with people who already knew and loved the company through Facebook or Instagram.

We will walk you through each of the steps above and give you the best guidance that we can as to how to accomplish each of these milestones.

The most common questions that we get are:

How fast can we raise the money?

How much is this going to cost?

As you would expect, the answer is what we think every lawyer was taught the first day in law school (and by the way, I'm not a lawyer, so tell all the lawyer jokes you want) – it depends.

The #1 mistake that CEOs make in raising capital is the assumption that it can be done quickly. Everyone will love the company and instantly pull out the checkbook.

Last week we were talking with a CEO who we told it would take 3-6 months to raise the capital. He was horrified. His business was growing too fast to wait 3-6 months for capital. This is an extraordinarily common conversation.

We live in a world of microwave popcorn, drive through coffee & food, and instant gratification.

That might work for dinner, but it doesn't work when raising capital.

For most companies, be prepared to budget yourselves 6-months at a minimum for the process. It might be quicker, but probably not. It could be longer. I spent years doing mergers & acquisitions and some of our best deals took 12-18 months to close. Generally raising capital is quicker, but there’s no instant recipe.

Some factors that influence the time include 1) the amount of capital to be raised, 2) the depth of the CEO’s contacts, 3) the size of the company’s social media presence in Facebook, Instagram, Twitter, etc, 4) the flexibility of the company to have deal terms that make sense to investors and 5) the amount of investment the company is willing to make in the process.

Raising $100,000 obviously takes less time than raising $100,000,000, although often raising $100,000,000 is quicker than raising $2,000,000. The size of the capital raise compared to the size and stage of the company is a key factor. Whether the company will be talking with individual high net worth investors, or institutional investors makes a big difference.

While the company may want to hire an investment banker to manage the private placement, the first line of investors is always the people the CEO knows. If you, as CEO, have a great list of high net worth contacts who know and love your business, then raising capital will be a lot easier than someone who doesn’t know a high net worth investor.

The world of raising capital changed with the passage of the JOBS Act of 2012. For the first-time companies could use what’s called “general solicitation” to reach investors. Since the SEC began with the Acts of 1933 and 1934, companies could only talk with investors with whom they had a pre-existing relationship, or exempt investors, such as institutional investors.

That all changed with the JOBS Act. Now companies can raise capital from ANYONE. There are rules, of course, but the take away here is that about anyone in the USA can invest in your offering. We will address this issue in detail later in this Report.

The fact that companies can reach out to investors they don't know means that Facebook and the other social media platforms become incredibly important in raising capital.

If a company has a substantial following, that means the company already has thousands, or millions of people who "Like" the company. They have already been "sold" on the value of the company. It's a natural step for them to want to invest and the sales process should be streamlined.

Let's say that your company has 100,000 followers on the various social media platforms. If you solicit them, then the rules say that your investors must be accredited investors. Again, we will dive into that later, but in layman terms, investors must have net assets in excess of $1 million or the individual must have income in excess of $200,000 per year.

What percent of those 100,000 followers are accredited? Hard to know for sure, but if it is 10-15%, then your company already can start a meaningful dialog with 10,000-15,000 potential investors who already love your company.

Next the deal terms must be realistic. I can't tell you how many young CEO's have told me that they have the next Facebook and their start-up is already worth $20 million, so they are willing to sell 10% of their business for $2 million. Or the business is doing $5 million in revenues and projections show they will have revenue of $500 million in five years. They conclude that the business must be worth $100 million today.

Chances are that no investor will be interested at this valuation.

Investing is a two-way street – the investor must think it attractive and while every CEO believes his/her company will be hugely successful, the reality is that most companies under perform projections. Make that 99% of companies under perform projections.

While we know that your company will be part of the 1%, the potential investor isn't so convinced!!

When thinking of investment terms, put yourself in the place of the investor. What would be attractive? What current rate of return would you want?

Then lastly, how much investment is your company willing to make?

Hiring an investment banker takes money, as does hiring a lawyer to properly document your offering. Doing a marketing campaign takes money. If you are going to go after your social media audience, a sophisticated email and advertising campaign needs to be designed and implemented. This will probably include video, webinars and potentially face to face meetings with investors in a seminar hosted at a local restaurant or hotel.

At some point it will make sense to begin to introduce your company to Wall Street, even if you never want to be public. If your company grows to the point that you need a significant investment, the best way to get the investment is often to have an investment bank that already knows and likes your business. They can introduce you to private equity funds that have the desire and ability to invest.

The process for raising capital can be daunting, but like most things in life, taking it one step at a time makes it manageable.

First step – creating your financial plan.

CREATE THE FINANCIAL PLAN

Raising capital is a financial transaction, and that's why we suggest starting the process by creating the financial plan.

Investors want to know what you intend to do in the future. How you intend to spend their money and how they will get a return on their capital – and the most important part, how they will get their capital returned.

A financial plan should be a five-year plan done in Excel. It should reflect precisely how your business works. Include all the important assumptions.

When we're building a new financial plan, we start with an Assumptions tab. We keep all the Assumptions for the entire model in that one tab, and then refer to a particular cell in the tab when building out the model.

Why? Because we find if everything in the model is a formula and NOTHING is hard coded, except for the Assumptions, then the chances of making a mistake are reduced by 80+%.

As an example, let's look at a very simple plan we created recently for a real estate investment. This company's plan was to buy some land and build cabins for lease. Pretty straight forward plan.

The Assumptions tab had the following elements:

1. Cost of the land
2. Infrastructure cost for roads / utilities
3. Number of units to be constructed
4. Cost per unit of construction
5. Cost of furnishing each unit
6. Number of months it would take for construction before opening
7. Amount of money to be charged per night
8. Direct cost of having someone spend the night in a room
9. Overhead cost even if no one stayed in the rooms
10. Annual cost inflation rate
11. Annual rental inflation rate
12. Years of depreciation for infrastructure
13. Years of depreciation for building
14. Years of depreciation for furnishings
15. Percent of capital that would be in debt
16. Annual interest rate on the debt
17. Number of years to amortize the debt
18. Occupancy rate by month for 60 months from the time the project starts (not when construction is complete)
19. Number of months for the infrastructure to be built (starts when project starts)
20. What month # does the construction start? For example, 4 months after the project starts.

In the world of financial models, on a scale from 1 to 10 where 1 is the easiest and 10 is the most difficult, this model is definitely a 1. Very simple.

So, the Assumptions tab lays out all these assumptions.

The next tab we labeled Model. The first line of the Model is Months from Start, and horizontally we go from 1 to 60 to represent the 60 months of the total project.

The second line is Months of Occupancy. If it takes 4 months to build the infrastructure and 6 months for construction, then month 11 is #1 for Months of Occupancy. That's important because in Assumption #18, you've already laid out what the occupancy rate would be for months 1 to 60. Months 1 to 10 should be zero, and then in month 11 the first rooms are occupied.

Below that we have rows for Occupancy Rate, Rack Rate, Daily Expense, then Revenues, Operating Expenses, Net Operating Income, Interest Expense, Depreciation and Net Income.

A picture of the actual model is below – and note we used slightly different assumptions than we used above. In the real model, we had 6 months of construction and opened in month 7.

Notice that we also put in a Cash Flow model under the Income Statement model. This is very important because ultimately the company needs to know how much cash is needed.

In this simple model, the construction cost was equally spent over six months, and the project was 50% funded with debt and 50% in equity. Notice that interest on the debt began in month #1 and increased monthly. That's because we also have a Debt-Equity tab which keeps track of the amount of debt outstanding and calculates the interest monthly. That monthly interest calculated in the Debt-Equity tab is then linked back to this Model tab.

Similarly, depreciation doesn't start until the project is opened in month 7. We have a separate Depreciation tab that calculates the depreciation on the infrastructure, construction and furnishing costs. That is also linked back to the Model tab. So, the Depreciation is a cost, but is it also not a cash item, so in the cash flow statement, Depreciation is added back to Net Income.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Months from Start	1	2	3	4	5	6	7	8
Months from Occupancy	0	0	0	0	0	0	1	2
Occupancy Rate	0%	0%	0%	0%	0%	0%	25%	30%
Rack Rate	125	125	125	125	125	125	125	125
Daily Expense	25	25	25	25	25	25	25	25
Revenues	-	-	-	-	-	-	15,000	18,000
Operating Expense	-	-	-	-	-	-	3,000	3,600
NOI	-	-	-	-	-	-	12,000	14,400
Interest Expense	861	1,722	2,583	3,444	4,306	5,167	5,167	5,167
Depreciation	-	-	-	-	-	-	5,722	5,722
Net Income	(861)	(1,722)	(2,583)	(3,444)	(4,306)	(5,167)	1,111	3,511
Cash Flow:								
Net Income	(861)	(1,722)	(2,583)	(3,444)	(4,306)	(5,167)	1,111	3,511
Depreciation	-	-	-	-	-	-	5,722	5,722
Operating Cash Flow	(861)	(1,722)	(2,583)	(3,444)	(4,306)	(5,167)	6,833	9,233
Construction & Furnishing Cost	(258,333)	(258,333)	(258,333)	(258,333)	(258,333)	(258,333)	-	-
Debt Issued (Repaid)	129,167	129,167	129,167	129,167	129,167	129,167	-	-
Equity Invested	129,167	129,167	129,167	129,167	129,167	129,167	-	-
Net Cash Flow	(861)	(1,722)	(2,583)	(3,444)	(4,306)	(5,167)	6,833	9,233

For this simple model we start with 4 tabs: Assumption, Model, Debt-Equity and Depreciation. We track how much debt and equity has been invested, along with the costs for infrastructure, construction and furniture. For all these tabs, we have 60 columns for the 60 months of the model.

One thing we did not model in this example, which should be modeled in your company model, is the balance sheet. Because the model above was just a small part of a much larger model, we didn't need a balance sheet for this project. The consolidated balance sheet was in the larger model.

The other thing not modeled above is a Working Capital reserve. In the Assumptions Tab, a row should be added for Working Capital to be funded by the debt and equity. You might use $100,000 in this model. Then at the end of month #1, the Infrastructure, Construction & Furnishing expenses would be an asset on the balance sheet, along with the Working Capital less the Net Cash Flow loss. The Debt and Equity issued would also be on the balance sheet, and once property done, everything balances. When Depreciation starts in month 7, then the Depreciation line would be added to the Balance Sheet reducing the Fixed Investment of Infrastructure, Construction & Furnishing.

To finish off this model, we added an Annual Summary tab, which showed the income statement, cash flow (and balance sheet). The Annual Summary tab just sums the first 12 months to Year #1, months 13-24 to Year #2, etc. The month #12 Balance Sheet becomes the balance sheet at the end of Year #1 and so on.

The last tab that we added was an ROI tab. We used several different valuation methods for what the company might be worth after three years of operation (we could have used 5 years, since that's the total time we modeled). Then we added the cash balance and subtracted off the debt balance to come up with the value of the equity. From there, we calculated the Return on Investment.

The ROI tab is shown below. You can see we used a Cap Rate from 6% to 12% and using the Net Operating Income for the third year, estimated a value based on the NOI. We added the cash on the balance sheet and subtracted off the debt to show a Net Value of the equity. This shows a very strong investment return on this project of 59-101% per year over a three-year investment.

Cap Rate	6%	8%	10%	12%
Year 3 NOI	381,024	381,024	381,024	381,024
NOI Value	6,350,400	4,762,800	3,810,240	3,175,200
Plus Cash	688,421	688,421	688,421	688,421
Less Debt	(775,000)	(775,000)	(775,000)	(775,000)
Net Value	6,263,821	4,676,221	3,723,661	3,088,621
IRR	101%	82%	69%	59%

That's a good summary of Step #1 in raising capital. If you sell Widgets, then the price at which you sell the Widgets, the number of Widgets to be sold, the cost of production, the number of days that your customers will take to pay you, the number of days that you will pay your vendors, etc, etc. are all assumptions to be used in the Assumptions Tab.

Ultimately you will want a model that truly represents how your business performs, both today and in the future. My suggestion is that after you raise the capital, update the model at least every 3 months. We recommend using a rolling 12-month budget, so every three months extend the model to keep 12 months sharply in focus.

CREATE THE OPERATING PLAN

Writing an operating plan for your business is a great discipline, yet for me it is the least fun part of the process. When writing the plan remember that your audience is an investor, so it is written for an external person not to internally operate the company.

This will become the section of the offering document where you explain who you are, what your strategy is and how you will be successful.

Below are some sections that are often in an operating document:

1. Company history
2. Description of the business
3. Bios of key management with an organizational chart
4. Discussion of the industry, including key trends that impact your business
5. Discussion of your products or services
6. Plans for growth, including your need for capital
7. Exit strategy

All these items are straight forward, so I don't see a need to expound … except for the exit strategy.

Whenever anyone makes an investment, they must ask themselves one very important question – how am I going to get out of the investment?

In other words, investors don't want to be caught in a roach motel – where they can get in but can't get out.

The exit strategy is incredibly important for a company not only to plan for but to make sure that all its operations and strategic decisions are consistent with the exit strategy.

When advising my corporate clients one conversation we always have is the exit strategy. Why is that so important?

The goal of an exit strategy is to maximize the proceeds of the exit. In other words, we plan to have a liquidity event, how can you as CEO get the most out of successfully growing the company and executing the liquidity event?

Often CEOs think of liquidity events as “I will be selling my company.” And not surprisingly, many CEO’s don’t want to think about selling their company – it’s their baby, or maybe it’s a multi-generational family business.

A liquidity event can come in a lot of shapes and sizes, including the following:

1. Sale of the company. This type of transaction can take many forms, including the sale to a strategic investor that needs your continued leadership as CEO. It could also be a sale where you turn over the keys to the buyer.

2. Sale of a majority of the company’s stock. Most private equity sales are structured in this manner. The existing shareholders get paid for 51-80% of their shares and the balance of the shares remain in the company. The goals are to “take some chips off the table” and grow the company to “take a second bite of the apple”. I’ve always found it humorous that the phrases in quotes above are uttered at least once in every presentation by a private equity firm and by the investment bankers. It’s code for getting paid today and hopefully getting paid more tomorrow.

3. Sale of a minority interest in the company. An increasing number of private equity firms and strategic investors are willing to invest in a non-control position in a company. This type of transaction can provide the growth capital needed, while maintaining

ultimate control of the company and its strategy. The transaction will often come with a host of minority rights which might include the right to veto certain major corporate events, board seats, joint venture manufacturing or marketing agreement (depending on the expertise of a minority strategic partner) or first right of refusal to invest in subsequent rounds of private placement, or first right to buy the company.

4. Leveraged recapitalization. If the business has excess cash flow and that cash flow is relatively consistent, borrowing money based on the cash flow and paying a dividend to shareholders is often a good way to create liquidity. For example, let's assume that a company has cash flow after taxes, capital spending and other corporate needs of $1,000,000. Assuming the company is debt free, a local bank might advance the company $2-3 million in the form of an installment or term note. The company, for example, might borrow and pay a dividend of $2 million, repaying the loan in two years. At the end of the two-year period, all the shareholders continue to own 100% of the company, the company is debt free and free cash flow now should be in excess of $1 million. At that point the company could do another dividend.

5. ESOP sale. Using Employee Stock Ownership Plans to acquire a business has gone in and out of favor several times, but this remains a very attractive albeit complicated way to sell a business. Under an ESOP, the company is partially or wholly sold to the Plan and the Plan uses borrowed money to pay for the stock. As the business repays the loans, <u>both the principal and the interest payments are tax deductible</u>. This can have huge implications for the employees that make up the Plan. This is not a common option and if you wish to learn more we can put you in

touch with attorneys who specialize in the creation and implementation of these arrangements.

There are many variations on the themes outlined above, such as using leverage to buy out particular shareholders in the company. But whatever the goal, it is critical for the company and its CEO to determine what the end game is to steer the company towards that goal.

If a company and its leadership know what the target is, even if the target is years away, it allows decisions to be made that are consistent with the goal.

For instance, if the goal is to sell a business in two years, it probably makes no sense to build a new division of the company that will lose money for the first five years of operation, regardless of the expectation of the profits that could be had ten years from now. The buyer two years from now will penalize the valuation for the losses and perhaps even reconsider purchasing a company that has a built-in loss for the next three years in this new division. They buyer might also question management's judgement to have gone down this path.

Starting such a new division is inconsistent with the goal of the company … to sell in two years.

The Operating Plan and the process of creating the plan is an essential tool for a management team to assure itself that everyone is on board and focused on the same goal. Once completed, it is also part of the framework that will be communicated to investors to raise the capital.

Investors want to invest in companies that know where they are going and how they are going to get there.

DETERMINE THE AMOUNT OF CAPITAL NEEDED

Your company now has the financial and operational plan, and a by product of creating those plans is to determine the company's capital need.

Most companies have a certain need for capital now and they know that in the future that additional capital is needed. Often companies know that they need $x amount of capital annually for capital spending and working capital expansion, but they also know that a major project needs funding in 18 months, or they want to do an acquisition that will require additional capital.

So how much is enough?

As a rule, plan for your capital needs for at least the next 2-3 years, if not the next 5 years, and go out and get capital commitments for that need.

Companies need to balance the desire not to give up too much equity today with the risk that the environment might not be right later when the capital is needed.

Just look back to 2005-2006. Companies that were out raising capital for the short term, confident that they could raise more capital in 2007-2009 were sorely disappointed. Anyone who raised 1-2 years of capital in 2006 either stopped growing or died in 2008-2009.

We've had many CEOs tell us over the years that the only mistake they made when going out to raise capital is that they didn't raise enough. Either something unforeseen happened that required capital which was expected to be used for growth, or growth opportunities emerged that were greater than expected. In either case, they needed to go back to the market to raise capital quicker than they had anticipated.

Every company is different, and the capital need must to be tailored to the business. If your company has a construction project that is going to take a couple of years to complete and a couple more years to stabilize cash flow, then when raising money for the project it would be wise to raise it for the entire time that you are expecting negative cash flow. And be sure to include the interest costs or other carrying costs of a project up until the time that the project begins to generate cash.

The financial model built in the first step of this capital raising process is an incredibly important tool to determine the right amount of capital needed when going out to the market.

DETERMINE THE TERMS OF THE CAPITAL

This question is often one of the most difficult questions to answer when raising capital.

Do we want to raise debt or equity? Preferred equity or common equity? Participating preferred? Convertible preferred? Convertible debt? Debt with warrants? Equity with warrants?

It's not just $5 million. It is $5 million of a particular security, and it is generally up to the company to determine the structure, although you should always be prepared for the investor that comes back and wants to change the terms you put in the PPM.

But before determining the security to be offered, it's wise to determine the real market value of your company. In other words, what is your company worth today and what is the equity in your company worth today? If you sold it today, what would you get?

Say, for example, that you think your company is worth $10 million, and it has $2 million in debt and no excess cash or assets that could be easily sold. Then the equity value of your company is $8 million, and the total value of your company is $10 million.

The difference and understanding the difference is critical when talking with investors.

This Report isn't the forum to discuss how to value a company, but in very simple terms, companies are generally valued as a multiple of earnings or revenues. In the software industry, for example, a typical valuation might be 4 or 5 times revenue. If your company is doing $5 million in annual sales, then it might be worth $20-25 million to a buyer.

In a different industry, a $5 million company making $500,000 per year might only be worth $2 million, or 4 times earnings.

Have you ever watched Shark Tank? What does Kevin O'Leary often argue about? Valuation.

"What do you mean that your company doing $1 million in revenue next year is worth $20 million today?" And he's normally right.

Now we could argue that valuing an early stage company is more an art than a mathematical formula, but ultimately value comes down to how much revenue and earnings is a company making. A company not making money in most industries isn't worth very much.

A LOT OF FOUNDER / CEOs MESS UP RIGHT HERE.

They think their company is special. And worth a LOT. And will be the next Starbucks – Amazon – Facebook. You get the picture.

And maybe your company is the next Facebook, but unless you're getting money from one of Silicon Valley's elite, the chances of your raising money at a valuation that is devoid of realities of revenue and earnings is slim and none.

Does it happen? Yes.

Will it happen to you? Probably not.

We are working with a company right now that has annualized revenues of about $8 million and is about to be profitable?

What's it worth?

It's not in the type of industry, like software, where a buyer could strip out all the costs and the marginal profit to the buyer is 90% of sales. That's why a software buyer can pay 4-5x sales because they are really paying 5-6x earnings.

Get the picture?

In our client's case, if a larger company bought them, the buyer might be making $1 million per year, so their business is probably worth $4-5 million today.

They want to raise $10 million for growth.

And they can justify raising $10 million based on acquisition opportunities which they have.

They believe that if they invest $10 million in acquisitions, it will produce $20 million in value and the company would be worth $25 million on a sale.

Should they raise debt or equity? Convertible? With or without warrants?

Again, not easy decisions and one size doesn't fit all. Yet if they are successful raising $10 million in new equity, the existing shareholders would probably end up owning no more than 1/3rd of the company. Existing value is $5 million plus $10 million in new cash means that their "post-money" value is $15 million. The new $10 million is 2/3rds of the company.

Do you think that the founder/CEO wants to own 33% after raising capital – not likely.

How about if they raised $10 million in debt? For an unprofitable company, how much would they need to pay interest to attract money?

In reality probably, no one would lend the company $10 million, but if they did, maybe a 15-18% rate. Can this company afford to have $1.5-1.8 million in interest expense annually? Nope.

However, let's say your company is on the verge of making a profit. The business needs $2-3 million in capital, which you expect will make the company nicely profitable.

Would you want to sell $2-3 million in equity for 50-75% of your company, or raise $2-3 million in debt and give the investors a warrant to purchase 20% of your company?

There are dozens, if not hundreds, of possible structures that could be proposed and analyzed, and ultimately, it's up the investor to determine if they are willing to invest.

The likely outcome is probably something like this:

7% Convertible Preferred Stock with the dividend accrued until authorized by the Board of Directors to be paid in cash and convertible into common stock at a $15 million valuation. There likely would also be a 3 or 5 year put option given to the investor and if I were the investor, I'd want a liquidation preference of 1.5x the money invested.

That's quite a mouthful.

Let me break that hypothetical security into pieces.

First, let's assume that the investor purchased 1,000,000 shares of the Convertible Preferred for $10 per share. The Preferred Stock is convertible into Common Stock at $15 per share. The Original Founder owns 500,000 shares of Common Stock at $10 per share, equaling the $5 million value before the raise.

It's a Preferred Stock. That means that on the balance sheet the investment has preferential treatment to the common stock. In a liquidation or sale of the company, the preferred stock is paid off in full first, before the common shareholders get anything.

It is also Convertible, so the investor may elect to convert the Preferred Stock into Common Stock whenever they like. This would normally happen only on a sale of the company when the sale price would be greater $15 per share. If the investor converts into Common Stock, they are getting Common Stock at $15 per share, so for any sale of the company with a value less than $15 per share, the Preferred Shareholder would not convert.

The 7% accrued dividend means that the shareholder would receive an annual dividend of $700,000, which would accrue on the books of the company until paid. Upon a liquidation, the accrued dividends are first paid, then the Preferred Stock would be repurchased. That accrued dividend will also go into the thinking of the investor in determining whether he/she wishes to convert to common stock.

The liquidation preference is a key ingredient to this example. With a 1.5x liquidation preference, this means that if the company was liquidated or sold, the investor would get $15/share rather than the $10 per share they originally paid for the stock, plus accrued dividends.

Why would the company agree to such a term? Because they are selling a stock convertible into common stock at a $15 million valuation when the company is only worth $10 million. In reality, the company is telling the investor, I'll pay you a minimum of $15 million for your $10 million investment.

If the Company CEO is right and the Company is worth $25 million after acquisitions, then the investor has 666,667 shares of Common Stock at $15/share ($10 million divided by $15/share). The Original Founder owns 500,000 shares, so there is a total of 1,166,667 shares of stock worth $21.43/share.

The Founders $5 million is now worth $10.7 million and the investors $10 million is now worth $14.3 million. Both the investor and the Founder have made a good return.

So, let's ask this question … would the investor convert into Common Stock when the company is sold for $21.43/share?

NO.

WHAT??

Let’s circle back to why, as an investor, we’d want the 1.5x liquidation preference.

The investor pays $10/share for his 1,000,000 shares of Preferred Stock. The Liquidation Preference means that the investor gets a minimum of $15,000,000 before the other Common Shareholders get anything. While $21.43 is much better than the $15/share conversion price, with the 1.5x Liquidation Preference, the shareholder would need $22.50/share in order to convert.

In this example, the Preferred shareholder would get $15,000,000, leaving $10,000,000 for the Founder. Still a double from the $5 million original valuation, but the Liquidation Preference assured the Preferred investor of a 50% return on the investment.

Think that is bad as the owner of the company? How about if the company had grown valuation from $5 million to $20 million?

The Preferred Shareholder gets $15 million, the Founder gets his original $5 million in value after growing the company nicely.

As a CEO, you don’t want to even think about selling the company for $15 million and turning all the proceeds over to the Preferred Shareholder.

Structure Matters – and it Matters a LOT.

I've personally known CEOs who have created tremendous value for their private equity partner and ended up personally with very little because they didn't understand the implication of the structure.

If you hear the words "participating preferred" and "warrants" in the same sentence … run.

This is why it is so important to have a highly experienced legal or financial advisor assisting in structuring a private placement. You want to find a structure that works for you and for the investor.

DETERMINE TYPE OF OFFERING

Your attorney will help you determine what type of offering is best for your company. In very broad terms, there are two types of stock offerings: registered offerings and exempt offerings.

Registered offerings require that an offering document be filed with the SEC. Most of the time registered offerings are part of the process of "going public" or allowing the shares of your company to be publicly traded.

Because registered offerings are filed with the SEC and typically larger and more complex offerings, they are much more expensive and time consuming than exempt offerings. The SEC registration statement is a more fulsome document and as a rule of thumb, expect the SEC registration process to last a minimum of 4 months.

Registered offerings require audited financial statements for the past two years, and often require a level of corporate governance that exceeds what many private companies are prepared to do.

Offerings that are exempt from SEC registration are, not surprisingly, called “exempt offerings”. Rule 506 typically governs exempt offerings. While there are many ways to have an offering exempt, the two most common is an exemption under Rule 506(b) or Rule 506(c).

The 506(b) exemption is the most common exemption. It allows a company to raise capital from accredited and up to 35 unaccredited investors. The investor questionnaire will ask investors to “check the box” on questions about their net worth, their income levels and other ways in which an investor may be deemed to be an accredited investor.

While using the 506(b) exemption, the company may only attempt to sell the offering to individuals or entities with whom the company has a pre-existing relationship. This is the basis of the “friends & family” exemption. If you and I know each other and have a pre-existing relationship so that you believe I might have an interest in investing, then you can provide me with information on your company and ask me to invest. However, if you and I have never met, you may not approach me.

What’s the practical implication? In a 506(b) offering the CEO is restricted to talking only with people that he/she already knows. There are exemptions if you wish to talk with venture capital or private equity firms, but for individuals it’s restrictive. A company can’t put it on their website, or Facebook, or send blast emails or use advertising. In SEC terms, no “general solicitation”.

Using the Rule 506 exemption requires the filing of a Form D with the SEC. Form D summarizes the offering and includes such information as the size and type of the offering, the exemption used, the amount of capital already raised and whether the company is using a FINRA member broker/dealer to sell the offering. This becomes public information and can be seen on the SEC’s EDGAR system.

The 506(c) exemption was created by the JOBS Act, which also created Crowdfunding. The goal of this new exemption is to allow companies for the first time to generally solicit investors. Companies can use Facebook or other social media, their websites, blast emails to mailing lists purchased by the company or take out a full-page ad in the Wall Street Journal. Effectively the company can do about anything to get the message out that they are raising capital.

With this new freedom of solicitation comes two new responsibilities.

First, all investors must be accredited. No unaccredited investors allowed. Second, while the investor questionnaire is the same as in a 506(b) offering, the company cannot rely on the investor "checking the box" that they are accredited. The investor must now provide evidence of accreditation. For the investor that says their net worth is more than $1 million, the JOB Act says, "prove it". That most often means a letter from a CPA stating that they have a long-standing relationship with the investor, has knowledge of the finances of the investor and the CPA attests that the investor is accredited and has a net worth more than $1 million excluding their primary residence.

For the investor declaring that they have sufficient net income, a letter from their CPA attesting to that fact, or their tax returns for the past two years along with a letter stating that their income in the coming year will exceed minimum levels can be used.

In effect the SEC is saying, "if we let you use general solicitation, then the investor must prove accreditation."

In our view, this is a good trade. We will talk more about this in the Marketing section of this report but opening investing to general solicitation is a huge and very positive change for companies seeking capital.

The JOBS Act created two additional types of offering: Crowdfunding and Reg A+.

Crowdfunding is restricted to only raising up to $1 million in any 12-month period, so it's of limited usefulness. It seems more applicable to companies that have products to sell whereby the company can sell some equity and potentially use their products as sweeteners. In our view (and there is quite a bit of disagreement), it's a great way to "kick start" a products company, but for any business that expects to be of size, we believe Crowdfunding to be of little help.

Crowdfunding may also be useful for a start-up where the CEO doesn't have or doesn't want to raise capital from friends & family. The company can go out on a crowdfunding website and raise its initial capital, and presumably give away a small amount of stock to do so. That said, putting your offering on a crowdfunding site doesn't mean that investors will invest. But if you can create an attractive offering and the company can generate enough interest, then this might be a good way to get seed funding.

We expect that over time, the SEC may change the rules for Crowdfunding. Investors will wake up in a couple of years and have a drawer full of useless stock certificates. The investors will most likely have not heard from the companies since their investment and they have no way to sell the stock.

It's like the roach motel – easy to get in, hard to get out.

I expect that there will ultimately be a backlash against Crowdfunding and the SEC will need to change the rules. But for now, if you need a small amount of capital, there is no reason not to try.

The other new type of offering is the Reg A+ offering. Reg A has been around a long time and Congress expanded it to open the process to a much larger number of companies.

The Reg A+ offering allows companies to raise up to $50 million with both accredited and unaccredited investors. It also allows for general solicitation.

The Act created two types of Reg A+ offerings: Tier 1 and Tier 2.

Tier 1 offerings have a maximum of $20 million in any 12-month period and does not require audited financials or post-offering SEC filings. While that sounds real attractive, the Tier 1 offerings must also pass each individual state's Blue Sky rules.

At a 30,000 ft level, Blue Sky laws are regulations in each of the 50 states that regulate securities offerings in each state. The rules in California are different, for example, then the rules in Georgia. In a Tier 1 offering, each state has the right to ask questions of the issuer, in addition to the SEC registration process.

We have heard nightmares about companies that cleared the SEC after four months only to have the states come in with 20 pages of questions. Some companies have withdrawn their offerings because of interference by the states.

In our opinion, we would recommend a Tier 1 offering only if the company intends to market the offering in a small number of states. If you have a company in New York and believe you can raise all the capital you need in the state of New York, then a Tier 1 offering is a good choice. You need to satisfy the state securities regulator in New York state, but that's a lot easier than trying to appease 50 different regulators.

The Tier 2 offering has become much more prevalent. It allows for up to $50 million in new capital to be raised. It does, however, require audited financial statements and then after the offering, the company is required to file financial reports with the SEC every six months. This is similar to the Form 10-Q and Form 10-K filed by full SEC reporting companies but think of it as 10-Q Light.

The Tier 2 offering is EXEMPT from Blue Sky rules in all 50 states, so the state regulators have no say regarding a Tier 2 offering. This is a big benefit.

All Reg A+ Offerings are filed with the SEC on Form 1-A. The registration statement is similar to an S-1 filed for a larger, underwritten public offering. But like the 10-Q analogy, Form 1-A is a "lighter" version of Form S-1.

The issuer should have good SEC counsel to file and work with the SEC on getting the offering "qualified". No sales of the stock can occur before the SEC qualifies the offering. This process typically takes four months but can take much longer if the company doesn't get the SEC the information they require.

The auditor also should have worked with the SEC before. This is not the time for amateurs, so be sure to retain legal counsel and auditors that have public company experience.

Two other important points about Reg A+ offerings. The offering is a "best efforts" offering rather than an underwritten offering most often used with an S-1. In an underwritten offering, the underwriter buys 100% of the stock to be sold and then redistributes the stock. In a best efforts offering, the underwriter sells stock as they get orders, rather than all at once. The offering may sell out quickly or may not sell at all.

The other significant point is that since the offering is registered, the stock can be traded. If you want to be a publicly traded company, then the underwriter will introduce you to market makers and generally the underwriter will be your primary market maker once the stock begins to trade.

The stock is most likely going to be traded on the “bulletin board” rather than NASDAQ, although it is possible to have your company trade on NASDAQ. This exchange has its own rules about what stocks can trade, but generally the listing requirements are as indicated in the table on the next page taken from the NASDAQ Initial Listing Guide. NASDAQ also has some corporate governance requirements for all listed companies.

Nasdaq Capital Market

Financial and Liquidity Requirements

Companies must meet all of the criteria under at least one of the three standards below.

Requirements	Equity Standard	Market Value of Listed Securities Standard*	Net Income Standard
Listing Rules	5505(a) and 5505(b)(1)	5505(a) and 5505(b)(2)	5505(a) and 5505(b)(3)
Stockholders' Equity	$5 million	$4 million	$4 million
Market Value of Publicly Held Shares	$15 million	$15 million	$5 million
Operating History	2 years	---	---
Market Value of Listed Securities	---	$50 million	---
Net Income from Continuing Operations (in the latest fiscal year or in two of the last three fiscal years)	---	---	$750,000
Publicly Held Shares	1 million	1 million	1 million
Shareholders (round lot holders)	300	300	300
Market Makers	3	3	3
Bid Price OR Closing Price**	$4 $3	$4 $2	$4 $3

WRITE THE PPM

A Private Placement Memorandum, or PPM, is a document that details for investors your company, the offering, investment risks and your financial plans for the company.

We recommend that a securities attorney assist in the preparation of the document, since an important part of the document deals with securities law, exemptions from registration of the offering, and verbiage to ensure that you and your company are compliant with state and federal securities regulations.

You have already written the financial and operational plan, and these will be the centerpiece of the PPM.

A typical PPM is written in several sections and an example of the sections we used in a recent PPM is below:

- PPM Summary
- Disclaimers and legal disclosures
- Offering Summary
    - The Company
    - Business Plan and Operations
    - The Offering
    - Description of Stock
    - Offering Details
    - Use of Proceeds
- Notices & Disclosures
- Risk Factors
- Plan of Operations
- Management Team
- Financial Plan

- Principal Shareholders
- Management Compensation
- Board of Directors
- Investor Suitability Standards

The key ingredient of a PPM is full disclosure. It is essential that the company fully disclose the good, bad and the ugly. Often the Risk Factor section is the largest section of the document.

Often CEOs say something like this – “Why do I need to disclose [fill in the blanks with the most negative aspect of your business]? That will only drive investors away.”

The reason for full disclosure is simple – it protects you. Let’s say that you know of a customer that has threatened to sue your business. While writing the PPM, you decide not to disclose this piece of ugly information because you’re afraid that no one will invest if they know you might be sued. The investor invests. The customer sues and then the investor learns that this lawsuit has been in the works even before he invested.

Because of the lack of disclosure, the investor can now sue the company to get his money back and you and the company have legal potential civil and criminal legal liability.

The PPM is NOT A SELLING DOCUMENT, but rather a legal document with full disclosure. The investor presentation is more of the selling document. The presentation will have more information on the future plans and expectations of the company and less on the risk factors of the offering.

Both the PPM and investor presentation are essential to a successful offering. Think of it this way: the PPM protects the company because it has fully disclosed everything material to the investor and the Investor Presentation has the sizzle to demonstrate to the investor that your business plan will be wildly successful.

At the end of the PPM is an exhibit section that typically will have your articles of incorporation, operating agreement (if your company is an LLC) and the offering subscription documents.

SUBSCRIPTION DOCUMENTS

The subscription document package typically contains both a subscription agreement and investor questionnaire.

The subscription agreement is the legal document whereby the investor agrees to invest in the company. The document includes a variety of disclosures and a section for the investor to declare how many shares of an offering they wish to buy, along with their name, address, social security number and other information. When signed it is a legal document purchasing securities.

The investor questionnaire's purpose is to determine whether the investor is an accredited investor. Most private placements either require an investor to be accredited because of the type of exemption used for registration of the offering, or because the company decides that they only want accredited investors.

Generally, an accredited investor has a net worth, excluding their primary residence, of $1 million, or the individual has income more than $200,000 for each of the past two years and expects to have at least the same amount in the current year ($300,000 for a couple).

Your attorney is very important in helping you determine the type of offering, the exemption or type of registration used and drafting the subscription agreement and investor questionnaire to ensure that you are compliant with federal and state securities laws.

Remember that if you use any general solicitation, the offering defaults to a 506(c) offering that requires evidence of accreditation and all investors must be accredited. Many companies get tripped up by starting a 506(b) offering with friends & family and then putting it on their website or talking about it on LinkedIn. It creates a major legal problem for the issuing company and could include rescinding all subscriptions and starting over.

Be very careful and work with experienced securities counsel.

ESCROW AGENT

Should you use an escrow agent in the offering?

Let's start with the basics – what is an escrow agent?

An escrow agent is typically a commercial bank that will hold your potential investors money until the investor has filled out and signed the subscription agreement and investor questionnaire, and the company has accepted the investment by countersigning the subscription agreement. The escrow agent then matches the subscription agreement with the amount of funds wired into the bank and when they match, and all requirements of the escrow agreement are met, the escrow agent then forwards on the investment to the company.

The alternative to an escrow agent is that the investor writes a check or wires money into the company's bank account. The company gets in the subscription agreement and investor questionnaire and if acceptable, the company countersigns the subscription agreement.

You should discuss with your legal counsel the advantages and disadvantages of using an escrow agent.

I'm CEO of a FINRA member broker/dealer, and we always use an escrow agent for the private placements that we manage.

Why?

Using an escrow agent provides an additional layer of security for the company and your investors.

For the investor, they know that an independent third-party is determining whether all the paperwork is properly filled out and all the requirements are met before their money is forwarded on to the company.

For the company, you are protected from allegations that you used the investors' money without meeting all the requirements of the offering or without providing the investor with evidence of the company accepted the investment.

The other instance when an escrow agent should be used is when the offering has a minimum amount of capital to be raised before the first closing. For instance, a company goes to market to raise $5 million, and says that they will not accept any investors unless they get a minimum of $2 million in the offering.

In this case, the company would set up an escrow agent so a third-party can determine when the company meets the $2 million minimum. The escrow agent will not release funds to the company until the minimum is met and all the investors making up the minimum have executed, and the company has countersigned all the required documents.

Again, this protects both the investors and the company.

If for any reason the company doesn't raise the required $2 million minimum, in the time frame spelled out in the escrow agreement, then the escrow agent will automatically return the funds to each of the investors.

This eliminates a company's potential misuse of funds, or the attempt to change the rules. For instance, $1.5 million is raised. A company, if the funds were already in their bank account, could have already spent some of the money, or might decide that $1.5 million is OK and they decide to close on the $1.5 million even though the offering documents state that $2 million is the minimum.

Again, there are very real consequences for closing the offering contrary to the subscription agreement. Even years later, the investors can come back and demand their money back. This is super important.

Give careful thought as to whether your company should use an escrow agent.

YOUR INVESTING AUDIENCE

Now that your documentation has been completed, attention is turned to selling the offering.

First question is: To whom will we sell the securities?

The answer to this question, in part, deals with whether the offering will be registered with the SEC, and if unregistered, will you be using general solicitation or reaching out to your relationships.

Most companies begin with a 506(b) offering to “friends & family”. Put together a list of those people who you believe will back you and the company. You, your management team, advisors, board of directors and anyone else involved in the offering should do the same. Each of you know people who may want to invest in the company.

If the offering will be using general solicitation, then the “friends & family” list should still be created, but in addition, make a listing of the social networking or other avenues you might have to reach investors.

If your company already has a good social media presence with Facebook, Twitter, Instagram, Pinterest or other websites, these people are a valuable resource.

Resist the urge to say that you should not try to get your customers or other social media admirers as investors. I’ve talked with some CEOs that don’t want people to know that they are raising money, as if that was some sort of negative that the company needed additional capital.

It’s not a negative, it’s a positive. The fact that you need more capital is an indication that you’re growing, and your customers should be glad that the company is so successful it needs additional growth capital.

Your customers and social media followers are your biggest cheerleaders – go see if they want to own a part of the company they already like & follow.

Depending on your company's size of revenues and earnings, you may also want to focus on venture capital or private equity firms.

Understand that in today's world it is exceptionally rare for a company with less than $2-3 million in EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) to be successful with private equity. And if your company has $2-3 million in EBITDA, there are very few funds that will be interested.

If your company has at least $5 million in EBITDA and it's not in a highly cyclical industry, then there are a good number of firms that might have an interest.

My suggestion for anyone dealing with private equity firms is that you have professional help in the form of an investment banker and a lawyer who regularly deal with private equity firms. Don't use your good friend corporate attorney who may know your business but doesn't regularly deal with private equity. Your legal counsel should be conversant on the typical terms and conditions for an investment of your size and should be able to provide guidance as to what is a normal condition of a deal that isn't likely to change, and which parts of a deal are negotiable.

The same with any financial advisor. Using an investment banking firm to scout out private equity firms is generally the way to go. They already have relationships with these firms, so when they call, the call gets answered and the private equity firm listens to the pitch.

If you cold call, the chances of getting heard isn't very good.

Good legal & financial counsel is worth its weight in gold. Often CEOs balk at the fees paid to investment banking firms, and the fees can be quite large. However, the seller of securities needs to look at the postdeal economics. A good banking firm will put more money in your pocket than they will in their own pocket, and much more money in your pocket than you would have gotten working on your own.

CREATE YOUR INVESTOR PRESENTATION

While getting ready to market the offering, the next piece to create is the investor presentation. This is your opportunity to sell the deal to investors.

Think of the investor presentation as a mini-PPM, but more focused on the selling points of the offering. In it, you will give a summary of the key investment points – why should the investor invest. This is typically followed by a bio of the key people, and normally that's the CEO, CFO and COO if there is one.

The typical sections to the investor presentation are as follows:

1. Introduction section
   a. Single page with amount of offering & type of securities
   b. Single page with 2-3 sentences telling the company's story
2. Key Investment Considerations
   a. Key selling points
3. Management Introductions
4. High level discussion of the problem you solve and the industry. Often discuss the history of the company
5. How you solve the problem. Why is your company special? Why should the investor care?
6. Company overview
7. Growth Plan

8. Exit Plan, or how to get the investors money back with a great return.
9. Sources & Uses of Capital
10. Terms of the Offering
11. Repeat Key Investment Considerations
12. Q&A

The investor presentation is a little like story telling. You tell the story of you and your management team, the problem to be solved, how you solved the problem and the potential to grow the company into something that's worth a lot of money.

Years ago, the general rule of thumb was that a slide show presentation should be 22 slides – and I remember literally putting 35mm slides into a slide projector at every stop of an IPO road show.

In today's world companies often go straight to the investor presentation and the PPM is just a legal document, almost an afterthought. The presentations are longer, sometimes as many as 40 slides. But be careful, there is a fine line between selling and boring a potential investor to death.

For technology companies and their CEOs who LOVE TECHNOLOGY. We hate to tell you this, but most investors don't care about your technology. I've survived many presentations where all the CEO wants to talk about is the cool technology. Sorry … but who cares but you?

Investors want to know what the technology does. What problem does it solve? Do customers want the solution and will they buy the solution.

Focus on the problem and the solution, not how the technology solves the problem, except at a very high level. If the investor in the presentation wants to know more about the technology, they will ask and then the technology CEO can start talking about what he really loves.

Realize also that the investor is asking himself/herself during the presentation, “can this person be successful in building this company”? They typically are NOT asking themselves, “is this person the right chief technology officer?”

Sorry for my rant, but I’ve seen this mistake so many times.

Investors are investing in companies that will turn their $100 into $300 or $1,000. That’s their interest and as in any conversation with someone else, focus on their interest, not yours and the conversation will go better.

Expect that in a typical presentation that you will want to talk for no more than 20 minutes in a dry run without questions. When you start the presentation, invite the participants to jump in and ask questions. You want to engage with the listener and have a proactive conversation about your solution and the growth plan for your company.

Think of the slides as a crutch. If you do really well, you should have slides left over that you need to jump through before ending the meeting.

CREATE YOUR MARKETING PLAN

Now that you know who your targets are, how are you going to reach them??

By now you should have investors in four buckets:

1. Friends & family – existing relationships
2. Private equity
3. Strategic investors
4. Public

The method used to reach each of these four groups is different.

For the people you already know, you should be scheduling lunches and time at Starbucks – most executives would be open to seeing you in their office for a cup of coffee.

In the first meeting you are just talking about the business and that you are going out to raise money. Talk through your plans, how much money you need and the type of securities that you're offering. It's an open conversation.

My suggestion is not to bring an investor presentation or the PPM to this meeting. It is informal, just two friends talking about your business. Make it clear that you'd like them to consider investing and you will be glad to follow up the meeting by emailing to the investor the PPM or investor presentation. Or better yet, set up a second meeting where you can walk him through the investor presentation in a more formal way and deliver the PPM.

Meeting with a private equity fund is different. In this case they expect you to bring the investor presentation. Generally, you will be meeting with 2-5 people, so bring printed copies of your presentation for everyone in the room. If you think a non-disclosure agreement is needed, this should be done via email prior to the meeting. Realize that some private equity firms refuse to ever sign NDAs.

The goal of this first meeting is to have a second meeting. In this case your investor presentation should focus on the business and the process you will be using to raise capital. If you are using an investment banker, as we suggested, then they will probably advise that you will not propose a structure or pricing of your stock in the transaction, but rather will leave that open ended. "We are seeking to raise $5 million in growth capital", instead of "We are offering 500,000 shares of our stock at $10 per share."

Working with private equity firms is a competitive process. Your investment banker should have you in front of many firms, and they need to compete for your business. They will have their own thoughts on valuation and structure and are frankly uninterested in your thoughts until they decide they want to invest.

Working with a strategic investor requires a different approach. Strategic investors are important because they bring something to your company in addition to capital. They are a supplier, or a potential customer. There is one private equity fund we know whose limited partners are all healthcare systems. When they look at an investment, they want to invest in companies that will improve quality and/or reduce the cost of delivering healthcare. If they invest, the company receives not only funding but also a huge base of clients. This fund nearly guarantees its success by bringing enough business to the companies it invests in to virtually guarantee the success of the investment.

In the same way, if you are a software company and the company that invests will be using your software, it can be a much better situation than just receiving funding.

Realize also that strategic partners can ultimately be your exit strategy. A relationship that beings with an investment could ultimately lead to the acquisition of your company by the strategic partner.

In approaching a strategic partner, the key is letting them know how working with your company and investing in your company will help their business. It is not a conversation necessarily about their return on invested capital in your business, but rather a more holistic conversation about how the firms could be better off by working together.

The other potential advantage in working with a strategic investor is that they care less about the investment terms than they do the strategic value of the investment. Often strategic investors will invest more money for less ownership than private equity or even individual investors.

Realize too that there are pitfalls of having a strategic investor and these need to be carefully weighed. For instance, having a strategic relationship with one company may preclude you from doing business with another company.

Again, an experienced legal and investment banking team can be helpful in walking through the opportunities and pitfalls.

The last group to discuss are public investors – basically everyone else in the United States.

All the investors in the first three groups, people you know, private equity and strategic investors can all be approached using a Rule 506(b) exemption. When you start soliciting the public, then the rules change to a Rule 506(c) as we discussed earlier.

The primary ways to reach these investors is through email, Facebook, LinkedIn and other social media. Unless your company has great social media capabilities, you will need to hire an expert marketing firm that can craft advertisements and an email follow-up campaign. Websites will need to be built for the offering and you will need to think through how to process the investors once they express an interest in your offering.

There are companies who have built excellent back office engines for stock offerings. Potential investors come to a special webpage where they can download information on the company, the investor presentation and the PPM. Once they decide to invest, they click on an "*Invest Now*" button and they are transferred to this third-party service that takes in all the required information, allows the investor to electronically sign documents and ultimately delivers an electronic stock certificate.

The mechanics of setting up and executing this type of marketing plan is complex, and for most companies, a third-party marketing company should be employed.

This type of social marketing effort uses the law of large numbers. For every 10,000 contacts or clicks, 100 will go to your landing page and ultimately 1 will invest $25,000. If you need $5 million, you need 200 investors and to get 200 investors you may need 2,000,000 clicks.

Of course, you hope and should expect that your results will be better than the above, but 1% conversion to the landing page is about right. Whether you can get 1% of those to invest or 10% to invest is largely up to the attractiveness of the offer, whether your marketing company is getting you in front of accredited investors (remember, all investors must be accredited) and your ability to follow-up and close the investors.

It is a mistake, in my view, to expect someone to write your business a $25,000 or $50,000 check without talking with you. That means that you may need to talk with hundreds of potential investors to complete your raise.

Seminars are another good way to get investors into your company. Do a direct mailing (real snail mail) to accredited investors and hosting a cocktail reception or dinner. During the event you will walk the investors through your investor presentation and give them the documents they need to invest in your company. After the event, you as CEO do a one-on-one follow-up and offer to meet them at their office, for lunch, coffee or anywhere else they would like to meet to discuss more about your company.

There is a process for raising capital and often the process is grueling. Talking with a couple hundred people to raise $5 million will take time … your time and resources. A portion of the money raised will be used to raise more money and it’s not unusual for a company to spend 15% of more of the money raised in the money raising effort.

EXECUTE & CLOSE THE OFFERING

The fun part of this process is finishing it!!

Documents start coming in. Checks going to the escrow agent. Money starts flowing into your company.

Expect that the process will take 4-6 months – if you’re good & lucky. It may take a year.

But at the end, you have the capital needed to execute on your growth plan. Congratulations.

SERVICES WE OFFER

We help CEOs implement all the above.

We find that most of the time, the prospect of doing all that is written in this Report is overwhelming.

After all, you also have a business to run, so why spend 80% of your time over the next 6-12 months doing the hard part of raising capital.

Jeff Villwock, our founder, has over 40 years' experience working with both public and private company CEO's. He has completed over $2.5 billion in transactions, from IPOs to private placements to buy-side M&A and selling a corporate client to both financial and strategic buyers.

Today Jeff is CEO of Lanier Securities LLC, a FINRA member broker/dealer and he also consults with private company CEOs in their quest to raise capital.

The private consultations are done one-on-one, via phone or Skype, once a week for as long as the CEO wants to continue.

He also works with corporate CEOs on their growth and operational plans and enjoys long-term relationships that ultimately results in a big payday for everyone involved.

As Jeff has said often in this Report, raising capital is a process. And so too is getting to work with Mr. Villwock. Obviously, he can't consult with every CEO since all the sessions are one-on-one and there is only so much time in a day.

Jeff interviews every potential client to make sure that there is a good fit between himself and the client. That process begins with a short questionnaire that will give Jeff some information on you and your business. If he likes what he sees, then he will invite you to a 90-minute interview during which he will talk to you about your company, your hopes, dreams and the capital you need to raise.

Jeff's goal with the interview is to actually help you in your process of raising capital. And if he can do that, and both of you agree there is a good fit, then he will invite you to join him in seeking to raise capital for your company.

Jeff doesn't use contracts or long-term agreements. His clients pay a monthly retainer of $4,850. When the CEO feels he/she is done, then the consulting is complete. Easy.

After the capital is raised, Jeff may entertain a discussion about how he might use his experience to continue to help the company to grow towards a well-defined exit. But that's another conversation for another day.

If you are interested in an interview, go to: www.JeffVillwock.com/client-questionnaire to access the questionnaire. Fill it out, upload it on the website and we will be in touch.

We hope that this Report has been helpful and wish you all of life's blessings.