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# Raising Capital: Key Legal Issues

# Are you Investor-Ready?

- **Form as C Corporation**
- **Capitalize properly**
- **Keep good records**
- **Obey the law**



# C Corporation Formation

- **Experienced Investors prefer C corps**
  - They are comfortable with C Corps
  - C Corps provide certain tax advantages to some investors
  - Can do tax free reorganizations that you can't with other entities
- **Formation in Delaware is most common, but not required**



# Capitalize Correctly

- **Keep it simple!**
- **Issue common stock to founders and to employees (stock options)**
- **Save preferred stock for pre-public investors**



# Capitalize Correctly

- **For friends & family or “seed” round investors:**
  - Avoid selling common stock at high valuations
  - Use convertible promissory notes (bridge loans) if possible
- **Try to keep shareholder number low!**



# What is Preferred Stock?

- Preferred stock has “preferred” rights and privileges compared to common
- Converts into common stock at IPO
- Can vote as if converted into common stock
- Preferred stock can be assigned a higher valuation per share than common stock (this is good)



# Preferred Liquidation Preference

**1. Debt is paid first**

**2. Preferred stock next gets liquidation preference (1 to 4X)**

**3. Common stock gets what is left (and investors usually participate)**



# Keep Good Records

- **Keep good corporate records (even LLC's)**
  - Board meeting minutes
  - Shareholder meeting minutes
  - Shareholder records
- **Have copies of material agreements and other important documents**
- **Have financial information in order**



# Obey the Law

- Obey all applicable laws—take a conservative approach
- **SECURITIES LAW:** All issuances of any stock, options, warrants, promissory notes (usually) must be registered with the SEC and state securities regulators or must qualify for an exemption



# BEWARE OF “FINDERS!”

- Is the “finder” a registered broker dealer?
- Will the finder do nothing more than introduce prospective investors
- Can you believe them?
- References



# If You Get a Term Sheet

- **Have it reviewed by an experienced attorney or other advisor familiar with term sheets**
- **Are the terms “market”?**
- **This is where you negotiate!**



# Conclusion

**Don't let  
“little” legal things  
become  
“big” business woes!**

