# "Raising Capital through Equity Investments in Your Small Business"

*Published in the March 2006 issue of Business Visions,*
*the ABA Business Law Section Small Business Committee Newsletter*

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## INTRODUCTION

More than half a million new businesses are started each month in the United States.[1] One of the most important components of a successful business start-up and expansion is the ability to obtain and secure capital. Finding a source of capital to finance company growth can be a major challenge, particularly for small and midsized businesses. The financing options available to a start-up are dependent on several factors, including the company's immediate high growth potential and its choice of business entity.

## LOANS VS. EQUITY FINANCING

For many entrepreneurs, the prime source of capital to start a new business and keep it up and running are loans from debt financers including banks, credit unions and credit card companies. The advantage with this form of financing is that the small business owner retains all of the equity in the company, and the lender will not have any say in how to run or manage the business. Even better, a lender is not directly entitled to any of the business profits; all the business needs to do is repay the loan and interest on time. Furthermore, interest payments may be deducted as a business expense. The downside is that starting a small business and nursing it into a healthy company can burn through a loan faster than a rock star at the Chateau Marmont, and the start-up may have to make loan repayments when the need for cash is greatest, such as during a quick expansion.

[1] The Kauffman Index of Entrepreneurial Activity is the first study to measure business start-up activity for the entire U.S. adult population at the individual owner level. The data are derived from the monthly Current Population Survey (CPS), a national population survey conducted by the U.S. Bureau of the Census and the Bureau of Labor Statistics. The Kauffman Index finds that over the period from 1996 to 2004, an average of 0.36 percent of the adult U.S. population created a new business each month. The rate of overall entrepreneurship activity remained relatively constant over the period despite major changes in the economy. Entrepreneurship activity increased the most in the West and South in the past few years. The entrepreneurship rate in the West increased from 0.42 percent in 2001 to 0.49 percent in 2004, and the entrepreneurship rate in the South increased from 0.35 percent to 0.41 percent. The construction industry has the highest rate of entrepreneurship of all major industry groups. Press Release, *The Kauffman Foundation* (September 22, 2005).

Equity financing is a smart option for start-ups that have a compelling enough business to attract investors because they generally only need to repay investors if the business turns a profit. In addition, investors are sometimes partners or board members and often offer valuable advice and experience that can strengthen the company. The catch with equity financing is that it can dilute the ownership of the company for the shareholders as well as take up a greater share of company profits than interest on a loan. Moreover, a company's equity investors have a legal right to be informed about all significant business events and a right to ethical management. This translates into a responsibility to take the investor's interests into account when making business decisions, even if it's not in the best interest of the entrepreneur.

Equity financing is generally recommended for a start-up experiencing very high growth with high investment risk. For example, an early-stage, high-growth company with limited revenues and prospects for negative operating income for the next few years should probably select this option. Assuming the start-up has such high growth potential, let's examine the choice of business entity that makes the most sense for a start-up in connection with equity financing.[2]

## SOLE PROPRIETORSHIPS AND GENERAL PARTNERSHIPS

The simplest and cheapest way to start up a business is as a sole proprietorship: someone doing business in an individual capacity and not through any type of business entity. Sole proprietorship is not a separate entity for income tax purposes. Income and loss is reported on the individual's income tax return on Schedule C (or Schedule F if the business is a farming operation). However, a sole proprietorship is probably the least favorable choice of business entity for equity financing because the equity investment is limited to the personal funds of the individual business owner, and personal liability is an issue for each investor.

If a small business organized as a sole proprietorship recruits people to invest in it, the business will, by default, become a general partnership. The upshot is that the equity investors will be considered general partners, each of whom is personally liable for business debts and liabilities, whether or not he or she takes part in running the business. Investors probably want to protect themselves from such personal liability for business debts, especially if they are not actively participating in running the business. Therefore, a small business is less likely to gain equity financing if it is organized as a sole proprietorship.

A general partnership is an association of two or more persons to carry on a business for profit but excluding an association formed under a non-partnership state statute. A partnership is an

[2] Although the main advantages and disadvantages of different business entities are covered, no magic formula exists for making the determination of which entity is best for a particular business, and this article's focus on equity financing does not fully address important considerations relating to taxes, personnel, marketing and business strategies, and a variety of other factors that influence choice of business entity.

entity that is distinct from its partners. The partners raise equity funds through their own capital contributions, by adding a new partner, or by restructuring the relative ownership interests of the existing partners to reflect new contributions. One of the disadvantages of a general partnership is that a general partner can be held responsible for all debts and liabilities of the partnership. For example, a general partner with only a 1 percent interest is a start-up may still be held liable for 100 percent of the debts and liabilities of the partnership. Furthermore, obtaining financing, especially long-term financing, is often difficult for smaller partnerships. Additional equity financing is generally limited to increased contributions from existing partners in exchange for a greater ownership percentage, or by adding a new partner, which ordinarily requires the unanimous approval of all existing partners.

### LIMITED PARTNERSHIPS

A limited partnership is a partnership formed by two or more persons under state law having one or more general partners and one or more limited partners. The general partners assume personal liability for the start-up's debts and liabilities, while the limited partners are shielded from personal liability. One of the resulting tradeoffs, though, is that an investor must take a passive role in the management of the business in order to maintain the status of a limited partner. The start-up must have at least one general partner who takes an active role in the management of the business. A limited partnership may be attractive for equity financing because an investor has limited personal exposure and does not need to be involved in day-to-day management responsibilities. However, the limited partnership's advantage of limited liability is available through other entity forms (a limited liability company, a limited liability partnership, or a corporation), and unlike a limited partnership, these alternative entities also provide each investor the option of playing an active role in the business without forgoing their limited liability.

### LLCs and LLPs

A limited liability company (LLC) is a hybrid entity formed by one or more persons under state law. It is treated as a corporation for limited liability purposes, but is treated as a general partnership for tax purposes. The members enjoy limited personal liability for the company's liabilities. As with a partnership, there is no taxation of the business itself, but all income, deductions, credits etc., "pass through" to the individual members and are reported by them on their individual returns. The LLC is one of the most popular entity forms for small businesses because it provides limited liability to the members, yet it may be operated with the simplicity and the tax benefits of a partnership.

A limited liability partnership (LLP) is similar to an LLC in that the LLP provides limited liability for partners and partnership tax treatment; however, unlike an LLC, the LLP is often available only for certain occupations (e.g., professional groups such as attorneys or physicians.) LLCs and LLPs are appealing to equity investors who may forgo investing in a risky general partnership. Yet unlike a limited partnership, investors in an LLC and LLP may take an active role in the management of the company.

## CORPORATIONS

A C corporation is an entity created under state law that is distinct from its owners. The entity may be closely held, where there are only a few shareholders, or may be publicly held, where there are a large amount of shareholders and the stock is sold on a public market. The corporation is taxed separately from its owners, and thus may result in a double tax: one at the corporate level and one at the shareholder level.

An S corporation is an entity created under state law that is formed as a corporation but may elect to have only its shareholders subject to tax. Limitations exist as to the type and number of shareholders and the classes of stock.

For purposes of equity finance, many small businesses choose to form a corporate entity since it provides the easiest method for raising capital from multiple investors, particularly those investors who are not necessarily interested in actively participating in the business. For example, it may be easier to persuade 20 people to invest $5,000 than to convince one person to contribute $100,000, and a corporation permits this kind of widespread ownership. Moreover, a shareholder of a corporation who does not participate in corporate activities and decision making is virtually free from liability for corporate debt or activity. Other advantages of the corporate form are the flexibility in structuring ownership and control over the business, and ease of transfer of shares.

Equity financing of corporations may be achieved through the sale of stock in exchange for a capital contribution of money or property. There are a variety of different types of stock and, depending upon the entrepreneur's negotiating strength and the interests of the investors, a small business can limit the extent of ownership control being sold by limiting the number of shares for sale and/or the rights associated with each class of stock. Some possibilities include nonvoting shares, preferred shares, redeemable shares, and a variety of hybrid shares.

For example, an equity investor not seeking active involvement in a small business may be satisfied with the purchase of nonvoting shares or a minority percentage of voting shares in the corporation. By contrast, venture capitalists and angel investors may demand more power in exchange for their capital contribution. They may even require a public sale of the business within a certain time period in order to ensure a quick return on their investment.

Not every small business chooses a corporation as their business entity because organizing and running a corporation involves some initial and ongoing paperwork, as well as some fairly substantial start-up costs. Other disadvantages are double taxation of profits while operating, and double taxation of capital gains upon dissolution.

## VENTURE CAPITAL

Now that we have a small business entity, let's explore a few of the common methods for raising money through equity investments. As stated earlier, equity investors in a start-up may accept the risk of losing their entire investment and not insist that the company guarantee repayment. But to offset such risk, the investors usually demand substantial returns if the business is successful. This may include a large percentage of the business profits, and/or a cap on the entrepreneur's salary. In the case of venture capital, investment criteria usually includes a planned exit event (an IPO or acquisition), normally within three to seven years.

Venture capital is capital provided by outside investors for financing of new, growing or struggling businesses that require large amounts of funding (usually from $500,000 to millions). Venture capital firms concentrate on select companies that have a high, rapid growth potential and may produce a very high rate of return in a very short time. In exchange for such a high risk investment, venture capital firms gain equity in the company and seek a high rate of annual return (20 percent and above). Usually, one or more general partners of the investing fund joins the Board of Directors of the new venture, and will often help to recruit personnel to key management positions.

A venture capital fund is a pooled investment vehicle (often a partnership) that primarily invests third-party financial capital in businesses that are too risky for the standard capital markets or bank loans. Venture capital general partners ("venture capitalists" or "VCs") may be former chief executives of businesses similar to those that the fund invests in. Investors in venture capital funds (limited partners) are typically large, capital rich institutions, such as insurance companies, state and private pension funds, and pooled investment vehicles.

Many investments by VCs take the form of a convertible preferred stock equity interest. Other alternatives include an ownership option in the start-up through a combination of equity and debt obligation, often with convertible debt instruments that become equity if a certain level of risk is exceeded. Convertible debt provides the debt holder the option to convert the loan instrument into stock of the borrower. Deals done with straight preferred stock with warrants or subordinated debt with warrants gives the warrant holder the right to buy shares of common stock at a fixed price within a specified time period.

VCs desire to sell their stock, warrants, options, convertibles, or other forms of equity in three to seven years. The failure rate of investments can be high; anywhere from 20 percent to 90 percent of the businesses funded never return the invested capital. VCs usually assume that for every ten investments they make, two will be failures, two will be successful, and six will be marginally successful. Thus, venture capital firms have a reputation for negotiating tough financing terms and setting high demands on target companies. For example, it is not uncommon for a VC to demand an equity interest in 30 percent to 50 percent of a well established company. A start-up may need to transfer even more ownership to a VC in exchange for financing.

Venture capital is not suitable for many small businesses. VCs are extremely selective in deciding what to invest in. Generally, a fund invests in approximately one in four hundred opportunities presented to it. Companies with high growth potential in fields such as technology or life sciences are more likely to attract venture capital funding, as only such opportunities are likely capable of providing the financial returns and successful exit event within the required timeframe that venture capitalists expect.[3] Moreover, the firms VCs invest in usually have revenues in excess of two million dollars and a preexisting capital investment of at least one million. Start-ups that do qualify for venture capital funding have tremendous potential for obtaining a very large amount of capital and expert business advice.

If a business does not qualify for or is not interested in venture capital, it may look to other less formal and less demanding outside investors for a source of money: angel investors.

## ANGEL INVESTORS

An angel investor is a private investor who provides capital for an early stage or start-up company, usually in exchange for ownership equity. Angels are less formal than venture capitalists because they typically do not manage the pooled money of others in a professionally managed fund. Rather, they usually organize themselves into angel groups or angel networks to share deal flow and due diligence work, and pool their funds to make larger investments. Angel groups are local organizations made up of 10 to 150 accredited investors interested in early-stage investing, while angel networks are firms that will match up prospective investors with small businesses.

Angel capital essentially fills the gap in start-up financing between money raised through friends and family and money raised through venture capital. While it is usually difficult to raise more than $100,000 from friends and family, many venture capital funds will not consider investments under $1 million. Furthermore, angel investors are often willing to invest in ventures that are too risky for banks or do not offer enough profit for venture capitalists. Therefore, angel capital is a common second round of financing for high-growth start-ups, and actually accounts in total for more money invested annually than all venture capital funds combined.[4] Angel investors often provide the seed money to get a business up and running while the founders pursue alternative sources of financing, such as venture capital.

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[3] According to *The MoneyTree™ Survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association*, the Life Sciences sector inched up to a five-year high in 2005 with $6 billion in 608 deals compared to $5.8 billion in 589 deals in 2004. Life Sciences accounted for 28% of all venture capital investments in 2005, while Software held its position as the largest single industry category with 29% of all deals. Although the Telecommunications industry category has languished in recent years, the Wireless sub-category has become a hot spot. For full year 2005, 152 wireless-related companies received $1.3 billion, a 24% increase over 2004's $1.1 billion. Companies classified as Internet-specific represented 15% of all venture deals in 2005.

[4] $22.5 billion of angel investment vs. $22 billion of venture capital investment in the United States in 2004, according the *Center for Venture Research at the University of New Hampshire Whittemore School of Business and Economics*.

Angel financing can be an expensive source of funds since angel investments are high risk, and require a very high return on investment. However, cheaper sources of capital, such as bank financing, are usually not available for most start-ups unless fully collateralized by deposits from the entrepreneur or a sponsor. Angel financing may involve a debt instrument that allows the angel investor an option to convert the debt into an equity investment at either a specified time or if certain conditions are met. The angel is thus protected by retaining a debt claim if the start-up does not do well or can profit by converting the interest into equity ownership if the venture succeeds.

More often, however, angels seek an equity interest in the start-up and some guaranteed exit provisions, such as a mandatory buyout, a put option requiring the business to repurchase the stock at the investor's option, or an IPO. Angels might expect a five-year return of three to five times their initial investment, while a venture capital firm might seek five to ten times its original investment.

Since angel investors are often retired business owners or executives, they can usually provide valuable management advice and important contacts. Most angels invest in businesses closely related to their areas of expertise and take a significant role in the development of young companies. While they typically are not interested in controlling the business, they often want an advisory role. Often the business experience and networking opportunities angels bring to a start-up are just as valuable as the money they invest. Angel investors will frequently use their own connections to assist the venture in finding favorable suppliers and new customers. Most importantly, the possibilities of finding additional financing growth opportunities may be defined by the quality of the management team. A non-ideal market opportunity can be made attractive when the effort is led by management that has succeeded before.

In 2004, 18.5 percent of deals presented to angel investors attracted funding, up significantly from 10 percent in 2003, which is about the historical average.[5] On average, each firm that received angel money in 2004 got $469,000. Most of the money went to high-tech companies, and the single biggest category within high-tech was software.[6] In the first half of 2005, angel investors put their money behind companies involved in the life sciences and biotechnology, with nearly 40 percent of total angel investments nationwide backing the two sectors.[7] Life sciences, including health care services, medical devices and equipment,

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[5] *Center for Venture Research* (including only deals that made it through the early screens of angel groups).

[6] Software garnered the largest angel investments, with 22 percent of total angel investments in 2004, followed by healthcare services/medical devices and equipment, with a 16 percent share of angel investments. The remaining investments were approximately equally weighted across high tech sectors, with each having about 10 percent of the total deals. *Center for Venture Research.*

[7] *Angel Investor Market Analysis* for Q1 and Q2 2005 released by the *Center for Venture Research*.

attracted 20 percent of the angel money.[8] Biotechnology attracted 17.5 percent of angel investments, with software investments close behind at 17 percent and IT services at 13 percent.[9] The remaining investments were approximately equally weighted across high tech sectors, with each having between 3 percent and 6 percent of the total deals.[10]

Therefore, angel capital may be an attractive source of equity financing for a small business if it resides in a high-growth sector of the economy, involves high risk, and requires a substantial amount of funding in a short period of time. For a business prepared to take it to the next level, another possible source of funding is an initial public offering.

## IPOS

An initial public offering (IPO) can be a smart move for a small business depending on short-term needs, long-term goals, and investor interest in the product or service. When a business that is owned by a limited number of private investors decides to "go public," it is electing, for the first time, to sell ownership shares of the company to the general public.

A company may want to consider going public if it needs to provide an exit strategy to venture capital or angel investors who are more willing to provide the business with funding if there's a market for the equity they hold. A successful IPO escalates the visibility and appeal of the business, and increases the demand and value for shares of the company. Funds are generated for working capital, repayment of debt, diversification, acquisitions, marketing, and other business purposes. Investors may benefit from the public sale of ownership interests not only because of the potential increase in market value for their stock, but also because publicly-held stock can be readily sold if the business appears to falter or if the investor needs quick cash.

Corporate status will facilitate a public offering. A corporate form is the preferred form for public entities and although an LLC can be incorporated prior to a public offering, there is additional expense in converting. Thus, planning from the inception of the business can save a great deal of time and money.

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[8] *See id*.

[9] *See id*.

[10] *See id*.

However, there are still significant costs associated with going public, both financial and in terms of the time and effort required. The cost for a small business to comply with federal and state laws governing the sale of securities can run from $50,000 to $500,000. In addition, "being public" means being held to a much higher level of accountability than privately owned firms are held. Management must be prepared for the administrative and legal demands of widespread public ownership, particularly in the post-Sarbanes-Oxley era. Small businesses are less likely to engage in IPOs unless they are rapidly growing, successful businesses that generate over a million dollars in net annual income and have sufficient investor awareness and appeal.

If a small business elects to sell ownership shares to the general public, it will most likely be traded on the OTC (over the counter) Bulletin Board or the Pink Sheets (also an OTC exchange). The Pink Sheets is the more speculative of the two, and requires less financial reporting and disclosure. NASDAQ, on the other hand, is a more prestigious step above the two, but also much more expensive and more regulated.

Wherever the company is traded, all registrations are subject to federal and state securities laws as well as industry regulation. As a result of registering its stock under the 1933 Act and the 1934 Act, the company is required to file certain periodic and other reports with the SEC. These filings periodically update the information that the company first provided to prospective investors in the company's Registration Statement of Form S-1 in connection with the IPO. In addition, these periodic and other reports form the basis for continuous disclosure concerning the business and provide the company's stockholders and the general public with material, current information for purposes of trading the company's securities. It is important to note that a start-up can sell stock to insiders or to a small group of investors without being subject to securities laws. In essence, the venture can take advantage of alternatives to going public.

## LIMITED PRIVATE OFFERINGS

As mentioned above, federal and state securities laws regulate the issuance of securities to investors. Securities may include ownership interests in a company such as corporate shares, limited partnership interests, and (usually) passive LLC membership interests, among others. Before selling an investor an interest in a business, it is vital to understand the securities laws requirements. Luckily, exemptions to the securities law permit a small business to provide a limited number of investors an interest in the business without registering the sale of securities with the SEC. In the event that a small business does not qualify for these exemptions, the company must comply with the complex disclosure requirements of the securities laws. In such an event, it may be too much trouble to do the deal unless a large sum of money is involved.

The most common exemption from the registration requirements of the federal securities laws is a private placement pursuant to Regulation D ("Reg D"). Offerings that are exempt under Rule 504 of Reg D are relatively simple to prepare, and can generally be underwritten by the offering company. Rule 504 exempts companies selling a maximum of $1 million worth of securities to any number of investors within a 12-month period. Rule 504 has no prescribed disclosure requirements, no limit on the number of purchasers, and no investor sophistication standards. While companies using a Reg D exemption do not have to register their securities and usually are not required to file reports with the SEC, they must file what is known as a "Form D" after they first sell their securities. Form D includes the names and addresses of the company's owners and stock promoters, but contains little other information about the company.

Another Reg D exemption is Rule 505, which exempts companies that sell less than $5 million worth of securities within a 12-month period to an unlimited number of "accredited investors" and up to 35 other persons who do not need to satisfy the sophistication or wealth standards associated with other exemptions. Accredited investors include company insiders (e.g., officers and directors), wealthy investors (those with more than $200,000 individual annual income in each of the two most recent years or joint income with their spouse in excess of $300,000 in each of those years or, individually or jointly with their spouse, have a net worth of over $1 million) and institutional investors (e.g., banks, brokers and dealers, insurance companies).

A more limited Reg D exemption is Rule 506, which 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 non-accredited investors may not exceed 35 investors. All non-accredited purchasers, either alone or together with a designated representative must be "sophisticated investors." Sophisticated investors possess sufficient knowledge and experience so that they understand the risks and merits of the investment, or the issuer reasonably believes the investors have these qualifications. The business selling the securities typically determines the sophistication of its investors with a questionnaire subscription agreement.

In addition to a factual analysis as to the sophistication of the purchaser of the securities, issuers of securities in a private offering must ensure that the purchaser of the securities is not an underwriter who might, in turn, engage in an unregistered distribution of the securities. Thus, issuers typically require certain investment representations from the purchasers and also require that the securities be legended to put potential purchasers on notice that the securities were issued in a transaction exempt from the registration requirements of the 1933 Act. Such securities, known as "restricted securities," may not be freely transferred absent subsequent registration or the availability of a resale exemption.

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. These 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 the business makes a Reg D offering without providing investors with a private placement memorandum that includes sufficient information regarding the investment, then the company, its board, and its principals are at an extreme disadvantage in defending themselves if the business is confronted with a securities fraud action.

It is important to note that qualifying for an exemption under the federal laws does not mean state registration is not required under the relevant state “blue sky” laws.  Most states have relaxed their securities regulations for small business by offering a Small Company Offering Registration (SCOR) procedure.  Even if a small business is not based in one of these states, it may still register and sell securities in the states that have adopted SCOR.

One of the benefits of private placements for small businesses is the high degree of flexibility in the amount of financing, usually ranging from $100,000 to $10-20 million.  The financing may be in the form of either debt or equity capital, or a hybrid of both.  A convertible debt warrant would enable the holder to convert the debt into an equity interest at a certain time. Such instruments provide small businesses with the power to determine the amount of immediate equity (ownership and control) to forfeit, and the amount of debt (cash outflow) to assume.

Another advantage of a private placement is that investors are usually more patient than VCs, often seeking 10 to 20 percent return on investments over a longer term of 5 to 10 years. Furthermore, private offerings incur much lower costs and can raise money faster than approaching VCs or issuing the stock in a public offering.  Remember, VC’s desire to exit a business within three to seven years through a sale of the business or an IPO.  But since the IPO market has slowed since the 1990s, it's more difficult for a venture capital fund to foresee an exit.  Furthermore, obtaining VC financing is particularly tough these days for small start-ups with little or no profitability.  In any event, even if a business can get VC financing, it may opt for a private placement anyway because it can get better terms than with a venture capital fund.

It should be noted that private placements do not usually apply to start-ups that have just completed business planning and conducted a market-feasibility study.  Such start-up funding often comes from angel investors.  The ideal small business candidate for a private placement is a business in the third stage of financing seeking growth or expansion funding.  Private placements provide an attractive alternative form of business financing without the constraints of taking a company public and conceding control.

## CONCLUSION

We have seen that the type of financing a start-up decides to pursue depends on the company’s immediate high growth potential and its choice of business entity.  The sole proprietorship is popular for “mom and pop” start-ups because it requires virtually no formalities and no cost to create and maintain, and tax treatment is favorable and simple.  On the other hand, a business that desires a sense of image, credibility, and permanence, and needs to issue stock to raise capital, may benefit from beginning as a corporation.  The LLC entity may also be an option for a firm that desires the pass-through tax benefits of a partnership but also seeks to limit personal liability.  Since small businesses do not begin with a large number of owners, many usually convert a more simple entity, such as a partnership, into a corporation if and when the need for greater equity financing arises.

Choice of business entity depends in large part on the degree to which there is a need to sell ownership interests to raise money for the company. The C corporation is the most flexible in terms of manipulating ownership interests through the type and number of ownership shares sold, while S corporations and close corporations limit the number and type of shareholders. A sole proprietorship has severe limits in terms of equity financing since there can only be one owner. By the same token, a general partnership limits the ability to raise equity capital since adding a new partner requires the unanimous consent of all existing partners. In addition, management decision-making becomes complicated when there are numerous partners in a general partnership. LLCs and LLPs share the same problem in this regard.

Before entering into any agreement with an equity investor, the entrepreneur should carefully consider whether he/she is compatible with that person. After all, the investor, whether passive or active, will own a portion of the business. Personality conflicts can arise and lead to conflict, litigation, and the eventual demise of the venture. Most flourishing start-up business financings follow a predictable pattern. A typical successful equity investment cycle is the issuance of founders' shares, sales to "friends and family," subsequent sales to accredited and non-accredited investors, venture capital financing, and finally, an initial public offering. However, this is not always the case, and there is a multihued palate of colors with which to paint the financing of a business.

The one constant in the life of a small business is the need for capital to increase sales, expand into new markets, or continue to sustain growth. Although there are a panoply of sources of funding available to entrepreneurs, each has its advantages. In 2002, fourteen percent of the 500 fastest growing companies in the United States started with less than $1,000.[11] With intelligent planning, management, and financing, small businesses can continue to grow, innovate, and succeed in the marketplace.

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[11] *Inc. Magazine* (October 2002).