

# Guide to Acquiring Funding For New Businesses

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## **ABOUT THE AUTHOR**

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## **Finding Investors for a New Business**

One of the foundational problems facing new companies is the acquisition of sufficient funding to keep the business running while it grows and becomes self-sustaining. Though financing has become more difficult to obtain in recent years, there are still investors willing to take a chance on a company with a competitive advantage and a bright future. While venture capital is a common source of funding for a new business, other options do exist for those who qualify.

Emerging Companies seeking funding usually pursue one or several of the following sources:

- Friends and Family
- Unrelated Private Investors
- Small Business Administration Loans
- Certified Capital Companies
- Venture Capitalists

## **Funding From Friends and Family**

Many small business ventures without large budget layouts solicit family and friends for capital during the start up phase. There are several advantages to this approach. For starters, these people are usually not very interested in structure and may not be represented by their own attorneys. Regardless of the innate informality of these relationships, efforts should be made to ensure that all of the proper information is provided to these investors, whether that be a

subscription agreement, shareholder's agreement, or other formal offering agreement.

## **Help from Unrelated Private Investors**

If friends and family are unwilling or unable to offer financing, unrelated private investors may be sought to provide capital. This group typically includes customers, suppliers, board members, or industry-related retirees. They will usually require preferred stock rather than common stock but with terms more favorable to the company than those of a venture

capital agreement. These transactions usually involve a private placement memorandum and the filing of a preferred stock designation.

## **Small Business Administration Loans**

The Small Business Administration (SBA) may give loans of up to \$2,000,000 to companies wishing to establish a new business or desire assistance in the expansion of a current business. To qualify for an SBA loan, the company must be a "small business" - i.e. privately owned and fall within a certain size requirement for the industry in which it operates. Companies applying for an SBA loan must fill out forms listing its history, the nature of its business, and several years of financial statements, among others.

## **Certified Capital Companies**

Texas is one of the few states which have authorized the creation of Certified Capital Companies, or CAPCOs. CAPCO's generally require companies that receive funds to be engaged in certain business activities, headquartered in Texas, and have a certain number of employees residing in Texas.

## **Funding From Venture Capitalists**

Venture Capitalists (VCs) are ordinarily the most sophisticated class of investor. They usually have very strict guidelines with little flexibility for business owners. The terms offered by VCs generally favor investors quite heavily and leave little room for negotiation. VCs usually have a large amount of money at their disposal, but require a seat at the head of the table in exchange for access to those funds.

## **Concerns Held By Business Founders**

General business founder concerns usually include:

- Maintaining operational and strategic control
- Avoiding dilution of their ownership position
- Obtaining sufficient funds to meet strategic goals
- Providing financial rewards for entrepreneurial efforts

Well-drafted and thought out agreements take these concerns and others into account. With proper counsel and well-maintained financial documentation, both company founders and investors should be able to reach an amicable and mutually beneficial arrangement which touches on the points listed above, as well as those contained below.

## Concerns Held by Investors

Common concerns held by investors include:

- Minimizing tax implications of investment structures
- Maintaining a level of influence on the company
- Providing protection against financial difficulties
- Obtaining a high return on their investment

Whether you are a business owner seeking funding or an individual or business considering making an investment in a new company, there are many factors which must weigh in on your decision and proper legal documentation is essential. Seeking the counsel of an experienced attorney at an early stage in the process is essential to a successful business relationship.