



Colorado Technology Ventures, LLC

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Raising Money – January 2012

I have been asked many times to help raise money for entrepreneurs, start-ups, and early-stage companies. I have done so, and it's hard, rewarding work. Yet, whatever the thrill or outcome, it is a regulated activity in the State of Colorado, and in some cases requiring licensing on the part of the people raising the money. I am not licensed. So, my ability to raise money for 3rd parties is limited. When I have raised money, I have always done so as an Executive of the company seeking money.

This document is written for entrepreneurs, to help explain some of the introductory-level issues regarding having others find and raise money for you. This is not legal advice, and there are exceptions to what is provided below. Regardless of what is provided here, you should first speak with a lawyer who specializes in this area of law before engaging a person to help you raise money.

Raising money for companies in Colorado is regulated by DORA (Division of Regulatory Agencies). The regulations detail who may raise money, how they may go about doing it, and what licenses they may need. As shown below, I have included a link to DORA and a few related documents. Finally, I have spoken with several people at DORA, and they have always been very helpful. So, please contact them if you need additional information.

1. While there are legal definitions behind these terms, I am labeling people who raise money for you as "finders". And, I am labeling your likely investors (not friends and family) as "Angels"; these angels are informed, high-net worth people who make investments in start-ups and early stage ventures.
2. Regulators look to you to see that your finders are operating within the regulations; regulators' first priorities are to protect investors. Should something go wrong and regulators come after you, you and/or your company will at least bear some or all of the responsibility, penalties, etc.
3. Generally, the regulations address who may raise money, who and how potential investor are approached, and what paperwork is required. Of big importance is whether, in the pursuit of raising money, you made a general, public solicitation, or whether your solicitation was to angels with whom you had pre-existing relationships. Also, of big importance is the question of who raised the money and whether that finder is required to be licensed. (I am not addressing the issue of paperwork in this summary.)
4. In brief, if you are seeking private investments from angels, as opposed to investment banks, venture capitalists, etc., regulations prohibit you from engaging in open, public solicitations if you are also going to apply for filing exemptions with the SEC and DORA. (If you issue securities and don't successfully claim the exemptions, then you are effectively having an initial public offering (IPO) with all the Federal and State requirements for doing so.) Thus, in order to solicit such investments from angels and claim the filing exemptions, *you* need to have pre-existing relationships with the angels. If you engage a finder who goes out to find angels, without you having pre-existing relationships with those angels, then regulations are likely to consider you to be engaged in open, public solicitations. The key is that regulators look to you, the issuer of the investment. Also, as you will read below, regulations may require your finder to be licensed.
5. Thus, if I'm a full-fledged member of your Executive Team, an Officer, or Member of your Board, or will become such after completion of the offering:

- a. Then, like you, I may work to find and contact family, friends, and angels; I do not need a license.
 - b. Once found, we can work to establish relationships with these angels, and work to secure their investment in our company over time.
 - c. However, I should not be on the team simply to raise money, where I then take some kind of compensation and disappear; if I/we were to behave in such a manner, the regulators may decide that I was acting as a finder and should have been licensed.
6. If, instead, I'm not a member of your team and I'm not a licensed finder
- a. Then, at best, I may establish contact with angels, suggest that they take a look at your opportunity, and then step completely out of the process. In stepping out of the process, I'm also declaring in very stark terms to everyone that I have not offered, nor am I offering, any information about your company, your performance, nor your potential. I am also then, by definition, not involved in any facilitations or negotiations between you, your company, and your angels.
 - b. If I'm compensated for my work as a finder, then, at best, I am paid a flat fee by you or your company on some consistent schedule, and that my fee is absolutely independent of the success or failure of my effort; there is no reward or bonus, etc. that is tied to a particular outcome of this effort.
 - c. This approach does not tend to be popular amongst entrepreneurs because entrepreneurs don't usually have funds to pay fees and they don't like the absence of a performance-based approach.
7. Finally, if I'm not a member of your executive team and I am a licensed finder
- a. Then, my line of business includes services as a professional finder, where I'm working with my accredited investor clients, with whom I have pre-existing relationships, and bringing them good investment opportunities from time to time. Should I present an opportunity to my clients, such as yours, and they then choose to invest in you and your company, I will then probably assist them and probably you in completing the investment process.
 - b. In this case, I should have, and be able to present, a current Series 63 and Colorado equivalent license.
 - c. Finally, just to be clear, in this scenario, it is through *my* process that *my* clients make an investment in *your* company, from which *you* then receive funding.

So, in summary, be wary of people who offer to find and deliver money without demonstrating a sound understanding of the regulations. Not all finders need licenses, and acceptable compensation to finders for finding and delivering funds varies. If a license is needed, then feel free to ask to see it. Also, be wary of people who want upfront payments, who guarantee success, etc. The old saying is, "If it's too good to be true..."

We welcome edits and improvements to this summary. Our contact information is provided below.

Website Links

DORA: <http://www.dora.state.co.us/securities/index.htm>

DORA statutes & rules: <http://www.dora.state.co.us/securities/statute.htm>

DORA Colorado Securities Act:

http://www.michie.com/colorado_print/lpExt.dll/cocode/1/15a42/163d5/16516/16518?f=templates&n=document-frame-chapter.htm&2.0#JD_11-51-101

DORA 51-3.19 Model Accredited Investor Exemption:

[http://www.sos.state.co.us/CCR/Rule.do?deptID=18&deptName=700 Department of Regulatory Agencies&agencyID=105&agencyName=704 Division of Securities&ccrDocID=2207&ccrDocName=3 CCR 704-1 RULES UNDER THE COLORADO SECURITIES ACT&subDocID=20851&subDocName=CHAPTER 3 REGISTRATION OF SECURITIES AND EXEMPTIONS&version=10](http://www.sos.state.co.us/CCR/Rule.do?deptID=18&deptName=700%20Department%20of%20Regulatory%20Agencies&agencyID=105&agencyName=704%20Division%20of%20Securities&ccrDocID=2207&ccrDocName=3%20CCR%20704-1%20RULES%20UNDER%20THE%20COLORADO%20SECURITIES%20ACT&subDocID=20851&subDocName=CHAPTER%203%20REGISTRATION%20OF%20SECURITIES%20AND%20EXEMPTIONS&version=10)

About Colorado Technology Ventures, LLC

Colorado Technology Ventures, LLC is an experienced consulting company helping entrepreneurs, companies, and investors commercialize new technologies in the global field of alternative, renewable, and cleantech energy. Please feel free to contact the company via any of the means shown below.

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