**Legal Documents Required for Raising Capital Through Friends and Family**

When raising capital, you are required to comply with State and Federal securities laws and regulations. The legal documents your investors receive and complete prior to making an investment in your company will serve as evidence that you met these laws and regulations in the event the offering comes into question by a regulator.  
  
Given that anti-fraud provisions of the SEC and their state counterparts are extremely rigorous, it is extremely important that the documentation be correct. Get it wrong, and you could be forced to refund investors all of their money, as well as receive stiff penalties, fines and interest.   
  
There are certain minimal legal documents that you should have ready before you start making your pitch.   
  
Keep in mind, provided you disclose it to your investors, you can advance your company cash for legal fees and reimburse yourself from the first proceeds of the offering:

Basic Documents:

* Subscription Agreement
* Investor Questionnaire (to, in part, assess “accredited investor” status)
* State notice and filing requirements
* Uniform Consent to Service of Process
* SEC Form D
* Disclosure Document

Explanation of Documents:

1. **Subscription Agreement**. This is the contract between you and your investor. In it, the investor will make certain representations to you that, in essence, say they understand that risks of investing in an early stage company, and that they will not be ruined financially if your company fails, and that they meet the net worth requirements required by government regulators.  
  
2. **Investor Questionnaire**. The Investor Questionnaire is used to backstop the subscription agreement. The Investor completes a number of questions that provide evidence of the representation the investor makes in the subscription agreement.   
  
3. **Disclosure Document**. When selling shares of your company to investors, you cannot make any material misstatements about your business or omit to tell an investor something that is material about your business in order to induce the investor to buy the shares. When raising capital privately, your Disclosure Document is the document you present to investors to communicate the benefits of your business model - and warn potential investors of the risks inherent in your business. Depending on which set of government regulations under which you are selling shares to investors, you are not necessarily required to have a Disclosure document, but it is best practice that you do.

a. **Risk Disclosure Wrap**. This document is 10+ pages of risk disclosure that is literally wrapped around your business plan. It includes State and Federal legends, a PPM cover, risk factors and investor disclosures. It's better than pitching with just a business plan, but no equivalent to the full PPM.  
  
b. **Complete Private Placement Memorandum (PPM)**. The PPM, sometimes also referred to as an Offering Memorandum, is an artfully crafted document where we help you trumpet the benefits of your business model while still accurately disclosing all risks. Our experience will guide you through identifying what aspects of your business are material, and how to accurately disclose them to potential investors using the right terminology for raising capital privately. It offers you the most protection from liability, and depending on what exemptions from registration you rely on, may be required by law. It includes everything included in a Risk Disclosure Wrap, and also detailed disclosure about your industry, litigation, intellectual property, management, financial status and descriptions about how you determined your financial projections, a full business description prepared as required by the SEC, management description, including stock ownership of management, a description of the securities offered, and more.

4. **State Blue Sky Filings.** If you plan to offer shares of your company to investors who are located in the State of Minnesota, or you make offers from within the state of Minnesota, you are required to make certain filings with the State before making your first offer. In all other states, you file with the State within 15 days from your first offer made in such state.