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Start Ups and Emerging Companies – 101: Friends and Family

by Derek A. Ridgway

When your own private funds run out, your natural inclination may be to reach out to your friends and family for funding. Friends and Family are more likely to invest in your company than a third party because they are investing in you, as an individual, as opposed to relying solely on your new idea or concept. Typically, funding from Friends and Family is achieved in small increments, and may be structured as a loan or equity position.

If you give an equity position in your company to your Friends and Family (i.e. stock or membership interests), you need to comply with securities laws – typically achieved by relying on an exemption to the general requirement that you must "register" the securities before issuing the stock or membership interests in the company. Most Private Equity transactions are issued under the private offering exemption.

Generally, you do not need to comply with securities laws if your Friends and Family are giving you a loan.

For more information, please contact:

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