

CAPITAL FORMATION BASICS

When you raise money from individuals to finance an enterprise, you may be “offering or selling a security,” an action governed by Montana’s securities laws. These laws require certain disclosure to investors, and may require filing with the Montana Securities Department.

POSSIBLE SOURCES OF CAPITAL

1. Yourself

Entrepreneurs almost always have to invest some of their own money into a startup. It doesn’t have to be a fortune, and the total sum depends on the startup and circumstances.

2. Family and Friends

This is one of the best options. If you treat your family and friends like real investors (because they are), it will go smoothly even if you’re turned down. You might be surprised by who has extra cash and is interested in supporting your dream.

3. Securities Offering

If you don’t qualify for a small business loan, there are many securities options available. Develop a business plan, determine your financial needs, do your research, and the CSI can help you find a solution that suits your plan.

4. Banks and Traditional Lenders

Small business loans from traditional lenders (banks) can offer good terms and interest rates. This is the most common method for getting capital. It can help optimize your credit score, and securing a loan helps other investors see that you’re a “real company.”



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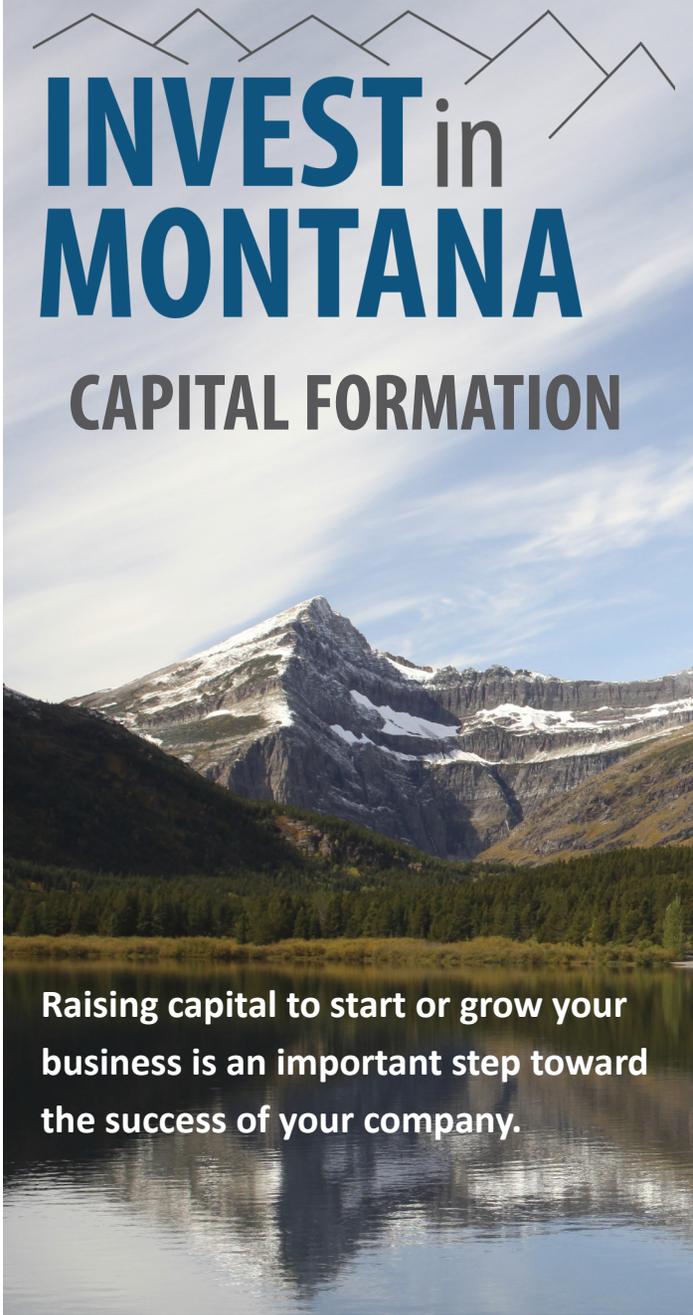
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“The use of money is all the advantage there is in having it.”

-Benjamin Franklin



INVEST in MONTANA

CAPITAL FORMATION

Raising capital to start or grow your business is an important step toward the success of your company.



TYPES OF SECURITIES

Debt Securities

Investors become creditors. Debt securities allow you to raise money by obtaining loans from investors.

Equity Securities

Investors become owners. Equity securities involve selling ownership interest in your company. The type of securities you offer depends on the needs and goals of your company.

OFFERING AND SELLING SECURITIES

All securities transactions must comply with state and federal securities laws. This means they must be registered or qualify for an exemption from registration. Anti-fraud statutes apply in all securities transactions, even if the securities are exempt.

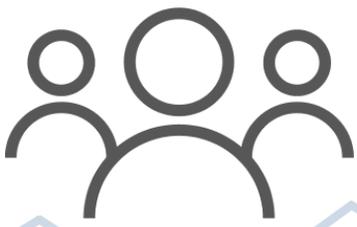
Some offerings can be filed with the Securities and Exchange Commission, which could limit the state securities department's review of the offering. Qualifying for an exemption may speed up the process.

Because securities can be complicated, you should consult with a knowledgeable securities professional, an attorney, or the staff of the Securities Department before offering a security.

DISCLOSURE REQUIREMENTS

Whether you sell registered securities or use an exemption, you must provide investors and prospective investors with:

- The type of securities that are being offered
- The type of business the issuer conducts
- The risks associated with the issuer and the investment
- The business's officers and directors, and their salaries
- How the business is capitalized
- How much money is being raised from investors
- How the investment proceeds will be spent
- And more...anything material. Full disclosure protects everyone and is required by Montana law



*This brief overview brochure does not include a complete explanation of regulatory requirements for offering securities, nor does it represent legal or financial advice. You should consult with knowledgeable securities professionals and the staff of the Securities Department at CSI when planning a securities offering in Montana.

EXEMPTIONS

There are several exemptions to registering securities, which permit you to offer and sell without going through the registration process, provided that no commission is paid. Certain criteria must be met to qualify for any exemption.

Offers to 10 or fewer people

If you meet certain criteria, this exemption permits you to make offers to up to 10 people without having to register the security.

Offers to 25 or fewer people

Similar to the previous exemption, this one permits you to make offers to up to 25 people without having to register, so long as the offering meets certain criteria. To use this exemption, you must notify the CSI Securities Department and receive approval **before** you make any offers.

Offers to 35 or fewer people

If you are a Montana issuer, Montana law allows you to combine the 10 and 25 exemptions above and reach out to as many as 35 people.

Crowdfunding Exemption

This exemption allows Montana companies to raise up to \$1 million through the offer and sale of securities to an unlimited number of Montana residents.

Because securities offerings can be complicated, you are advised to consult with an attorney to ensure compliance with state and federal laws. No compensation can be paid under any of these exemptions.