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Securities Rules for Private Equity Financings

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In order to sell securities (notes, common stock, preferred stock, membership interests in an LLC), a company must either register the sale under federal and state securities laws or find an exemption from such registration requirements. Complying with the securities registration provisions of federal and state law is a time-consuming and costly process. Most small to mid-size companies do not want to spend the money or time it would take to register such sales. In addition, the registration of such sales with the SEC may subject the company to continued SEC reporting requirements.

Federal law offers a number of exemptions from registration, which exempt the particular transaction (e.g., a sale to an investor in a private placement) but not the underlying security.

Even if a federal exemption is available, a company must also comply with the securities laws of the state where the purchaser resides and obtain an exemption under the laws of that state. Furthermore, even though the sale may be exempt under federal and state law, the company is still subject to the anti-fraud rules and may face liability for securities fraud.

This article reviews some common federal exemptions as well as exemptions provided under Illinois law.

Read the full article PDF: "Securities Rules for Private Equity Financings"

For more information, please contact article author Tim Sullivan.

This alert has been prepared by Hinshaw & Culbertson LLP to provide information on recent legal developments of interest to our readers. It is not intended to provide legal advice for a specific situation or to create an attorney-client relationship.

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