

IAAPA Attractions **EXPO**

The Secrets of Raising Equity Capital For Your Next Entertainment Project

11/15/2007
4:30pm
Room #S330CD



IAAPA 2007

*The Secrets of Raising Equity
Capital For Your New
Entertainment Project*

Presented by: Jerry Merola, CFO
Amusement Entertainment Management

12 Elkins Road * East Brunswick, NJ 08816
Phone: (732) 254-3773 Fax: (732) 254-6223
E-Mail: Profitwizz@aol.com



**Whether You're Looking To
Open A Theme Park.....**



Or An Upscale Bowling Facility

**...Equity Capital Will Be
Critical To Your Success**

What Is Equity Capital?

- Often referred to as the “base” or “seed” capital from which a project is funded
- Represents the ownership team’s investment within an enterprise
- Typically serves the initial source of development funds before debt financing or mezzanine financing

How Does Equity Capital Benefit A New Project?

- Serves As A Lender’s “Cushion”
- Initially Reduces Carrying Costs
- Confirms Independent Support For The Project



Who Can Act As An Equity Investor?

- A current business owner within a community
- A business associate or acquaintance
- A structured investment fund
- A venture capital firm
- An individual investor



Assessing The Capability Of Investors

- Past Involvement In Projects
- Scope of Net Worth
- Comfort Level With At-Risk Investments



Creating Investor Blending

- Diversity Considerations
- Short vs. Long Term Thinkers
- Aggressive vs. Passive Attitudes
- Local vs. Remote Investor Choices
- Small vs. Large Stake Holders



Securities Act of 1933

An issuer must detail the following elements:

- The Offer
- The Terms
- The Issuer
- The Objectives
- Historical Financial Information, if any
- Investment Analysis



Elements Needed To Meet Basic Legal Requirements

- **Prospectus** – a formal written offer to sell securities that serves as a plan for a proposed business enterprise
- **Securities Attorney** – an individual skilled in Securities Law that will handle all necessary filing requirements mandated by the State and Federal authorities



The Contents of A Prospectus

- Financial Information About Entity
- Background of Top Executives
- Pending Litigation Details, If Any
- Proportions of Ownership
- Use of Proceeds
- Risk Factors



Typical Financing Structures

- | | |
|-------------------------------|---------------------------------------|
| • Option #1 | • Option #2 |
| ✓ 50% Traditional Bank Debt | ✓ 75% Traditional Bank Debt |
| ✓ 30% Government Direct Loan | ✓ Government Sponsored Bank Guarantee |
| ✓ 20% Developer Equity | ✓ 25% Developer Equity |



Typical Financing Structures

• Option #3

- ✓ 60% Bank Debt
- ✓ 20% Gov't Direct Loan
- ✓ 10% Comm Dev Loan
- ✓ 10% Developer Equity

• Option #4

- ✓ 60% Bank Debt
- ✓ 10% Comm Dev Loan
- ✓ 20% Private Equity
- ✓ 10% Developer Equity



Private Equity



- Similar To Traditional Equity, But Appears As A Loan
- Typically offers a fixed rate of return plus a bonus based upon performance
- Subordinate To Debt Financing
- "Callable" instrument that can be repaid at any time
- Offers Little to No Ownership Interest in Business
- Often Requires Voting Rights For Investor

What Do Investors Look For?

- Customary analysis methods for projecting rates of return (Feasibility Study, Industry Stats)
- Tying management's compensation to performance targets
- Establishment of voting procedures and rights
- Ability to augment current investments with future opportunities ("in on the ground floor")
- Option for deferred returns



Components Of A Compelling Offer

- Clearly identify the uniqueness of the opportunity available (market, style, location)
- Outline work completed to date and successful accomplishments
- Confirm total and remaining capital budgets
- Identify remaining steps necessary to reach operational status
- Advise of timeline for completion of capital fundraising
- Minimize document size to 5 pages or less



Strategies For Generating Investor Interest

- Create A Written Overview Summary (not an offering)
- Identify 50 Or More Individuals and Entities of Interest
- Create A Promotional Event With Visual Presentation
- Solicit Feedback On An Individual Basis Through Personal Follow-Up Meetings
- Bring Interested Parties Together
- Solidify Investment Standards For The Group

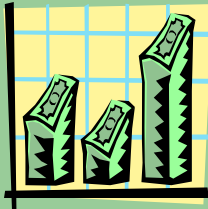


Strategies To Maintain Ownership Control



- Establish share purchase limits
- Formulate separate voting and non-voting investment tiers
- Properly document equity investment transactions through use of securities attorney
- Predetermine buyout provisions for each individual investor

Leveraging Equity Capital For Acquisition of Debt Financing



Lenders Views On Equity

- Equity Participants Owning Greater Than A 10% Business Interest May Be Asked To Guarantee Some Portion Of Debt
- Equity Will Be Subordinate To Debt Financing
- Equity's Investment Returns May Be Halted By Lender In The Event Of Underperformance
- During Development, Equity Funds Will Be Expended First, Prior To Release Of Debt Funds



Planning Safe Exit Strategies

- Lock in Investor “Upside” Returns Prior To Soliciting Funds
- Establish Buyout Options to Permit Recovery Of Shares
- Limit Equity’s Rights With Respect To Sale or Merger Transactions
- Protect Management Through Employment Contracts





Historic Tax Credits – A Secret Equity Tool

- Applies To The Rehabilitation of Historic Structures
- Provides Financial Incentives For Preservation And Re-Use of Commercial Properties
- Incentives Can Be “Sold” To Generate Immediate Capital
- HTC’s Can Serve As Equity Contributions To Satisfy Lending Requirements

Tax Increment Financing – Another Secret Equity Tool

- Uses Future Gains in Real Estate Taxes To Fund Current Improvements
- Used By Municipalities As a Method To Lure New Businesses To The Area
- Typically Districted For Blighted, Lower Income Areas
- Pays For Items Such As Parking Decks, Landscaping, Roadwork, Utility Access, and Other Infrastructure Elements



Questions?

Jerry Merola
Amusement Entertainment
Management, LLC

12 Elkins Road
East Brunswick, NJ 08816

Profitwizz@aol.com

AEMLLC.com