

CrowdFunding 101

SCORE Memphis Chapter 068

Ramkrishna Kasargod, CFA
Certified Mentor

Reese Austin
Certified Mentor

Arun Kumtha
Certified Mentor

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SCORE ASSOCIATION, Herndon, VA – 20170

Web address: www.score.org

- SCORE, organized in 1964, is a resource partner of the US Small Business Administration (SBA). Over 10.9 million entrepreneurs served in last 50 years.
- Mission of SCORE is to foster vibrant small business communities through mentoring and education.
- SCORE services provided through a network of 11,100 plus volunteers in 300+ chapters serving over 1,000 plus communities across the United States of America
- Corporate Partners support the Small Business Sector, Small Business, and Entrepreneurs through supporting The SCORE Foundation – ATT, Brother International, Canon USA, Community Merchants USA, Constant Contact, Dell, Deluxe Corporation, GoDaddy, GOOGLE, Intuit, Mass Mutual, Liberty Tax, McAfee, Paychex, Sam's Club, Spike TV, The UPS Store, VeriSign, Visa, 8x8, Frannet, Lending Club, Office Depot, ON DECK Business Loans, PayPal, Vistaprint, Yext, Ready Talk, NFLPA

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SCORE MEMPHIS CHAPTER 068

Clark Tower, Suite 1701, 5100 Poplar Avenue, Memphis, TN – 38137
901-544-3588

www.scorememphis.org

Volunteer Office Hours: Mon – Fri 9AM – 12NOON

- SCORE Memphis, organized in 1964, offers free and confidential counseling services to Startup Business and Existing Small Business through a current 27-person volunteer force in the counties of Shelby, Tipton, Fayette, and adjoining counties in Arkansas and Mississippi.
- Certified Mentors work closely with assigned clients employing the proven SLATE Mentoring Methodology.
- Mentors conduct workshops for local small business on a scheduled basis alongside the SBA and other partners such as Constant Contact and Frannet
- The Chapter makes available to interested small business the many business resources available from The SCORE Association – online workshops, small business publications, access to a wider pool of SCORE mentors via e-mail mentoring services.

How SCORE Memphis Can Help You?

- **Mentoring:** Free face-to-face mentoring in each of its 300+ chapters and also provide online advice through www.score.org.
- **Workshops:** Educational sessions on a myriad of topics for entrepreneurs, ranging from business planning to marketing and financing.
- **Roundtables:** Facilitated peer sessions in discussing critical business topics.
- **Online Resources:** Wide collection of articles, templates, assessments, blogs, and other tools that can be used to learn and implement new strategies.

**SCORE is here to help you
find success as an entrepreneur**

Small Business...Huge Impact

**SCORE offers
over 300
chapters
across the
nation plus
online
mentoring
and resources**



factors leading to crowdfunding

- ❖ 1919 Ponzi
- ❖ 1929 Crash
- ❖ 1932 American Funds
- ❖ 1933 Securities Act
- ❖ 1934 Securities Exchange Act
- ❖ 1940 Investment Company Act
- ❖ 1940 Investment Advisors Act
- ❖ 1974 ERISA
- ❖ 1982 Regulation D



- ❖ Limited Partnerships
- ❖ IRC 1986
- ❖ Private Equity Funds (late 80s/90s)
- ❖ NASAA – SCOR 1 (92-93), SCOR 2 (98-99)
- ❖ Fannie Mae / Freddie Mac / etc.; dot com
- ❖ 2001 – Iraq/Afghanistan
- ❖ 2007 – 2011 - Lehman and aftermath
- ❖ 2007 – 2011 - quantitative easing, Operation Twist, Europe, unemployment, GDP forecasts, politics, entrepreneurship, Kauffman Foundation
- ❖ 2012 – April 5th – Bi-Partisan JOBS Act Signed, includes crowdfunding and provisions regarding public companies



- ❖ Internet
- ❖ Technology
- ❖ Acceptance of social media

Jumpstart Our Business Startups (JOBS) ACT – 2012

- **JOBS ACT 2012** passed into law by President Obama on April 5th, 2012. The 2012 Act is viewed as the most significant legislative initiative with respect to financial markets by the United States Congress since the SEC Acts of 1933 and 1934.
- **TITLE 1 of the JOBS ACT** which was immediately implemented eased access of emerging growth companies to capital markets with respect to registration requirements, communications with accredited / institutional investors, and research analyst communications / report publications. Emerging Growth Companies are broadly defined as those with less than a billion dollars in revenues.
- **TITLE 2 of the JOBS ACT** modified Rule 506 of Regulation D (covers sale of securities not registered with the SEC) such that general solicitation and advertising prohibitions do not apply if all buyers are accredited investors. The new rules (Rule 506C) were adopted on July 10th, 2013 and became effective on September 23rd, 2013.
- **TITLE 4 of the JOBS ACT** allowed the SEC to expand the annual Regulation A Exemptions (registration requirements for securities issued in public interest) from \$5 million to \$50 million. The new rules referred to as Regulation A+ were adopted on March 25th, 2015 and became effective on May 24th, 2015.

Note: An **Accredited Investor** is an individual that has a **net worth of at least \$1 million (not including their primary residence)** or have income of at least \$200,000 for the last two years (\$300,000 if spouse is included). Individuals who do not meet this definition are **Non-Accredited Investors**

JOBS ACT 2012 – TITLE 3 / CrowdFunding Proposal

- **TITLE 3 of the JOBS ACT** covers CrowdFunding, the sale of securities using the Internet and social media to Non-Accredited Investors exempt from registration requirements.
- **TITLE 3** as proposed allows small business to raise up to \$1 million over a 12-month period using social media and the Internet.
- Non-Accredited Investors can invest in a 12-month period the greater of \$2,000 or 5% of the lesser of net income or net worth, if either is less than \$100,000 or 10% of the lesser of the net income or net worth if both are in excess of \$100,000. Maximum permitted in all offering is \$100,000.
- Under **TITLE 3 of the JOBS ACT** all CrowdFunding transactions have to be conducted through a Broker/Dealer or Funding Portal registered with the SEC and FINRA (Financial Industry Regulatory Authority).
- Comprehensive **Rules for TITLE 3 / Equity CrowdFunding** implementation were first proposed on October 23rd, 2013 (585 page Rule). These proposed rules went through an exhaustive comment period with regulatory authorities focused on costs to implement the Rules and investor protection.
- A report by CROWDFUNDINGLEGALHUB.COM last updated on August 2015 indicated that 29 States (which include AL, FL, GA, MS, SC, TN, TX) have enacted separate Intrastate CrowdFunding regulation / exemptions to current Blue Sky Laws and 8 States have currently proposed Intrastate CrowdFunding regulations. Two States (CA & UT) have rejected proposals for Intrastate CrowdFunding.

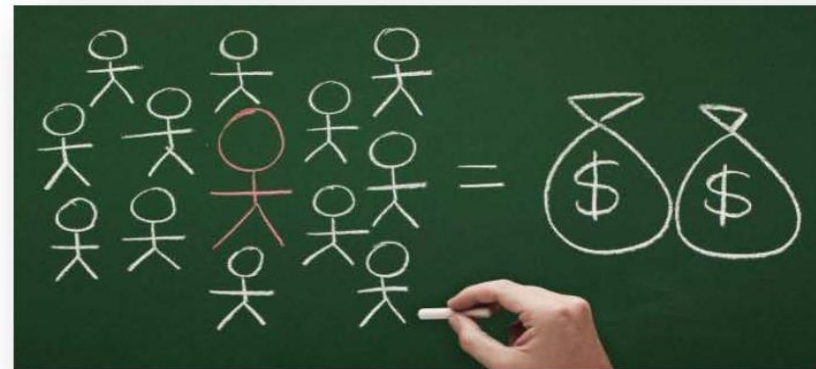
JOB Act Update: Title 3 – Regulation Crowdfunding

- **The SEC proposed final rules for Regulation Crowdfunding on October 30, 2015 (686 page Rule).** Allowing for a 60-day comment period, the new rules would be effective 180 days after publication in the Federal Register (May 2016).
- SEC Staff will study and submit a report no later than three years following the effective date of Regulation Crowdfunding on the impact of this regulation on capital formation and investor protection.
- **Proposed amendments to Rule 147 (1933 SEC Act)** modernize rules for intrastate offerings relying on Crowdfunding provisions under State Securities Laws.
- **Proposed amendments to Rule 504 under Regulation D** increases the amount of securities offered and sold in a 12-month period from \$1 million to \$5 million with additional investor protection and disqualifies bad actors from participation in Rule 504 offerings.
- **On October 9th, 2015 FINRA proposed adopting Portal Rules (seven rules) and related forms** to comply with Regulation Crowdfunding intermediary requirements. FINRA also adopted rules governing fees for Funding Portals. Registration Rules become effective January 29, 2016.

entrepreneurs' capital choices

- ❖ SELF-FUND
- ❖ BORROW
- ❖ FRIENDS AND FAMILY
- ❖ OUTSIDE INVESTORS
 - Accredited
 - Non-Accredited
- ❖ CROWDFUNDING
 - Donation/Reward (avail now)
 - Investment (coming)

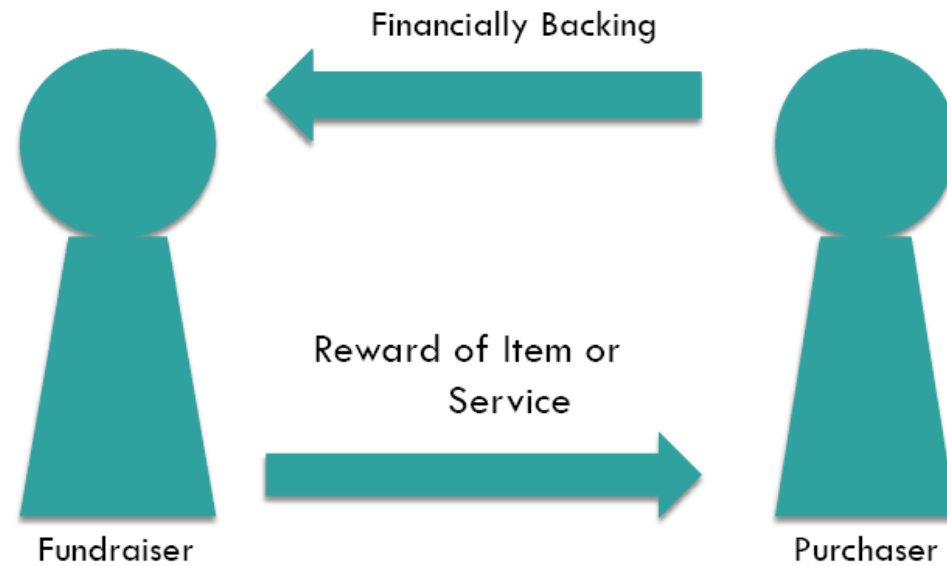
- ❖ ACCREDITED INVESTORS
 - 10-12 Million Households in the US, out of 117 million
 - Test: \$1M net worth (exclude home & related debt); or \$200K income last 2 years (or \$300K with spouse)



Reward-Based Crowdfunding

(Pre-purchase)

- In return for the a monetary offering, the crowd receives an item or service
- This can be considered a form of pre-sale and merchandising



Who?

Reward based is for a person or company with a product beyond ideation that can be produced for a determined amount of money and in a reasonable amount of time

Where?

There are many popular and great crowdfunding platforms. The key is choosing the one that you believe fits your cause the best. (e.g. Indiegogo and Kickstarter)

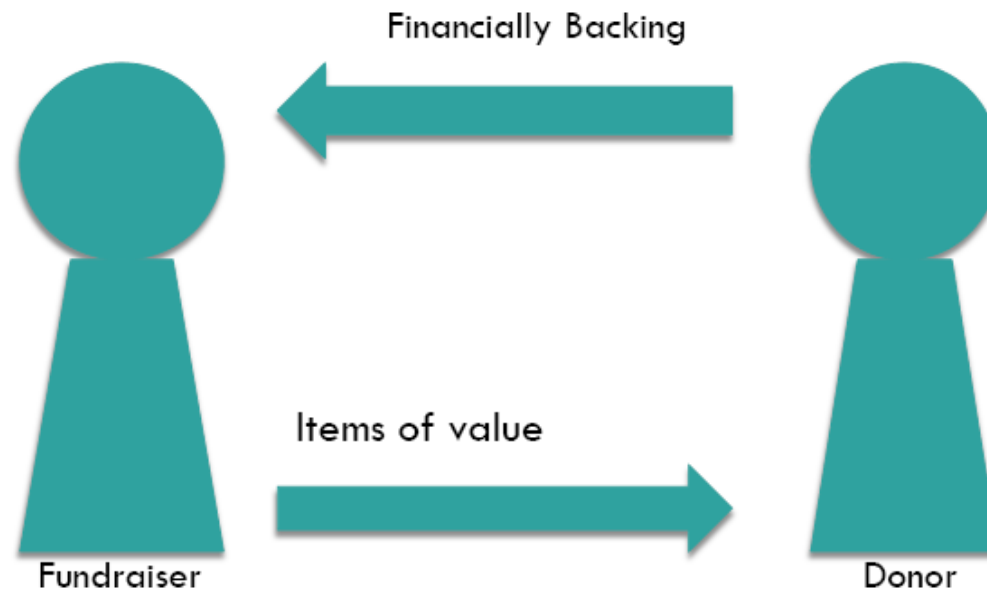
What Crowd?

Those interested in pre-purchase or reward-based crowdfunding may begin as supporters or friends, but ultimately become those who follow the media and buzz, who want to be the first to own your product.

Donation-Based Crowdfunding

(Contribution)

- Asking crowd to donate to your project in exchange for recognition, appreciation or items of value.
- These items can include
 - ▣ An e-card
 - ▣ Recognition in the credits of a movie
 - ▣ A t-shirt
 - ▣ Finished project



Who?

Donation based is most used by non-profits, creative artists, developers, filmmakers, writers and inventors.

Where?

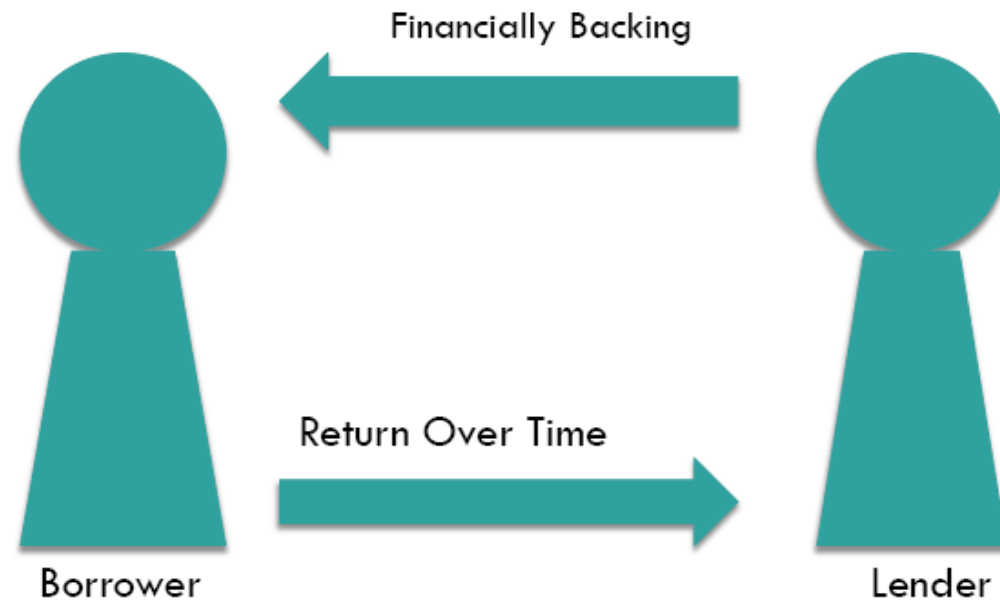
There are many popular and great crowdfunding platforms. The key is choosing the one that you believe fits your cause the best. (Indiegogo, RocketHub, and Kickstarter)

What Crowd?

The crowds to pursue in donation-based with a creative project are avid fans, existing volunteers and supporters, philanthropists and experimental investors.

Debt- Based Crowdfunding

- The investors provide loan capital to entrepreneurs and then at a later date will receive a full financial return with interest
- The money can be returned over time, or upon a set date



Who?

Meant for more established companies (at least one year old) who have some form of cash flow or other ability to repay the debt

Where?

Slightly newer and have historically allowed for smaller amounts of money. Larger loans are expected with the implementation of the JOBS Act (SoMoLend, Prosper and Lending Club)

What Crowd?

Existing customers, neighbors, friends and family are already loyal to the entrepreneur and see investment as a way of putting money back into their own communities.

Online Business Loans



SCORE Partners Empowering Small Businesses with Financial Education



Educating business owners about how to access the capital they need is a lot tougher today than it used to be. That's why we've partnered with SCORE to create a series of educational materials about navigating the world of online lending.

Resources Available

- Presentations to your chapter
- "Financing/Loans" Center of Excellence on SCORE's website
- Pre-recorded webinars

What We Cover

- The different types of financing available
- How likely your clients are to get approved
- What to expect after the application is submitted

For more information about how OnDeck can empower your mentors and clients with financial education, email score@ondeck.com or visit the Financing/Loans Center of Excellence on www.score.org.

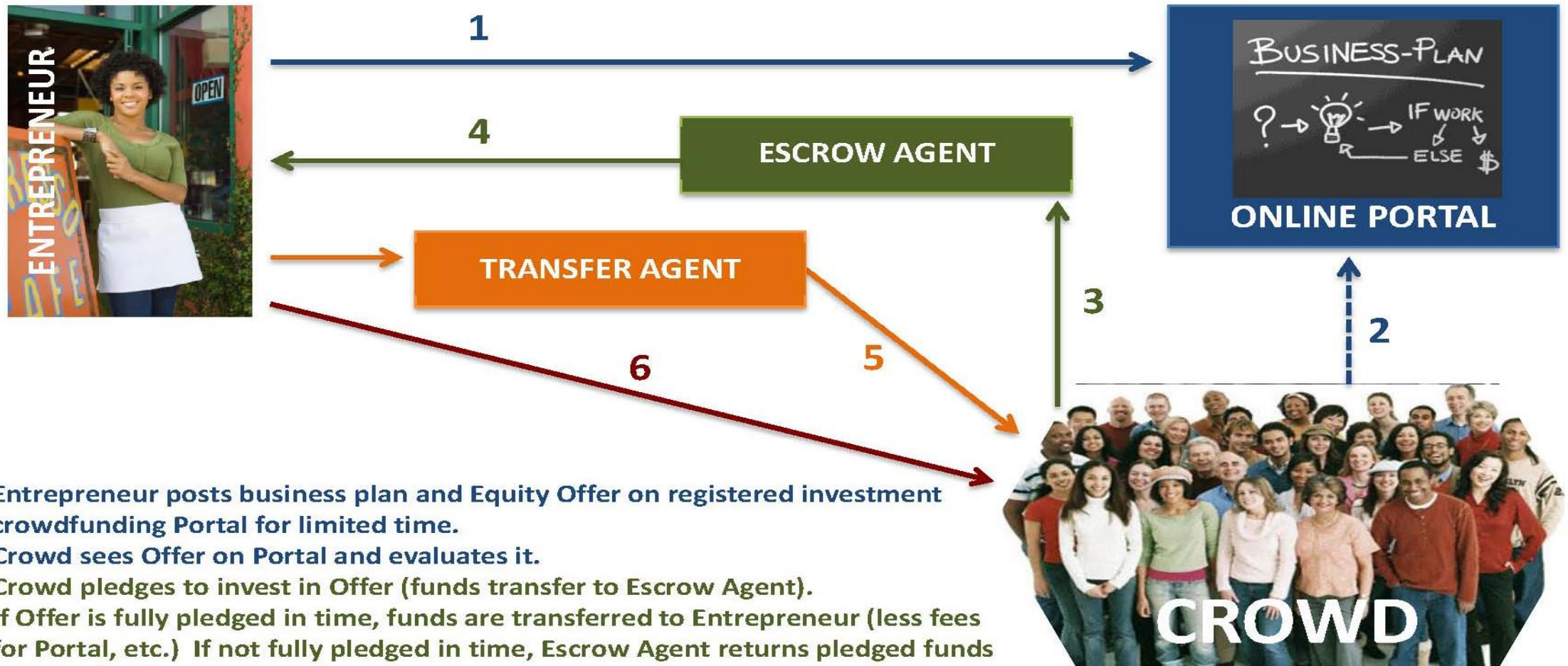
Plan Ahead

- The vast bulk of contributions happen at the very beginning and very end of a project.
- Have things ready- Ex. Emails for each point of the process
- Try not to lose interest in the middle- plan ways to make the middle part of the process more exciting
 - ▣ This can be done by making videos of what you have done so far, using social media to post pictures of your product so far and/or keep your investors engaged by asking them what they want to see
- Show the plan for how you will spending the money

Use Social Media to Your Advantage

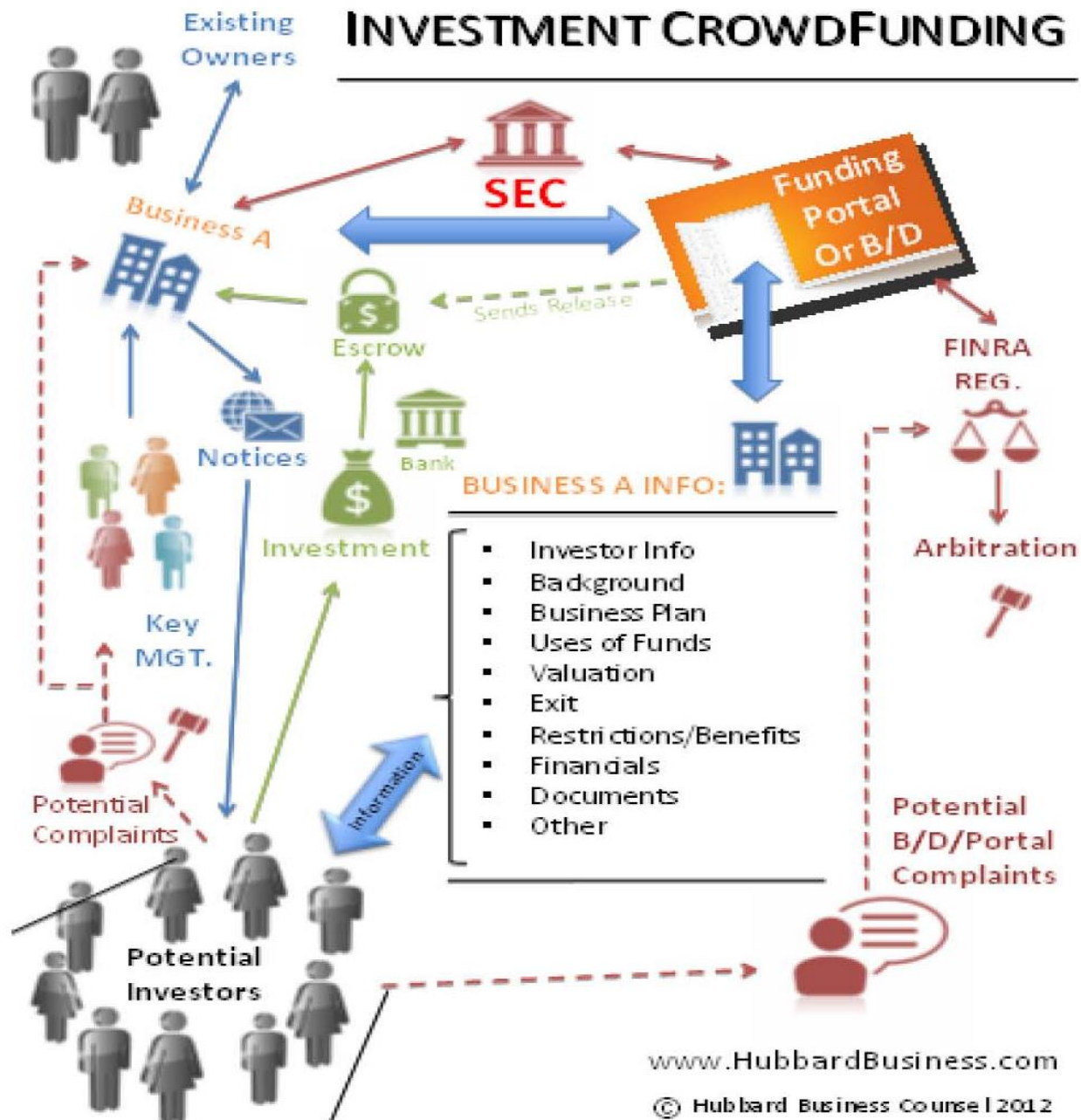
- ❑ Most people are not familiar with crowdfunding
- ❑ Use social media to pave the path to your project on a sight
- ❑ Great source of networking and campaigning
- ❑ Post pictures, Tweet and make Facebook statuses, encourage people to “like” your page
- ❑ Keep your investors updated using social media

basic investment crowdfunding



1. Entrepreneur posts business plan and Equity Offer on registered investment crowdfunding Portal for limited time.
2. Crowd sees Offer on Portal and evaluates it.
3. Crowd pledges to invest in Offer (funds transfer to Escrow Agent).
4. If Offer is fully pledged in time, funds are transferred to Entrepreneur (less fees for Portal, etc.) If not fully pledged in time, Escrow Agent returns pledged funds to Crowd.
5. Entrepreneur transfers stock to Crowd through a Transfer Agent.
6. Entrepreneur continues to report to Crowd Shareholders.

INVESTMENT CROWDFUNDING



www.HubbardBusiness.com

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❖ **Helpful Planning Resource**
 The North American Securities Administrators Association (NASAA) has recommended that the SEC adopt the substance of its SCOR (Small Corporate Offering U-7) forms as part of the final Crowdfunding requirements. We believe these forms (and manuals) provide useful guidance to Entrepreneurs and Advisers in advance of the SEC's Crowdfunding rules.
www.nasaa.org/industry-resources/corporation-finance/scor-overview/scor-forms

investment crowdfunding's ten step process



1. Evaluate business and entrepreneur and landscape; preliminarily determine viability
2. Determine probable strategy and tactics
3. Make detailed business plan, financials, forecast and make viability decision
4. Get operations, etc. ready
5. Decide on exact portal and structure
6. Review and refine plan
7. Post to portal and raise funding, and operate business
8. Investor communication and reporting
9. Get investment return to investors
10. Repeat if makes sense, or seek secondary financing elsewhere

who is right for crowdfunding?



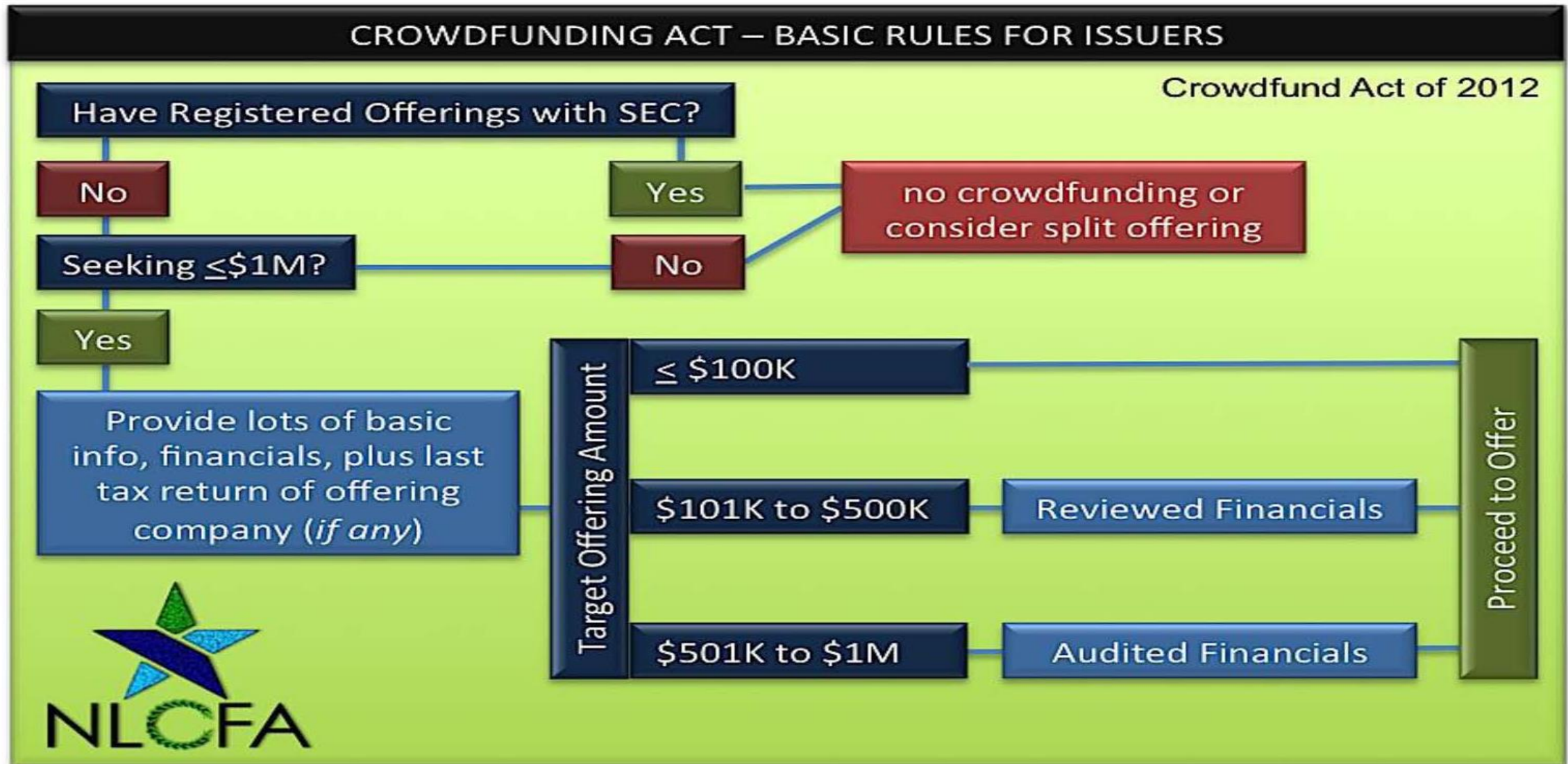
❖ Is Crowdfunding Right for My Business?

- The resources needed
- The time to invest
- The costs – now and later
- The risks – to the investor and the business
- The probabilities
- What makes sense

❖ Is Your Client's Business Right for Crowdfunding?

- Integrity
- Owner willing to report to others
- Will the business be profitable: 8 – 10% per year or more after officers' compensation
- Able to run like a business
- Gut about owner, business and investors (realistic return)

basic rules for entrepreneurs



JOB Act – Issuer Requirements

Financial statements for issuers issuing:

- Up to \$100,000 annually must provide financial statements certified by CEO/CFO to be true and correct
- Between \$100,000 and \$500,000 annually, financial statements reviewed by a independent public accountant
- Above \$500,000 annually, audited financial statements

Issuers are required to file annual reports with the SEC and provide them to the investors.

SEC Proposed Rules for CrowdFunding via JOBS Act Deep Dive

DISCLOSURE BY COMPANIES

- Information about officers & directors as well as owners of 20% or more of the company (3 years back-data)
- A description of the company's business and use of the proceeds from the offering
- Price to the public of the securities being offered (Target Details)
- Certain related-party transactions
- Description of the financial condition of the company
- Financial statements during a 12-month period prior to offering with a copy of 3rd party audit of company's tax returns

SEC Proposed Rules for CrowdFunding via JOBS Act Deep Dive

RESPONSIBILITY OF PORTALS

- Provide investors with educational materials
- Take measures to reduce the risk of fraud
- Make available information about the issuer and the offering
- Provide communication channels to permit discussions about offering on the platform
- Facilitate the offer and sale of CrowdFunding securities
- Portals must register with the SEC (If not already registered)

PORTAL PROHIBITIONS




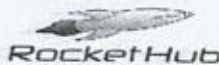

- Offering investment advice or making recommendations
- Soliciting purchases, sales, or offers to buy securities offered or displayed on its website
- Imposing certain restrictions on compensating people for solicitations
- Rules require offerings to be conducted exclusively through one intermediary portal at a time
- Financial interest in issuer is prohibited unless it is for compensation of services

concerns about investment crowdfunding



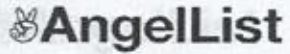




- ❖ Potential for Fraud
 - 2-3% in unregulated donation crowdfunding
 - Daylight effect of the Internet
 - Pledge system
- ❖ Potential for poor strategies, executions and outcomes
- ❖ Answering to others as a fiduciary (or not)
- ❖ Cost and time
- ❖ No assurance of raising 10 cents
- ❖ Social and potential liability cost if unsuccessful



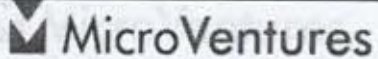


Examples of Equity-type CrowdFunding Platforms

Portal	Year founded	Type	Industries and Funding Models
 ✓	2009 ✓	CFP-R ✓	<ul style="list-style-type: none"> • Funding Platform for Creative Projects • Users invest in <u>return for rewards</u>, discounts and limited products • Highest and largest funded crowdfunding platform to date • No plans to engage in equity-driven funding, thus a large vacuum is potentially going to exist ✓
	2008 ✓	CFP-R ✓ CFP-D ✓	<ul style="list-style-type: none"> • One of the top crowd funding sites globally • Enables users to <u>donate to projects</u> easier by removing middleman
	2011 ✓	CFP-E ✓	<ul style="list-style-type: none"> • ✓ One of the first <u>equity for funding</u> platforms • ✓ Approaching from a “contest angle” until <u>equity for non-accredited investors funding is legalized</u>
	2010 ✓	CFP-R ✓ CFP-D ✓	<ul style="list-style-type: none"> • Similar to kickstarter but if goals are not met, project leader is still allowed to keep the funds raised
	2010	CFP-D ✓	<ul style="list-style-type: none"> • Fundraising for charitable causes • Uses a gamification and rewards technique

Examples of Equity-type CrowdFunding Platforms

Portal	Type	Industries and Funding Models
	CFP-L ✓	<ul style="list-style-type: none"> Localized driven debt-financing from friends, family, and neighbors ✓ <u>Currently under investigation by Ohio's Commissioner of Securities</u>
	CFP-D ✓	<ul style="list-style-type: none"> Market exchange for mobile app developers
	CFP-E ✓	<ul style="list-style-type: none"> Website for fundraising and investments done so via accredited investors ✓ Looking to expand into the unaccredited investor space
	CFP-D ✓	<ul style="list-style-type: none"> White label solution for crowdfunding platforms Also a social-media driven fundraising platform
	CFP-R ✓ CFP-D ✓	<ul style="list-style-type: none"> Users vote on the products to be made & sold

Examples of Equity-type CrowdFunding Platforms

Crowdfunding Portals	Founding	Notes
	May, 2012 ✓	<ul style="list-style-type: none"> Began as a <u>rewards-based platform with \$5,000-\$25,000 raised per project</u> Launched <u>after the passage of JOBS Act, became the first equities crowdfunding portal in US</u>
	November, 2011 ✓	<ul style="list-style-type: none"> Allows companies to float ideas for businesses, and lets users vote on whether they would--theoretically--invest in the company (Beta-testing)
	October, 2009 ✓	<ul style="list-style-type: none"> Online <u>peer-to-peer investment marketplace</u> Helps <u>accredited investors pool their cash together and get access to startup funding opportunities</u>
	April, 2012 ✓	<ul style="list-style-type: none"> Allows retail companies and potential investors evaluate each other and <u>communicate in a private social networking setting</u> Serves as a <u>broker-dealer to allow funding transactions via site</u>
	November, 2011 ✓	<ul style="list-style-type: none"> Received projects from over 100 countries; highly selective platform Distributed over \$150 million in 2012 Named by both Forbes and TIME as one of the best crowdfunding site in 2012

Special CrowdFunding Web sites

- CrowdFunding Associations
 - National CrowdFunding Association, www.nlcfa.org
 - Crowdfunding Professional Association, www.cfpa.org
- www.sec.gov Governing body for U.S. CrowdFunding rules. The complexity of these rules is challenging
- www.finra.gov. Industry participants rules and behavior for crowdfunding
- www.googlealerts.com select crowdfunding as the key word
Daily summary of all Crowdfunding information from the U.S. and around the world. International investors were allowed to invest in CrowdFunding before the U.S. rules were passed. International investors can participate in U.S. deals.
- www.crowdfundbeat.com Crowdfund Beat
Summary location for weekly news on CrowdFunding with in-depth articles and is a good repository of massive data on crowdfunding sites. There are now over 2500 web sites. Crowdfund beat also discusses important trends in the industry.
- www.Krowdster.com
One of the best locations to use for daily information on the analytics of the most popular crowdfunding web sites, and a current place to find which industries and products are gaining financing currently.
- www.Equitynet.com
Location for accredited investors to view current company offerings targeted toward those high net worth investors without any restrictions on what they can buy.

THANK YOU

Presentation prepared by:

SCORE Memphis Chapter 068

5100 Poplar Avenue, Suite 1701,

Memphis, TN 38137

Tel : 901-544-3588

Email Address: scorememphis@comcast.net

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