

Crowdfunding:

Game Changer for Small Business?

Presentation Outline:

- Background on crowdfunding to date
- Current state of crowdfunding in light of SEC proposed rules
- SBA's take on the proposed rules
- Q and A

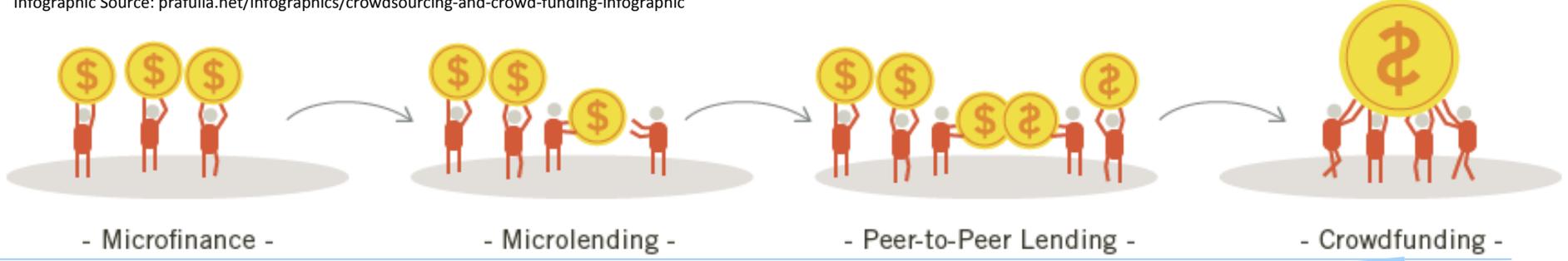
Background on Crowdfunding to Date



Overview of Crowdfunding

The concept of crowdfunding isn't entirely new. It's come about thanks to a progression of other funding ideologies.

Infographic Source: prafulla.net/infographics/crowdsourcing-and-crowd-funding-infographic



- Crowdfunding -

Started on the internet for people to fund **creative projects** and **non-profit campaigns**

Recently shifted to the transaction of **debt** and **equities** to raise capital

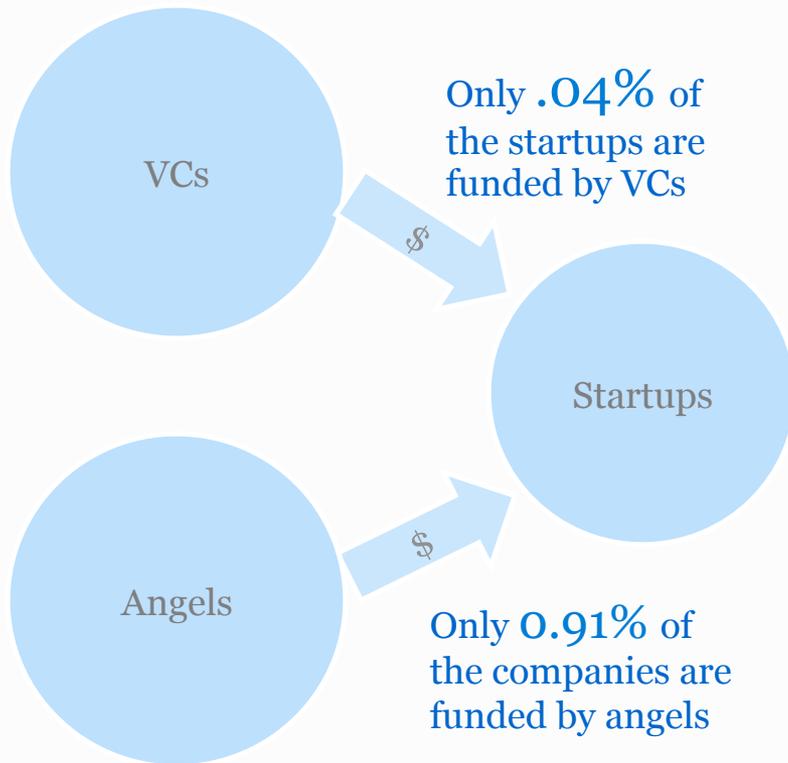
Helps startups **meet early-stage capital raising challenges** and **lower investors threshold**

Brings **long-term equity capital** into the market, helps **economic growth** and **job creation**



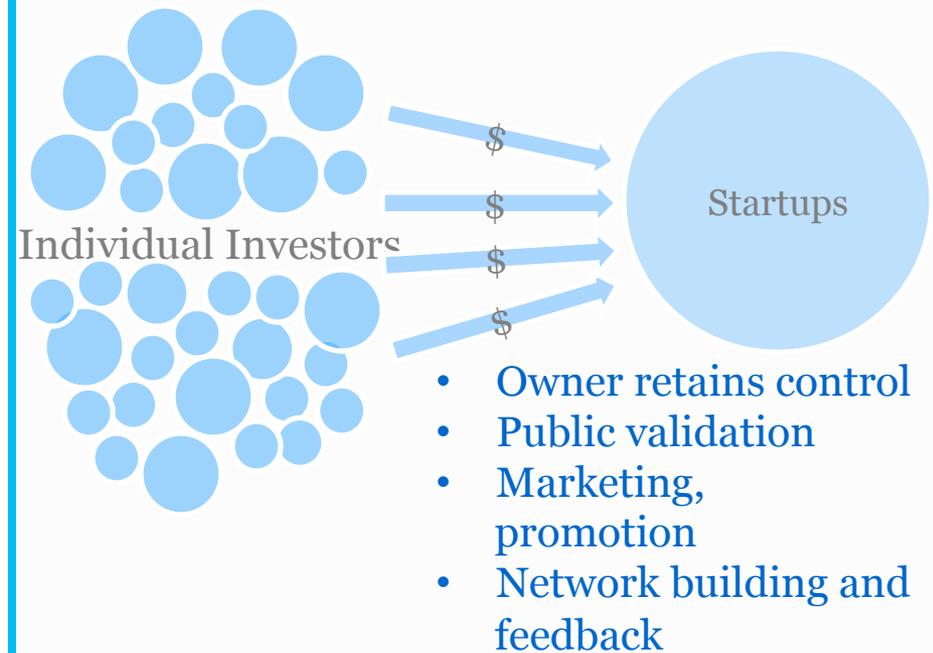
Why Crowdfunding?

High Threshold “Accredited” Investors

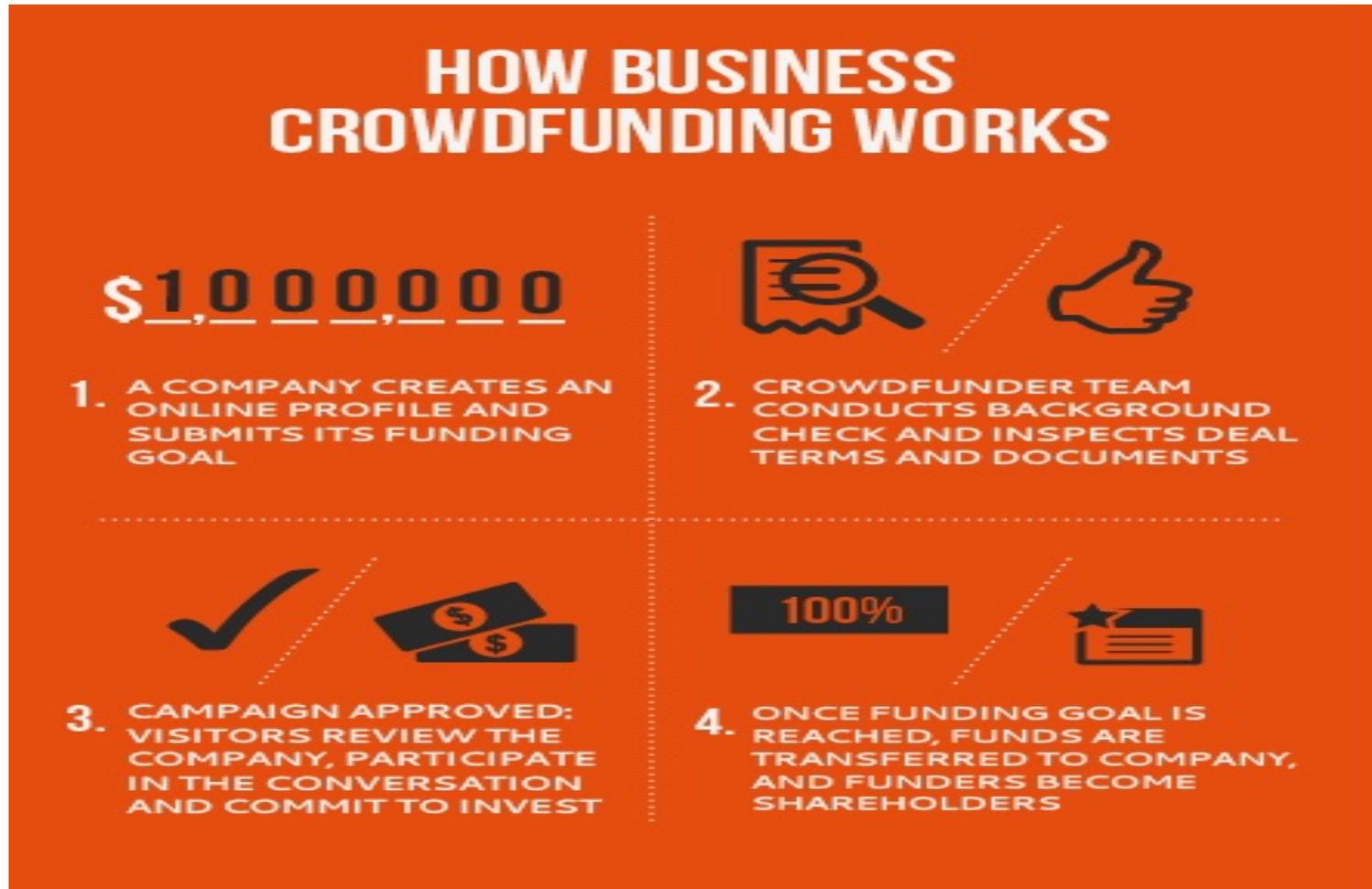


Low Threshold Crowdfunding Investors

- Supportive of idea/cause
- Networking opportunities
- Entrepreneurial ventures for average individuals



Crowdfunding Platforms (CFPs) in Practice



Infographic Sources: Cosgro.com & Crowdfunder.com



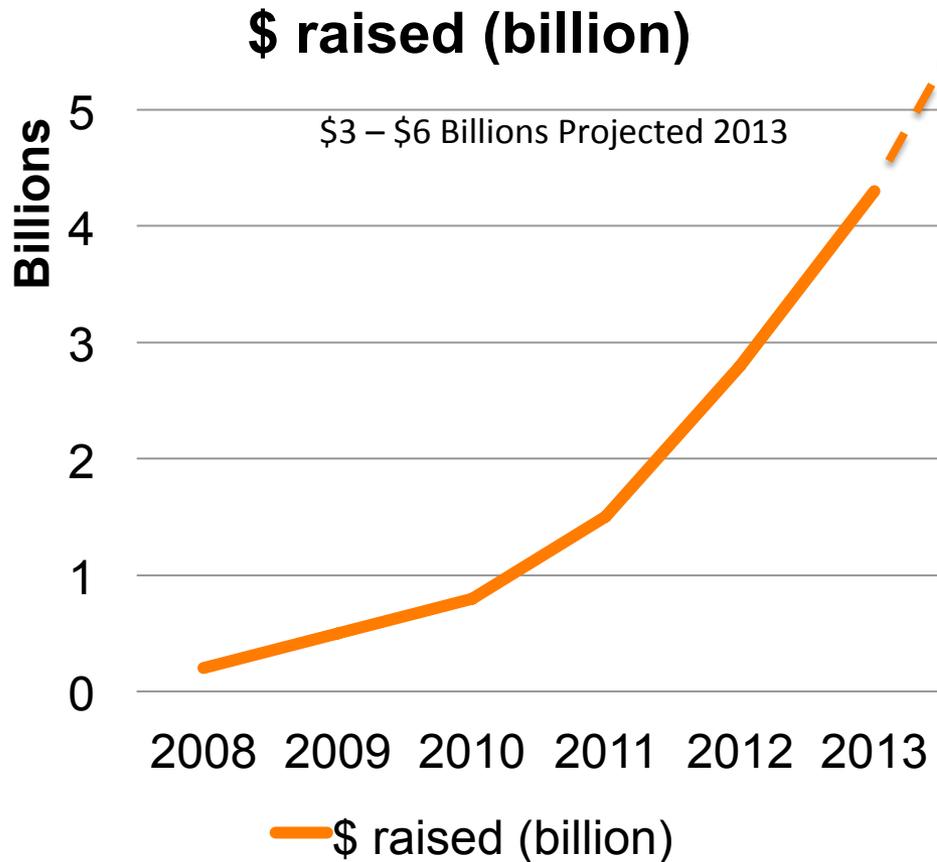
Crowdfunding Platform User Demographics

Pertinent Statistics

- Average successful campaign is around \$7,000
- Campaign Duration averages around 9 weeks
- Odds of success increase if 30% or more of base goal is achieved in the first week
- Age-range of attracted investors is 24-35
- Salary range of prevalent investors is \$100,000 +
- Europe & North America lead the way with 35% & 59% of global market share

Sources: <http://www.fundable.com/crowdfunding101/crowdfunding-statistics>
<http://blog.gogetfunding.com/crowdfunding-statistics-and-trends-infographic/>

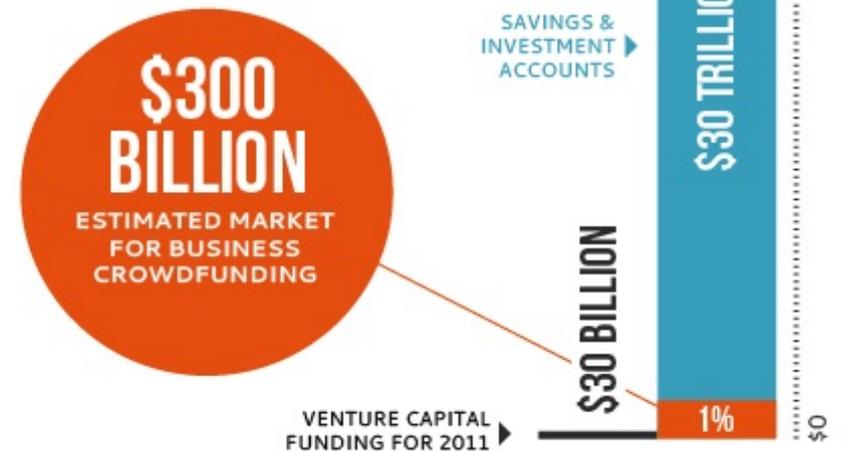
Crowdfunding – Market Potential



MARKET FOR BUSINESS CROWDFUNDING

"IF AMERICANS SHIFTED **1%** OF THE **\$30 TRILLION** THEY HOLD IN LONG-TERM INVESTMENTS TO SMALL BUSINESSES, IT WOULD AMOUNT TO MORE THAN **10 TIMES** THE VENTURE CAPITAL INVESTED IN ALL OF 2011."

—Amy Cortese, Author of *Locavesting*



Popular Crowdfunding Platforms in Play

Portal	Year founded	Type	Industries and Funding Models
 KICKSTARTER	2009	CFP-R	<ul style="list-style-type: none"> • Funding Platform for Creative Projects • Users invest in return for rewards, 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
 indiegogo	2008	CFP-R CFP-D	<ul style="list-style-type: none"> • One of the top crowd funding sites globally • Enables users to donate to projects easier by removing middleman
 crowdfunder	2011	CFP-E	<ul style="list-style-type: none"> • One of the first equity for funding platforms • Approaching from a “contest angle” until equity for non-accredited investors funding is legalized
 RocketHub	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
 crowdrise	2010	CFP-D	<ul style="list-style-type: none"> • Fundraising for charitable causes • Uses a gamification and rewards technique

Sources: <http://www.entrepreneur.com/article/228534> & <http://www.forbes.com/sites/chancebarnett/2013/05/08/top-10-crowdfunding-sites-for-fundraising/>



Popular Crowdfunding Platforms in Play (Cont.)

Portal	Type	Industries and Funding Models
	CFP-L	<ul style="list-style-type: none"> Localized driven debt-financing from friends, family, and neighbors Currently under investigation by Ohio's Commissioner of Securities
	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

Sources: <http://www.entrepreneur.com/article/228534> & <http://www.forbes.com/sites/chancebarnett/2013/05/08/top-10-crowdfunding-sites-for-fundraising/>



Examples of Equity-type Crowdfunding Platforms

Crowdfunding Portals	Founding	Notes
	May, 2012	<ul style="list-style-type: none"> Began as a rewards-based platform with \$5,000-\$25,000 raised per project Launched after the passage of JOBS Act, became the first equities crowdfunding portal in US
	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 peer-to-peer investment marketplace Helps accredited investors pool their cash together and get access to startup funding opportunities
	April, 2012	<ul style="list-style-type: none"> Allows retail companies and potential investors evaluate each other and communicate in a private social networking setting Serves as a broker-dealer to allow funding transactions via site
	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

Current State of Crowdfunding



SEC Proposed Rules for Crowdfunding:

On April 5, 2012, President Obama signed into law the Jumpstart Our Business Startups (JOBS) Act. In October of 2013, the SEC formally put out their proposed rules for Title III of the JOBS Act, pertaining to crowdfunding.

Regulation	Securities Act of 1933	SEC Proposed Rules
Platforms	Excludes the vast majority of Americans from being able to participate in startup investing	<ul style="list-style-type: none"> • Transaction website needs to be registered with SEC • Website can only sell shares originated from the company
Investors	Limited to ‘ Accredited Investors ’ with income greater than \$200 K and net worth greater than \$1MN	<ul style="list-style-type: none"> • Investors with annual income & net worth less than \$100K can give \$2,000 or 5% of annual income or net worth • Investors with annual income or net worth greater than \$100K can give 10% of either whichever is greater • During the 12 month period, investors will not be able to purchase more than \$100 K of securities through crowdfunding
Startups	Prohibited from raising funds using the internet or broadcast media under the General Solicitation rule	Can raise up to \$1 Million in a 12-Month period; some restrictions apply to the type of companies that can participate

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 w/ a copy of 3rd party audit of company's tax returns

Crowdfunding Platform

- 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 offerings on the platform
- Facilitate the offer and sale of crowdfunded securities
- Portals must register with the SEC (If not already registered)

Source: SEC

SEC Proposed Rules for Crowdfunding via JOBS Act Deep Dive (Cont.)

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

Source: SEC

SBA's Take on the Proposed Rules



Issues Which the SBA is Watching:

- **Timing:** SEC is currently soliciting public comment until February 3rd. Then an addtl 90-120 days to review public comments. Factoring other delays, and OMB review, resolution on the matter will likely be 9 months to a year from now. Once final, SEC will have to implement a review and accreditation process.
- **Platform regulation:** Platforms will likely have to register with the Financial Industry Regulatory Authority (FINRA) to ensure compliance with SEC rules; the process of making these rules is in progress.
- **Fraud protection:** Protecting against fraud is going to be extremely important to both small businesses and potential investors.
- **IP protection:** Protection of intellectual property is also an issue we are watching– once an idea is posted on a platform, that idea should be protected against others re-using it.

SBA Recommendations

SCORE, SBDCs, WBCs and Field Offices Provide Training

- Equip regional SBA centers to assist and consult main street small businesses and high-growth startups on crowdfunding.
- Equip regional SBA centers to assist and consult individuals who are starting crowdfunding platforms.

Connecting Accelerators and Crowdfunding Platforms

- SBA will convene roundtables and working groups of experts to increase information sharing across the industry.

Startups - Platforms Matchmaking

- Via “Demo Day” style events and training kits distributed to field offices, SBA will assist in matching main street and high growth startups with the most ideal platforms for them.

Identify Crowdfunding Best Practices

- SBA will evaluate existing research in the field and convene expert advisors to become leaders in crowdfunding policy making and to expand small business access to CFPs.

Patent and Intellectual Property Protection

- Partner with USPTO by holding joint webinars to protect small businesses and maximize idea protection on crowdfunding platforms. Explore helping Entrepreneurs procure IP Funding via CFPs.



SBA Recommendations (Cont.)

Webinars & Outreach

- Continue building more learning content with continuous updates and outreach based on webinars first conducted in February of this year. Partner with other stakeholders in raising awareness and educating the public on CFPs.

Small Business Learning Center

- The online learning center by OED features an [e-briefer on crowdfunding](#). This learning portal is becoming a destination for users that seek to educate themselves on sound business practices and emerging trends impacting the small business marketplace.

SBIR/STTR

- Raise awareness on how SBIR/STTR funding could be a useful non-dilutive source of financing coupled with the money raised from CFPs.