




**CrowdFunding:**  
**New ways to raise capital**  
 Accounting Day, May 7th 2012  
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What is CrowdFunding?



- Collective Action



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 AND FINANCIAL ADVISORS

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What is CrowdFunding?



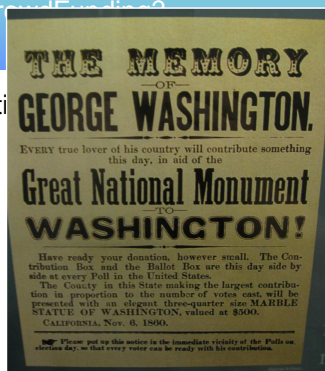
- Collective Action



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What is CrowdFunding?



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CORPORATE TRAVEL ASSISTANTS  
AND BUSINESS SERVICES

What is CrowdFunding?




- Collective Action + Fundraising



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AND BUSINESS SERVICES

What is CrowdFunding?



- Donation
  - Gift
  - Prize/Rewards
  - Product Pre-Orders
- Investment
  - Debt
  - Equity

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What is CrowdFunding?

Donation/Gift




<http://www.indiegogo.com/Jeffery-Self-Needs-A-New-Tooth>



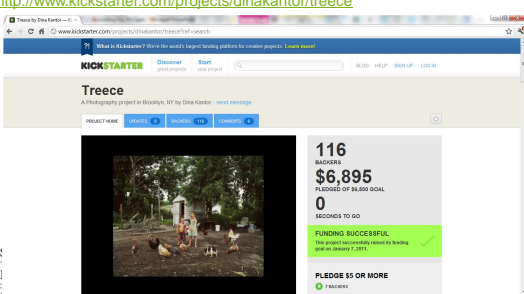
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What is CrowdFunding?

Prize/Rewards



<http://www.kickstarter.com/projects/dinakantor/treece>



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AND BUSINESS SERVICES

### CrowdFunding

Product Pre-orders

- Pebble Watch  
<http://www.kickstarter.com/projects/597507018/pebble-e-paper-watch-for-iphone-and-android>

**BEAUTIFUL WATCHFACES**

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### CYCLING

**CONTROL YOUR MUSIC**

**EMAIL & ALERTS**

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### Peer to Peer Lending

Seasoned Returns as of March 31, 2012  
 For Loans Originated July 2009 - May 2011

Prosper Rating	Loans (dt)	Loans (\$)	Average Loan Amount <sup>(1)</sup>	Yield <sup>(1,2)</sup>	Loss Rate <sup>(1,2)</sup>	Seasoned Return <sup>(1,2)</sup>	Weighted Average Credit Score
AA	1,249	\$9,287,850	\$7,436	7.40%	2.29%	5.10%	806
A	1,769	\$10,726,267	\$6,063	8.86%	2.56%	6.30%	761
B	1,070	\$8,261,165	\$7,721	12.91%	3.96%	8.95%	753
C	1,337	\$6,568,459	\$4,913	18.00%	6.93%	11.07%	726
D	2,743	\$12,909,669	\$4,706	23.21%	9.02%	14.18%	699
E	1,445	\$5,867,261	\$4,060	27.61%	14.09%	13.51%	675
HR	1,389	\$4,292,006	\$3,090	28.60%	12.55%	16.05%	667
<b>Total</b>	<b>11,002</b>	<b>\$87,812,698</b>	<b>\$5,264</b>	<b>16.48%</b>	<b>6.40%</b>	<b>10.08%</b>	<b>734</b>

### CrowdFunding Downsides

- Transactional overhead
- Large group of unsophisticated investors
  - Future M&A/investment
  - Investor relations
- Fraud
- Failure to Launch




### CrowdFunding Downsides

**Cost of Capital – Traditional S-1 vs. Regulation A\***


- WRH-Co is able to execute offerings more cost efficiently due to its
  - Lack of the more costly BD infrastructure of the bulge bracket banks, and
  - A reliance on electronic marketing and technology.
- With the revised Regulation A offering mechanism, WRH-Co is able to drive the cost of capital for emerging companies even lower

	Traditional S-1 offering	Small S-1 offering	Revised S-1 offering
Total Gross Proceeds	\$50,000,000	\$50,000,000	\$50,000,000
Underwriter Spread	3,500,000	2,000,000	1,500,000
	\$46,500,000	\$48,000,000	\$48,500,000
SIC Registration Fee	\$0.00	\$0.00	\$0.00
FINRA Filing Fee	5,107	5,107	5,107
Legal Fee	\$0.00	\$0.00	\$0.00
Printing Expenses	\$0.00	\$1,000	\$1,000
Legal Fees and Expenses	428,607	250,000	100,000
Accounting Fees and Expenses	628,607	250,000	100,000
Transfer Agent and Registrar Fees	\$0.00	\$0.00	\$0.00
Roadshow and Miscellaneous	\$0.00	\$0.00	\$0.00
Total Approximate Expenses	\$1,122,214	\$660,977	\$330,977
Net Proceeds to Company	\$45,377,786	\$47,339,023	\$48,169,023




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### Fraud

- Tech-Sync Power System  
<http://www.kickstarter.com/projects/606787527/the-tech-sync-power-system>





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**CrowdFunding**  
Pre-orders




- **TouchFire Keyboard**  
<http://www.kickstarter.com/projects/740785012/touchfire-the-screen-top-keyboard-for-ipad>



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**JOBS Act**  
HR3606



- TITLE I--REOPENING AMERICAN CAPITAL MARKETS TO EMERGING GROWTH COMPANIES
- TITLE II--ACCESS TO CAPITAL FOR JOB CREATORS
- **TITLE III--CROWDFUNDING**
- TITLE IV--SMALL COMPANY CAPITAL FORMATION
- TITLE V--PRIVATE COMPANY FLEXIBILITY AND GROWTH
- TITLE VI--CAPITAL EXPANSION
- TITLE VII--OUTREACH ON CHANGES TO THE LAW

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**CrowdFunding**




- Public Solicitation / Pre-existing Relationship

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**CrowdFunding**  
Angel Investing for the 99%?




- Accredited vs. Unaccredited



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**CrowdFunding**  
Angel Investing for the 99%?



- Accredited Investor
  - Earn \$200k (\$300k married couples)
  - Or net worth of >\$1M (excluding residence)
- 1982 = 1.6%

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**JOBS Act**  
Issuers



- Up to \$1,000,000 per 12 months
- Offering conducted through “funding portal”
- Background check
- 21 day “review period”
- 100% of target must be reached
- Significant disclosures (personal liability if incomplete)

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**JOBS Act**  
Issuers



- A New Law is an Auditor's Best Friend (??)

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**JOBS Act**  
Issuers



- \$100k or less – self certification
- >\$100k - \$500k – review
- >\$500k - \$1M – audit

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**JOBS Act**  
Investors



- Limits based on net income or net assets
  - Under \$40k = \$2,000/year
  - \$40k-99k = 5%
  - \$100k+ = 10%
- Limits are in aggregate (not per project)
- Restricted for 1 year (except to accredited)

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**JOBS Act**  
Funding Portal




- Must be a broker/dealer or register w/SEC
- Must register w/SRO (FINRA or ?)
- Disclosures and investor education
- No finders fees allowed to find investors
- No financial interest in issuer
- Cannot offer investment advice

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**SEC**  
270 Days




“Meet such other requirements as the Commission may prescribe” = **TBD**



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**JOBS Act**  
HR3606



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Reg D, Section 506



- General Solicitation OK
- No Unaccredited Investors

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Groups Forming



- SRO: The CrowdFund Intermediary Regulatory Association (CFIRA)  
<http://www.cfira.org>
- Trade Organization: The National CrowdFunding Association  
<http://www.nlcfa.org>

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Questions



- Is the “startup industry” the next boom or the next bubble?
  - Will investors act intelligently?
  - Will issuers act ethically?


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CrowdFunding



“Nobody makes a greater mistake than he who does nothing because he could only do a little.”

- Edmund Burke, 1729-1797



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