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Crowdfunding: Where Angels Fear to Tread

Shenandoah Valley Technology Center
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JOBs Act Update

- Signed into law April 5, 2012
- Key provisions for entrepreneurs:
 - Crowdfunding
 - General solicitation relief

What is crowdfunding?

- Use of internet and social media to raise capital, typically from a large number of people and in relatively small amounts from each.
 - Kickstarter lineage
 - Different because JOBS Act crowdfunding involves the sale of securities
- Currently illegal – regulations delayed until fall 2013.

What is general solicitation?

- Encompasses:
 - Advertising
 - Blast emails
 - Website notices
- Gray area:
 - Angel group pitch sessions
 - Pitches at conferences
- JOBS Act contemplates “lifting the ban” on general solicitation.
- Currently illegal (except for gray area, where SEC looks the other way)

The Promise

- Crowdfunding, coupled with the relief from the ban on general solicitation, promised to facilitate access to early stage capital by tapping a group of formerly inaccessible investors.

The Reality

- Legal requirements/regulations only a securities lawyer could love.
- Inherent conflict between protecting unsophisticated investors from snake oil salesmen and scam artists, and improving access to capital.

Crowdfunding – Think Twice (Once final regulations are in place)

- Creates exemption from registration requirements
- Caveats
 - \$1.0M in 12 months
 - Likelihood of a relatively large number of small/unknown investors
 - Broker-dealer/“funding portal” requirements
 - Background checks
 - Disclosure requirements
 - Annual SEC filings
 - Restriction on resale of purchased securities.
 - **Perceived self-selection**

General Solicitation – Think Twice (Once final regulations are in place)

- “Accredited Investors” limitation
 - Liquid net worth of \$1M (excluding principal residence) or \$200,000 annual income (single) or \$300,000 annual income (married).
- Proposed regulations are a securities lawyer’s dream.
- Verification of ‘accredited investor’ status depends on “facts and circumstances”.
 - Uncertainty
 - Will an investor willingly turn over a W-2?

What's an Entrepreneur to Do?

- For now, business as usual:
 - No access to crowdfunding
 - No relief from ban on general solicitation
- Stick to “Accredited Investors”
- Stick to “pre-existing relationships” or “warm introductions”
- Continue to use the traditional Fundraising Toolkit and system.

The Toolkit:

- Executive Summary
- Business Plan
- Investor Slide Deck

Each should be viewed primarily as a sales document that comes into play at a different point in the process. (But beware of securities implications).

- Elevator pitch (30 seconds)

The Executive Summary

- A door opener, not a securities disclosure document
- 2 to 3 pages long
- Typical Content:
 - The company
 - The problem/opportunity
 - Large market size
 - Competitive position and barriers to entry by competitors
 - Go to market strategy
 - The team
 - Financing requirements
 - Exit strategy

Always include contact information and a securities disclaimer

The Business Plan

Executive Summary

Company Overview

- Nature of Business
- Company Vision
- Business Size
- Business Development Stage
- Funding Awards & Recognition

Product

- Product Concept
- Product Concept Market Segment
- Targeted Users
- Targeted Buyers
- Competitive Advantage/Barriers to Entry by Competitors
- Stage of Product Development
- Intellectual Property Status

The Business Plan (cont'd)

Market Analysis & Marketing Strategy

- Market Analysis
- Go-to-Market Strategy
- Target Buyer Profile Positioning
- Pricing
- Promotional

Management and Organization

- Management Team
- Staff
- Advisors
- Organizational Chart

Financial Plan

- Financial Needs Summary
- Investor Summary
- Revenue Model
- Projections (Sales & Income)
- Assumptions & Comments

Appendices

The Slide Deck

■ Typical Content:

- Slide 1 - Overview
- Slide 2 - The Problem
- Slide 3 - The Solution
- Slide 4 - Opportunity and Market
 - Emphasize large addressable market
- Slide 5 - Technology/Product
- Slide 6 - Unique Competitive Advantage/Barriers to Entry
- Slide 7 - Competitive Landscape
- Slide 8 - Go-to-Market Strategy

The Slide Deck (cont'd)

- Slide 9 - Financial Roadmap
 - Include high level 5 year projections
 - Include investment sought
- Slide 10 - The Team
- Slide 11 - Current Status
 - Milestones achieved to date
 - Pending orders
- Slide 12 - Exit
 - Provide most likely exit scenario
 - Provide comparables if available
- Slide 13 - Summary
 - 3 Strongest points – what distinguishes this opportunity from others



Using the Tools: How we work with our clients

- Systematic Approach
- Internal Network
- External Network

What Not to Do:

- Over the transom
- UFO “investors”
- Premature Strategics
- General solicitation (Illegal)
- Crowdfunding moot until fall 2013

Thank You!

Questions?

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