AN INTRODUCTION TO CROWDFUNDING

HOW TO RAISE UP TO $1 MILLION EACH YEAR FOR YOUR NEW OR EXISTING BUSINESS USING THE INTERNET

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II. TYPES OF CROWDFUNDING.

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3. Examples of projects funded with charitable crowdfunding
4. Advantages of charitable crowdfunding
5. Disadvantages of charitable crowdfunding

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1. Elements of equity crowdfunding
2. When you can start using equity crowdfunding
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3. Capital structure

4. Financial disclosure

5. Preparation of company video

6. Choosing an intermediary / funding platform

7. Locating your crowd

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1. $100,000 or less

2. More than $100,000

3. Accredited investors

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3. Intermediary disclosure requirements

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IV. CONCLUSION: Will crowdfunding change the way small businesses attract investment capital?

EQUITY CROWDFUNDING – FAST FACTS

Startups and existing businesses can raise up to $1 million each year using the internet and other social media platforms like Facebook and Google Plus.

Equity crowdfunding is allowed pursuant to the Jumpstart Our Business Startups Act ("JOBS Act") signed into law by President Obama on April 5, 2012.

Companies can start equity crowdfunding in January, 2013 once the Securities and Exchange Commission promulgates rules implementing the JOBS Act.

Investors receive stock in the company in exchange for their investment.

The JOBS Act is an exception to current securities laws that prohibit public solicitation of investors without first meeting certain registration requirements.

Companies utilizing equity crowdfunding must use the services of an intermediary (also called a funding portal) or a securities broker licensed by the Securities and Exchange Commission, in order to solicit investors.

Companies utilizing equity crowdfunding must disclose certain information to their investors including: (i) background information on officers, directors and 20% shareholders: (ii) the amount of money sought to be raised; (iii) a description of how the money raised will be used; and (iv) a description of the ownership and capital structure of the company.

Companies must prepare and distribute to prospective investors a detailed business plan and detailed information on the company's financial position if more than $100,000 in equity capital is sought.

The JOBS Act places limits on the amount of money that can be raised from each investor each year. If an investor's net worth or annual income is less than $100,000, that investor can invest with the company, in any 12 month period, the greater of $2000 or 5% of the net worth or annual income of that investor. If an investor's net worth is $100,000 or more, that investor can invest with the company in any 12 month period, 10% of the investor's net worth or annual income up to $100,000.

Advantages of equity crowdfunding include: (i) allowing a company to launch an idea from a laboratory, garage or kitchen table with little in advanced costs; (ii) allowing a company to receive substantial equity contributions based on a well designed video presentation; and (iii) allowing a company to receive project feedback from the public at an early stage.

Disadvantages of crowdfunding include: (i) putting in many hours in developing the project and carrying out a social marketing campaign; (ii) presenting a sufficiently interesting project to generate crowdfunding support; (iii) preparing yourself for failure if funding goals are not met; and (iv) competing against many other projects that seek the same crowdfunding dollars.