

**A C A**  
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## Equity Crowdfunding For Everyone – Demystified

August 31, 2016



- Use chat to submit questions
- Yes, you'll get the slides
- We're recorded, so come back and listen again

- Mission: Fuel the success of angel groups and accredited individuals active in the early-stage landscape
- World's largest trade group for angel investors
  - 220+ angel groups
  - 13,000 accredited investors
  - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/ education partner



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## ACA MEMBER GROUPS

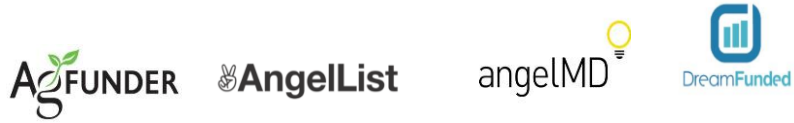


LIFE SCIENCE ANGELS



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## ACA MEMBER PLATFORMS



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## ACA PARTNERS



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## OUR SPEAKERS



Dr. Richard Swart,  
Chief Strategy Officer  
NextGeneration  
Crowdfunding



Jackson Mueller,  
Deputy Director of FinTech Program  
Center for Financial Markets at the  
Milken Institute



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## TOPICS WE'LL EXPLORE TODAY

- Overview of the landscape and the new SEC Title III rules
- The First 90 Days of Title III
- Current regulatory and policy debate
- Risks and rewards for investors and issuers
- What the future might hold



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# TITLE III DEFINED



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# TITLE III: REGULATION CROWDFUNDING (REG CF)- DEFINED



THE FOLLOWING INVESTMENT HAS BEEN APPROVED FOR  
**NON-ACCREDITED INVESTORS**  
BY THE SECURITIES AND EXCHANGE COMMISSION

THIS INVESTMENT HAS FILED A FORM C WITH THE SEC

INVESTORS ARE STRONGLY CAUTIONED AS THESE ARE HIGH RISK INVESTMENTS	REGISTERED RISK OF FAILURE & LOW LIQUIDITY. SOME MATERIAL WILL NOT BE APPROPRIATE FOR ALL INVESTORS. EXERCISE DUE DILIGENCE IS ADVISED
<b>REG-CF</b>	
<small>SEE INVESTOR MATERIALS FOR ADDITIONAL INFORMATION</small>	

[WWW.SEC.GOV](http://WWW.SEC.GOV)

[WWW.INVESTOR.GOV](http://WWW.INVESTOR.GOV)




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## WHICH REGULATION IS THIS?

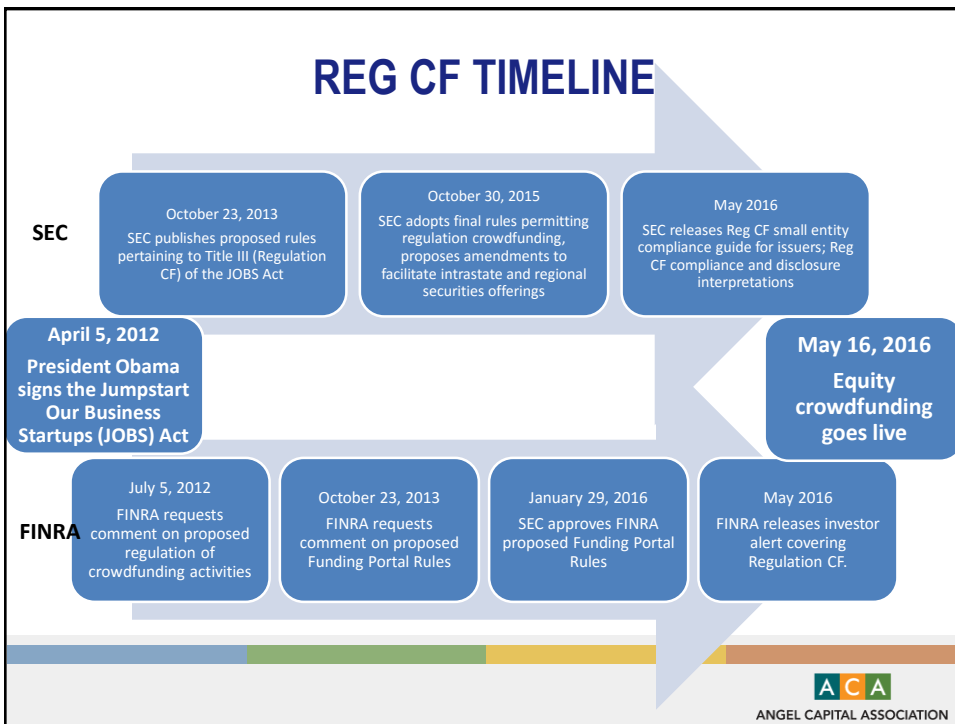
TYPE OF OFFERING	OFFERING SIZE	ELIGIBLE ISSUERS / INVESTORS	ASCERTAINING INVESTORS' STATUS	SOLICITATION	RESALES
<b>Title II: 506(c) Regulation D</b>	No dollar limit on offering size	Both SEC-registered and private companies can use exemption (U.S. and foreign)  Only accredited investors may buy	Issuers must take reasonable steps to "verify" accredited status; may use various methods; non-exclusive list of methods that may be relied on as meeting requirements	No limitations on solicitation, can be marketed over the internet; TV, advertisements and solicitation on social media permitted.	Securities are "restricted"; cannot be freely resold
<b>Title III: Section 4(a)(6) / Reg CF</b>	\$1 million limit on offering size but contemporaneous Rule 506 offerings permitted	Only U.S. companies not registered with the SEC can issue; restrictions on investment companies and blank check companies  No restrictions on type of investors, but must show they understand their investment and are limited in dollar amount	Self-certification as to investment limits and whether those limits are reached	Marketed over the internet, but primary solicitation and disclosure happens on funding portal; publicity anywhere else (including social media) is restricted	Very limited resales permitted for one year
<b>Title IV: Reg A (Tier 1)</b>	\$20 million annual limit (can include \$6 million by selling shareholders)	U.S. and Canadian; no SEC-registered companies; no blank check companies; companies that have failed to make previous required filings excluded  All investors	Not required	Public offering; can be marketed anywhere	Freely tradable
<b>Title IV: Reg A+ (Tier 2)</b>	\$50 million annual limit (can include \$15 million by selling shareholders)	U.S. and Canadian; no SEC-registered companies; no blank check companies; companies that have failed to make previous required filings excluded  All investors	Self-certification as to investment limits, providing issuer has no knowledge to the contrary	Public offering; can be marketed anywhere	Freely tradable

Sources: A portion of the chart from CrowdCheck Rule 506/Section 4(a)(6)/Regulation A comparison chart, available here <http://www.crowdcheck.com/sites/default/files/Comparison%20of%20506%20CF%20Reg%20A-%20Rev.pdf>.



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## REG CF TIMELINE



## LANDSCAPE & THE FIRST 90 DAYS



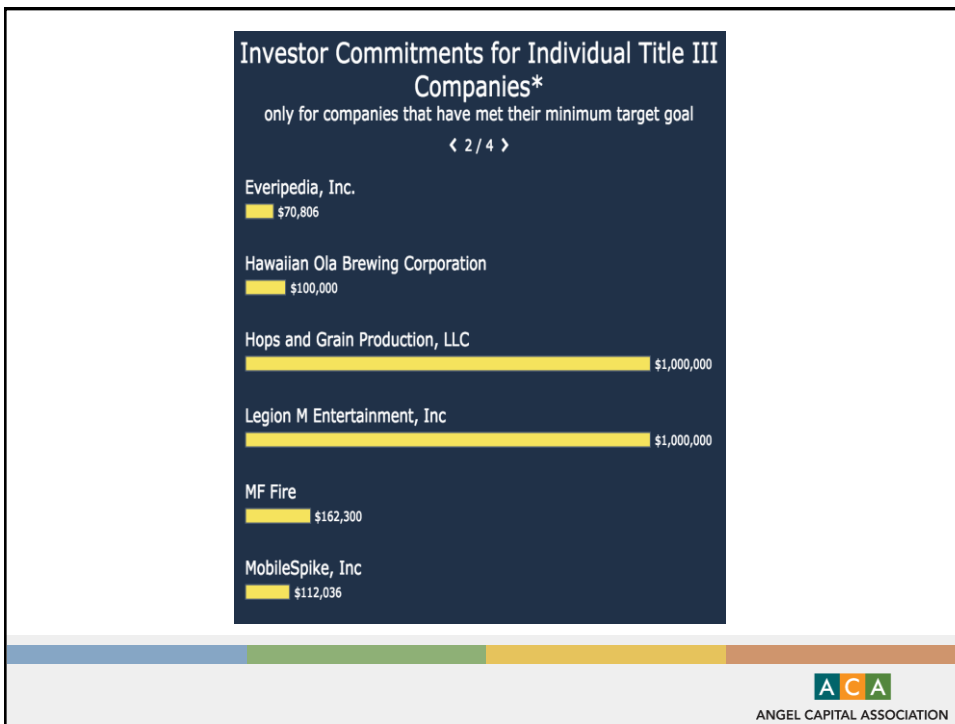
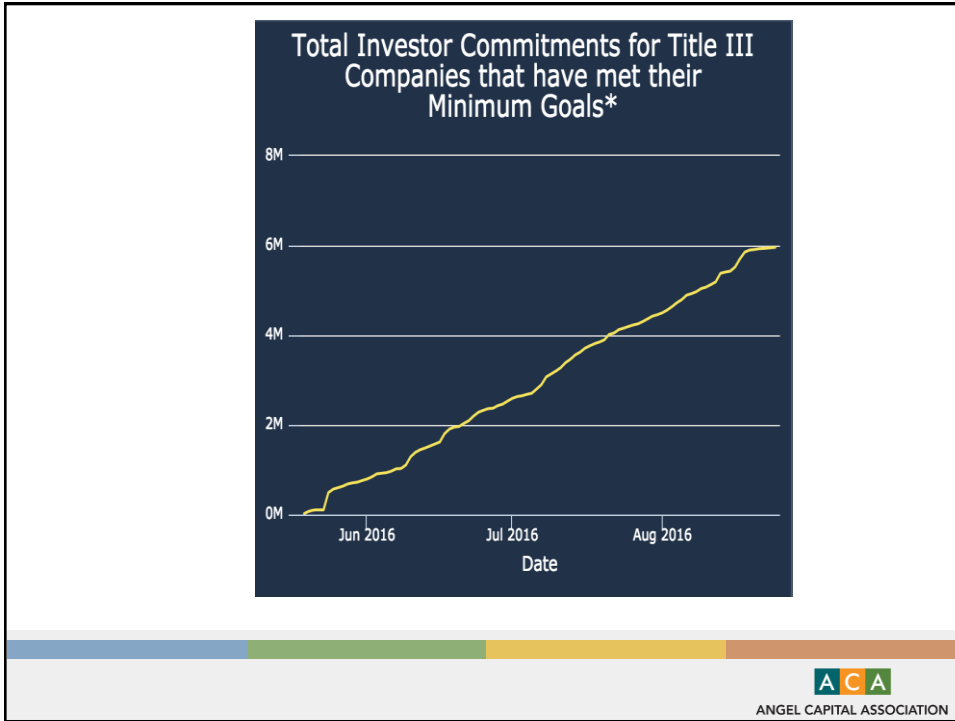
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## NATURE OF TITLE III INVESTING

- Still very new, but some trends emerging
- Only a relatively few companies have registered
- 22 companies have met their minimum threshold
- Varying results
  - Some companies have raised under \$100
  - Others have raised \$1M
- 16 portals approved to date



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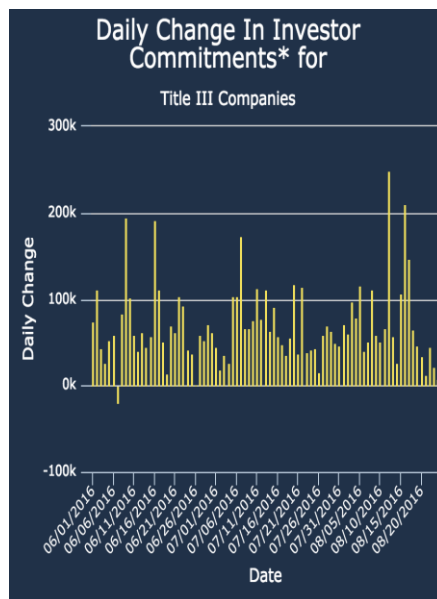


## 16 APPROVED REGULATION CF PLATFORMS

- CFS, LLC
- Crowdfunders
- Crowdfunderfunded
- Flashfunders
- I-Bankers
- Indie Crowd Funder
- Jumpstart Micro
- LocalStake
- NextSeed
- OpenDeal
- Seed Invest
- Start Engine
- TruCrowd
- uFundingPortal
- Venture.co
- WeFunder



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# CURRENT REGULATORY & POLICY DEBATE



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# CURRENT REGULATORY/POLICY DEBATE

## Innovation Initiative



Kevin McCarthy R - CA



Patrick McHenry R- NC

114TH CONGRESS  
2D SESSION **H. R. 4854**

114TH CONGRESS  
2D SESSION **H. R. 4855**



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## CURRENT REGULATORY/POLICY DEBATE

114<sup>TH</sup> CONGRESS  
2<sup>D</sup> SESSION **H. R. 4854**



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## REGULATORY & POLICY DEVELOPMENTS WORLDWIDE



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## RISKS & REWARDS: INVESTORS & ISSUERS



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## RISKS AND REWARDS FOR INVESTORS

### RISKS

- Seed stage to Friends & Family
- Varying levels of financial disclosure
- Due Diligence not complete
- Fuzzy valuation
- Non-negotiable terms – defined by founders
- Significant number offering debt or convertible
- Food or local companies
- Company has ongoing reporting & compliance requirements
- Usually no board seat or control

### REWARDS

- CPG firms using CF heavily
- Some firms may be undervalued
- Nothing stopping you from negotiating seat, control
- Crowd diligence and crowd/customer feedback as part of process
- Social Impact – targeted investing
- Successfully campaigns – so far, garnering publicity/press



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## RISKS AND REWARDS FOR ISSUERS

### RISKS

- Costs of running campaign
- Commissions, fees high
- Disclosure of IP
- Compliance
- Investor Relations – no experience
- Blending rewards and equity models – UCC risk?
- Retail investors aren't flocking – essentially moving friends, family, fans, followers into round
- Perception of adverse selection
- Managing expectations of new investors
- Education of investors through capital raising process

### REWARDS

- Founders set terms
- Can issue debt, equity, convertible, rev share
- If audience built, can be fast path to capital raising
- Press/PR – simultaneous publicity marketing and capital campaign
- Many investors are patient and socially motivated
- Working well for women founders



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## WHAT'S NEXT?



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## SPEAKERS CONTACT INFORMATION



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Newsletter: FinTech in Focus  
<http://bit.ly/CFMFinF>



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## THANK YOU! UPCOMING WEBINARS

September 14, 2016: The Basics  
of Cap Tables

September 28, 2016: How Angels  
and Entrepreneurs can Leverage  
NSF Grants

October 26: Top Ten Things Early  
Stage Companies Need to Know  
about Cybersecurity

Webinar programs archived  
at: [www.angelcapitalassociation.org/events/webinars/](http://www.angelcapitalassociation.org/events/webinars/)



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## ADDITIONAL RESOURCES

# Forbes

Marianne Hudson  
Executive Director  
Angel Capital Association



<http://www.angelcapitalassociation.org/news-forbes/>

# Inc.

Handbook of the American Entrepreneur

Christopher Mirabile  
Managing Director, Launchpad;  
Board Chair, Angel Capital  
Association



<http://www.angelcapitalassociation.org/news-inc/>

ACA

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## UPCOMING ACA EVENTS

- September 8 & 9, 2016, Celebrating Women Angels, Boston MA
- September 22, 2016, Best of the Midwest, Minneapolis MN
- October 4, 2016, New England Regional, Boston, MA
- October 13, 2016, SW Regional Meeting, Phoenix AZ
- November 8 – 9, 2016, Angel Insights Exchange, Nashville TN
- <http://www.angelcapitalassociation.org/events/>



ACA

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