



ANGEL CAPITAL ASSOCIATION

How Angels Should Navigate SEC Rules for Crowdfunding and Reg A+

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NEW FUNDING OPTION FOR STARTUPS

- Entrepreneurs can raise up to **\$1M in equity** (or debt) per year and any American citizen can invest
- Different market and rules than:
 - Rewards crowdfunding 
 - Donation crowdfunding 
 - Online platforms for accredited investors 🕊️AngelList
 - “Reg D” (angel investors, venture capital, private equity...)
 - “Reg A+” (raise up to \$50M from any American citizen)
- Formal name: **Regulation Crowdfunding**

RULES FOR ISSUERS (ENTREPRENEURS)

- Issuers can raise up to \$1M per year
- Funding can be equity or debt
- Raise must be done through an approved portal or broker-dealer
- Currently 19-20 portals are approved

HOW MUCH INVESTORS CAN PUT IN

- Limitations on how much they can invest by net worth or income
- Limitation is on total crowdfunding, not one offering
- Investors below \$100,000: \$2,000 or 5% of < of wealth or income
- Investors above \$100,000: 10% of > of wealth or income, but maximum of \$100,000 per year

Annual Income	Net Worth	Calculation	12-month Limit
\$30,000	\$105,000	greater of \$2,000 or 5% of \$30,000 (\$1,500)	\$2,000
\$150,000	\$80,000	greater of \$2,000 or 5% of \$80,000 (\$4,000)	\$4,000
\$150,000	\$100,000	10% of \$100,000 (\$10,000)	\$10,000
\$200,000	\$900,000	10% of \$200,000 (\$20,000)	\$20,000
\$1.2 million	\$2 million	10% of \$1.2 million (\$120,000), subject to cap	\$100,000

Source: SEC Investor Bulletin, Crowdfunding for Investors, 2/16/16

THE FINE PRINT - MORE DETAILS

- Disclosure filing required 21 days before first securities sale
- Portals required to do background checks on issuers
- Limited advertising of deal – most of campaign behind password protected portal
- Financial review required for \$100K+, audits above \$500K if not first CF raise
- Each investor is listed on the cap table
- Annual reports required

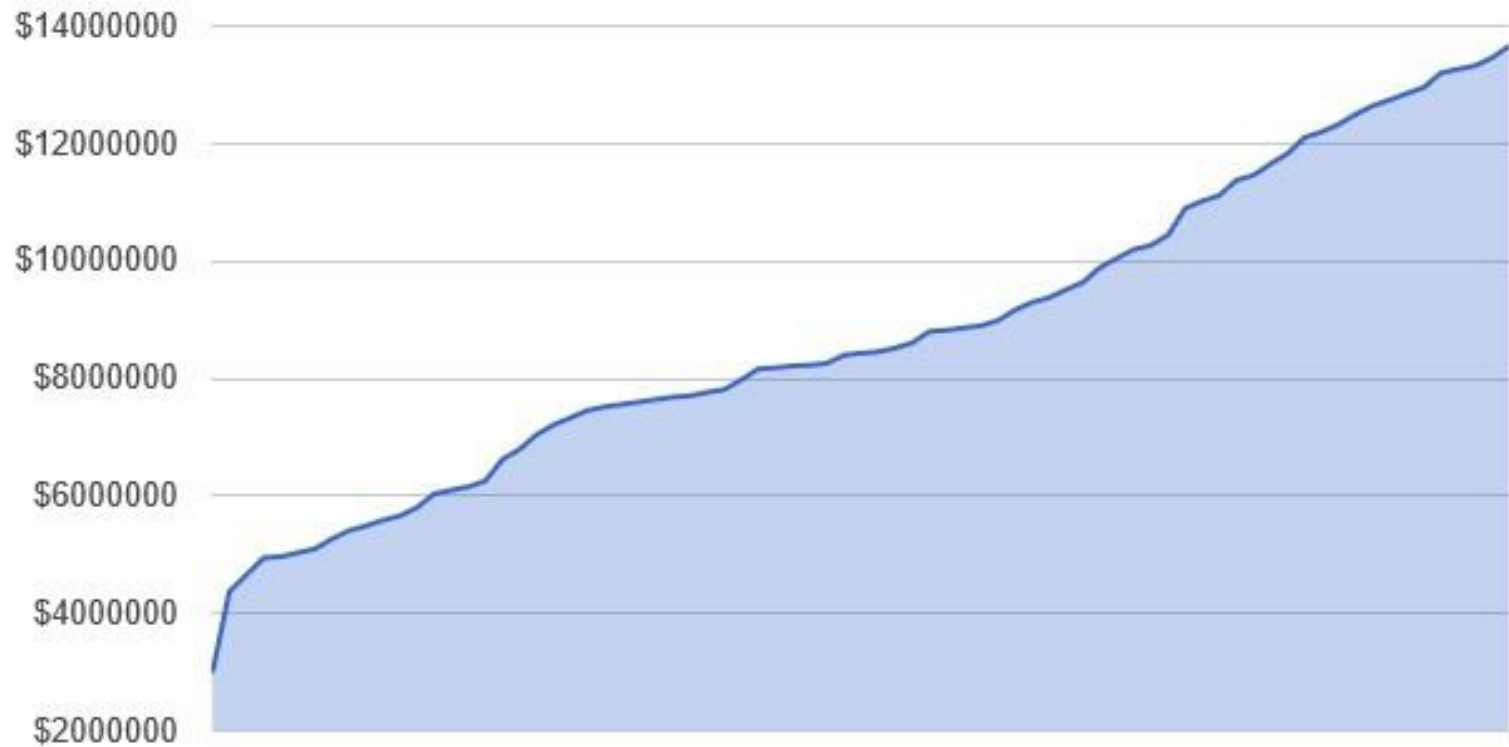
STATE OF REG CF MARKET TO DATE

- Providing data we can find on market activity
- Ill defined data sets and reports out there
- So, this is just a beginning indication



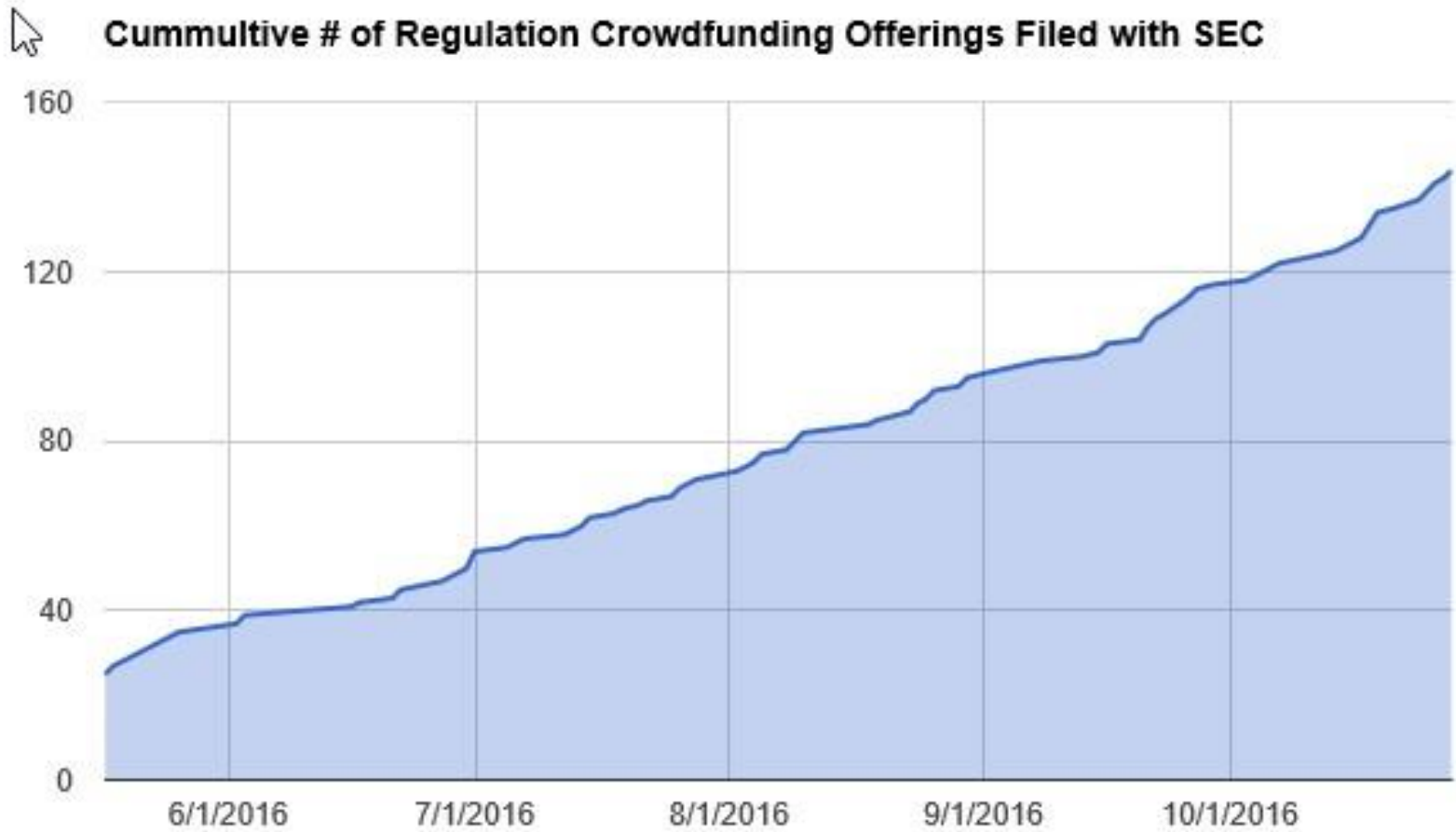
NEARLY \$14M RAISED TO DATE

Capital Commitments From May 16, 2016 Thru Today



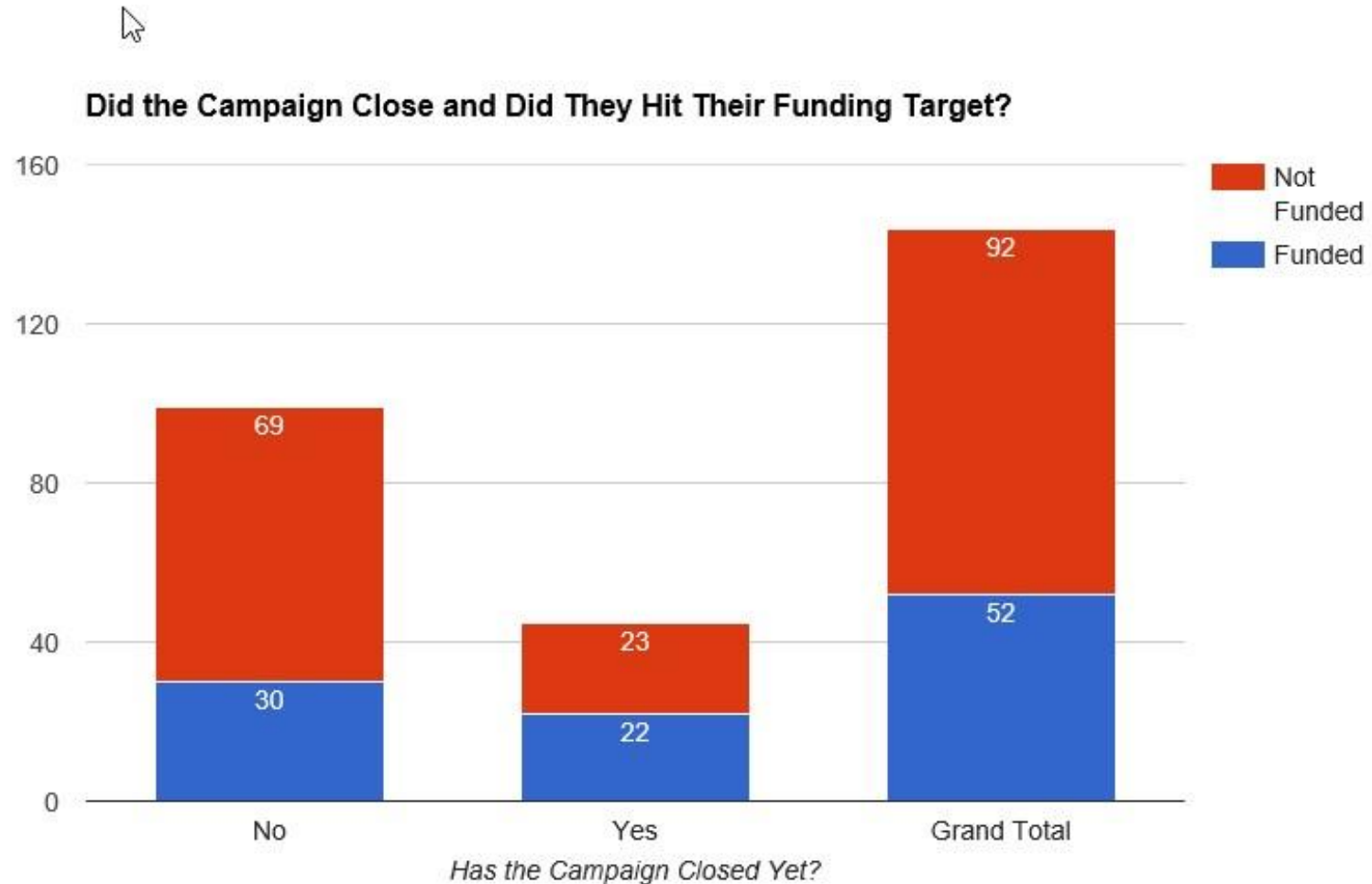
Source: CCA Regulation Crowdfunding Indices, 11/5/16

144 OFFERINGS FILED TO DATE



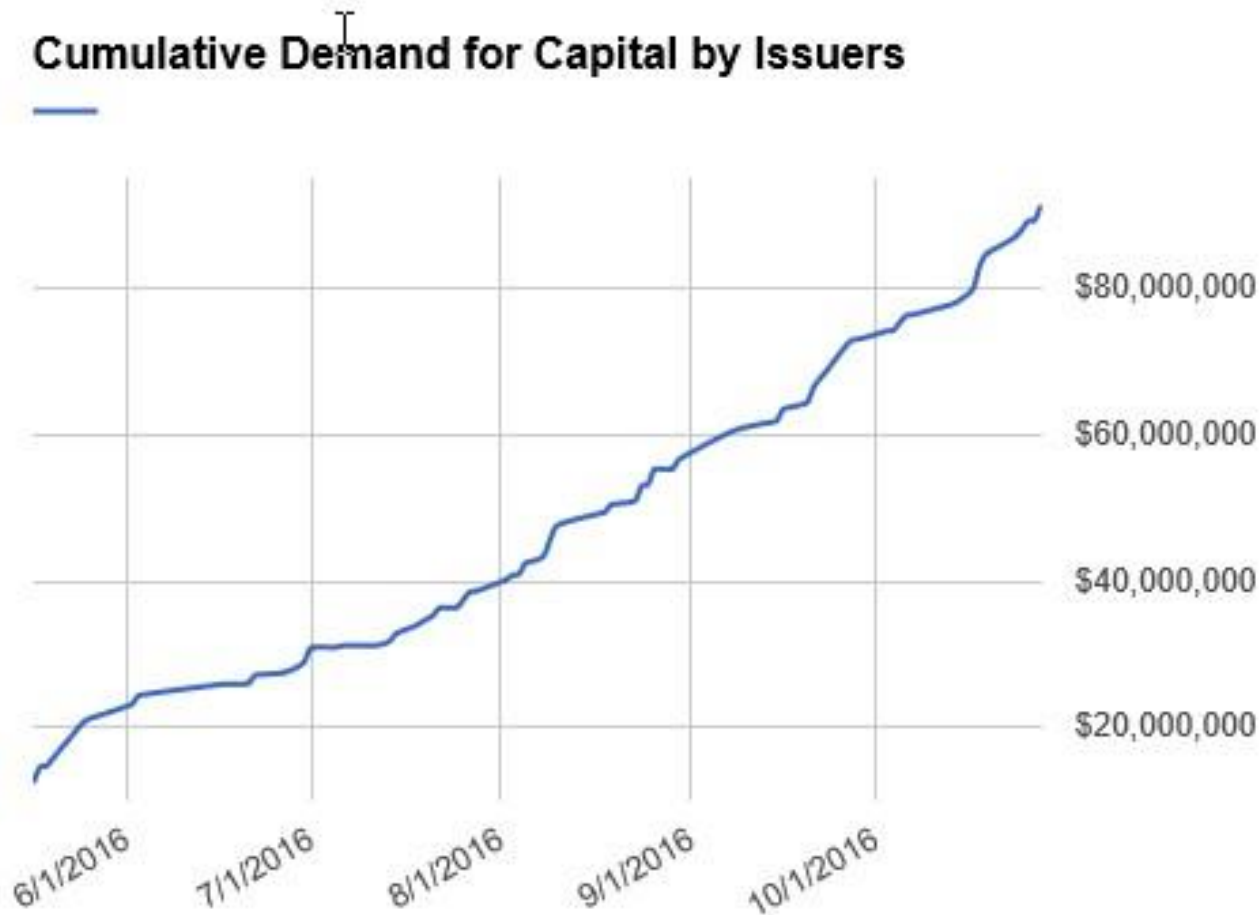
Source: CCA Regulation Crowdfunding Indices, 11/5/16

36% OF OFFERINGS SUCCESSFUL TO DATE



Source: CCA Regulation Crowdfunding Indices, 11/5/16

ABOUT \$100M IN CAPITAL SOUGHT TO DATE



Source: CCA Regulation Crowdfunding Indices, 11/5/16

19 (?) PLATFORMS APPROVED

- Find platforms on FINRA Website:
- <http://www.qa.finra.org/about/funding-portals-we-regulate>

Crowdboarders

CrowdsourcedFunded

DreamFunded

FlashFundrs

Grindshare

GrowthFountain

Indie Crowd Funder

Jumpstart Micro

Minnow C Crowd

Mr. Crowd (by Ksdaq)

NetCapital

NextSeed

Razital

Republic (by OpenDeal)

SeedInvest

Small change

Start Engine

Trucrowd

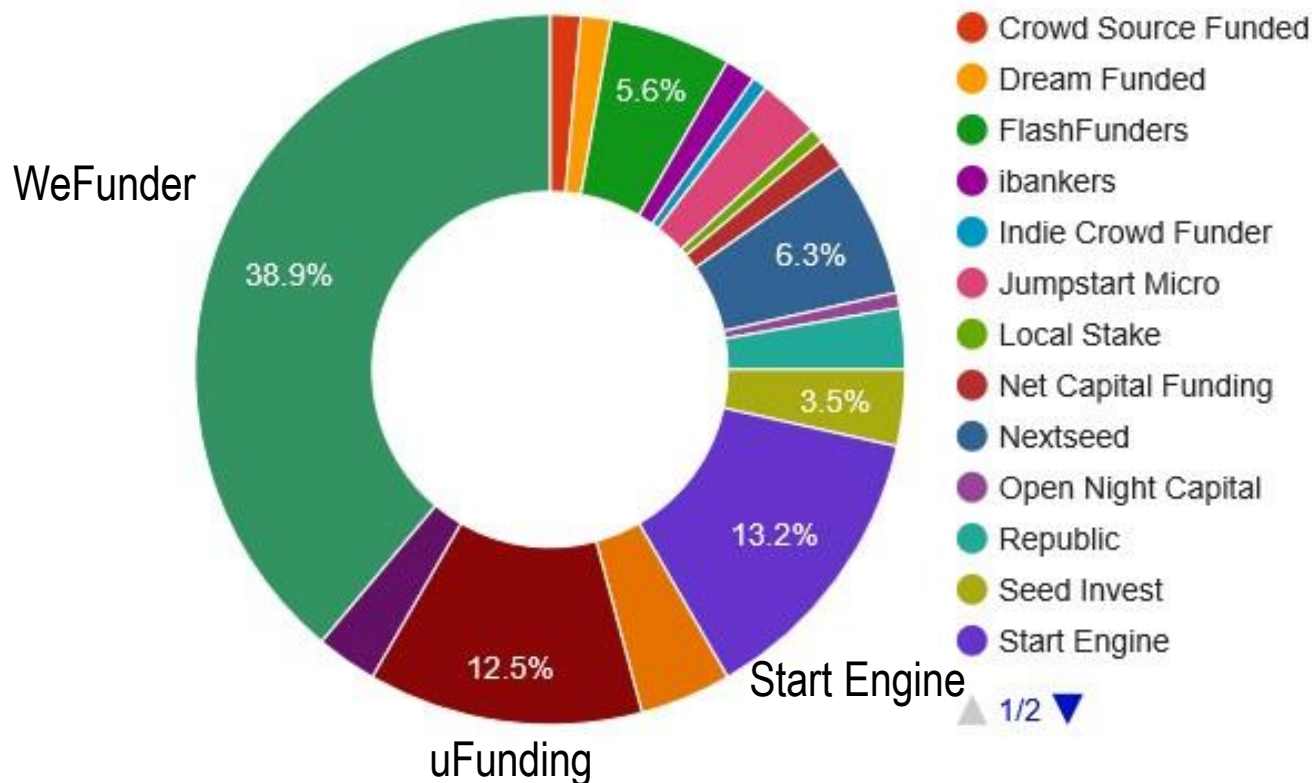
uFunding (still approved?)

WeFunder

Red platforms also have platforms for
accredited investors and belong to ACA

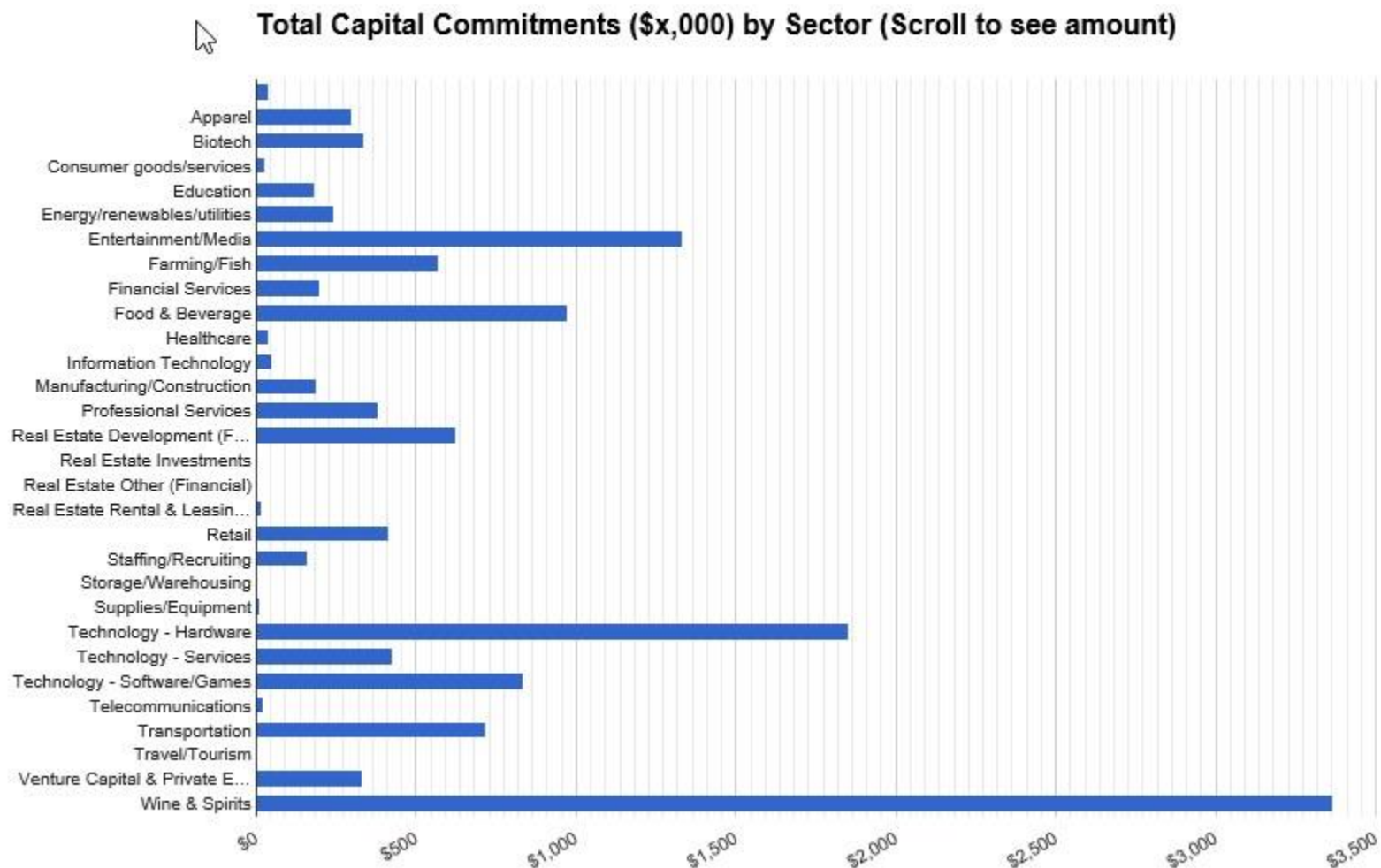


PLATFORMS WITH MOST OFFERINGS



Source: CCA Regulation Crowdfunding Indices, 11/5/16

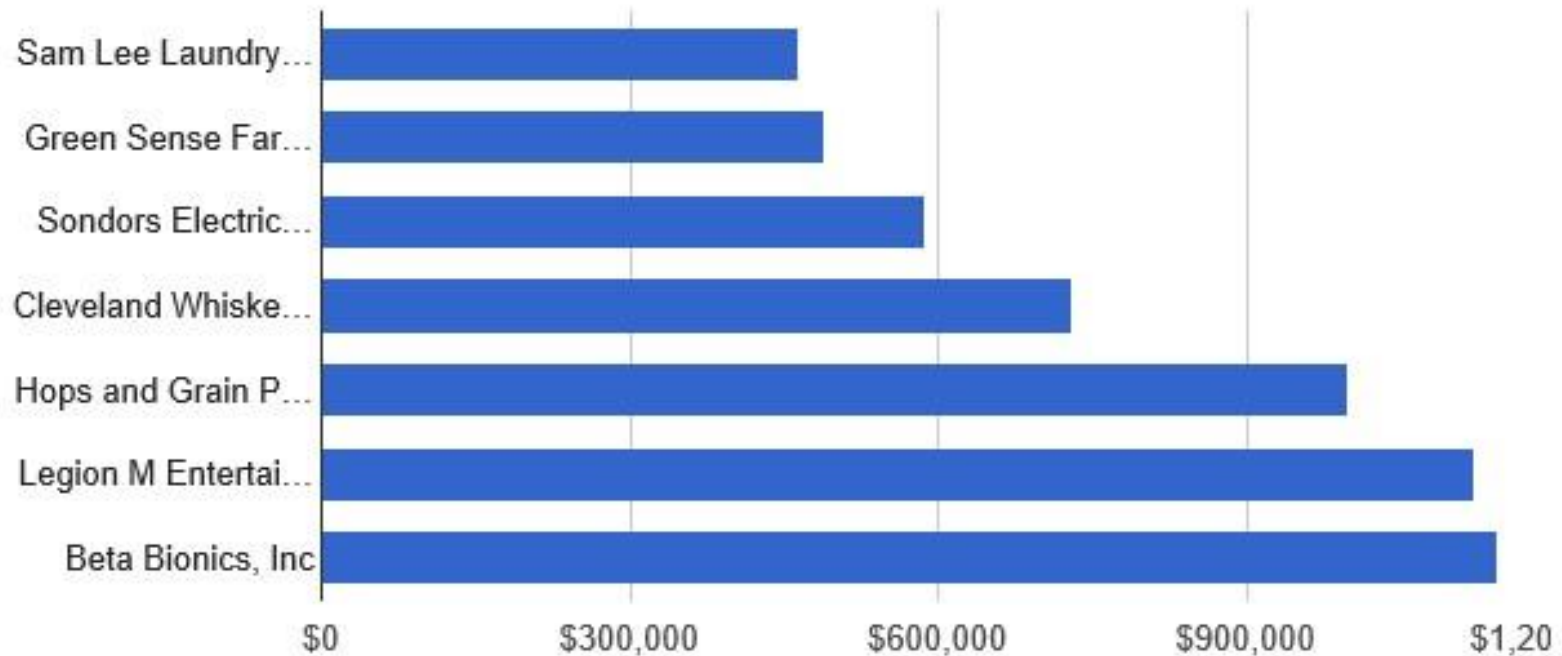
SECTORS RAISING MOST CAPITAL



Source: CCA Regulation Crowdfunding Indices, 11/5/16

MOST SUCCESSFUL RAISES TO DATE

Top 7 Regulation Crowdfunding Campaigns of All Time



Source: CCA Regulation Crowdfunding Indices, 11/5/16

CHALLENGES FOR ISSUERS

- Expensive - SEC estimates:
 - \$35-55K for \$200K raise
 - \$90-190K for a \$500-\$1M raise
- Disclosure is really significant and ongoing
- Not super clear yet on how much advertising is allowed outside of portals
- Many later investors not excited about crazy cap tables

STRINGENT DISCLOSURE REQUIREMENTS

At least 21 days PRIOR to raising money you must publicly disclose:

- Your business plan
- Your use of proceeds
- Your financial condition
- Your number of employees
- Price, target size and target date of round
- Your ownership and capital structure
- All the material risks

And you have to keep all this up to date as things change

CROWDFUNDING MAY BE ANOTHER OPTION FOR STARTUPS

	Raise Amount	Disclosure	Who Invests	Advertise?
Reg CF	\$1M	Medium	Anyone	Yes, limited
Reg D 506b	Unlimited	Low	Accredited	No
Reg D 506c	Unlimited	Low/Med	Accredited	Yes
Reg A+	\$50M	High	Anyone	Yes

New markets and rules can be confusing, so read up on which are best fit for you – and make sure you get good legal counsel

- Way to formalize friends and family money?
- Consumer products and “stuff people understand”?
- Check out customer interest through marketing (profile on platform before raise?)
- Connect with beneficiaries like Beta Bionics?

WEBINAR – CROWDFUNDING DEMYSTIFIED

- Archived via www.angelcapitalassociation.org/webinars
- Library of materials on ACA website and AIE flash drive
- Free to ACA members



Jackson Mueller,
Milken Institute



Richard Swart,
Stanford/ NextGen Crowdfunding

REG A+ ACTIVITY TO DATE

- 74 filings qualified by SEC
- Those are seeking to raise \$1.6B
- 10 are “Testing the Waters”
- What kinds of companies raising money this way?
 - Real estate?
 - Other?
- Many more offerings have been publicly filed – a report in July noted 105 filings
(<http://www.crowdfundinsider.com/2016/07/87745-looking-regulation-one-year-later/>)

Source: Manhattan Street Capital, October, 2016



MORE INFORMATION

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NOTE: ACA is not a source of equity capital and doesn't evaluate biz plans

