

# A Guide to Crowdfunding for Local Businesses

It is often said that small businesses are the “backbone of our economy” and the “cornerstones of our communities,” especially during tough economic times. Despite the recognition of their critical economic function, for years, small businesses have faced tremendous hurdles acquiring the funds necessary to open, operate, or expand.

Crowdfunding is a new, and constantly evolving, phenomenon that is opening up exciting new avenues for small businesses to raise capital by allowing individuals, who were previously unable to invest under federal law, to monetarily support promising companies and projects.

Over the past few years, crowdfunding has entered popular rhetoric as a few high-profile projects and popular sites, like Kickstarter, which allow people to give money for non-monetary rewards, have received considerable attention. However, the most recent iteration of crowdfunding, as envisioned by the Michigan Legislature in HB 4996, is different than small donations for prizes. This new model – *investment-based crowdfunding* – gives small businesses an additional tool to raise much needed capital. Under investment crowdfunding, businesses seeking capital sell ownership stakes to lower net worth investors in the form of equity or debt, further expanding the investing landscape. In this model, individuals who fund become shareholders with the potential for financial return. Engaged appropriately, investment-based crowdfunding can spur economic development by helping small businesses build to the point where they can occupy vacant storefronts, stimulate the local economy, and create new jobs. However, selling shares through crowdfunding is a decision that impacts the financial condition of both companies and investors, and thus, requires significant preparation and due diligence.

In early September, a team of graduate students from the University of Michigan’s Ford School of Public Policy was engaged to study and support implementation of crowdfunding in Michigan. The team conducted research, and analyzed legislative proposals in Michigan and regulatory action at the federal level, while interviewing crowdfunding experts and interested parties along the way.

The main takeaway from these efforts is that all stakeholders – small businesses, investors, local governments, and online facilitators - must be well informed before implementing crowdfunding. Only then will this new

tool to be successful here in Michigan. As a result of these discussions and analyses, the Ford School team has developed the following framework for existing small businesses and startups to consider for implementing a successful crowdfunding campaign.

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## Crowdfunding 101: What All Businesses Should Know Before Fundraising

Crowdfunding is the process of soliciting funds from the general public, including individuals who do not meet accredited investor requirements, to create projects or fund businesses. However, this general definition only grazes the surface of the crowdfunding landscape. This section will give an overview of how the crowdfunding model has evolved, the various ways it is practically implemented, and why it is an exciting development for both individual businesses and the state of Michigan at-large.

### *Before Crowdfunding - Traditional Models and their Limitations in the Current Market*

Under the Securities Act of 1933, most entrepreneurial investment activity revolves around venture capitalists and angel investors. The US Securities and Exchange Commission (SEC) defines these two groups as “accredited” investors, the primary population segment allowed to invest in debt and equity securities, financial instruments that represent an ownership position in a company. Due to the SEC’s limitations, businesses generally only have three venues through which they can raise capital – accredited investors, bank loans or a limited number of non-accredited investors.

Currently, to qualify as an accredited investor, the SEC requires that an individual earn more than \$200,000 per year (\$300,000 for a married couple) or have a net worth over \$1 million, excluding primary residence.<sup>i</sup> Based on 2010 data, the Government Accountability Office esti-

mates that only 7.2% of US households qualify as accredited investors.<sup>ii</sup> With few exceptions, everyone else falls into the non-accredited investor category, and therefore, is unable to participate directly in the securities market.

### *Defining the Securities Market Right Now*

High-risk, high-reward seeking investors generally focus on a few high-technology industries, mainly those in software, biotechnology, medical devices, media and entertainment, wireless communications, Internet and networking.<sup>iii</sup> However, most small businesses are what investors deem “lifestyle businesses” or companies that we are familiar with and visit when we want a bite to eat or someone to fix our cars. Lifestyle businesses do not typically offer the investment returns venture capitalists and angel investors desire, especially within the five to seven year timeline they typically demand.<sup>iv</sup>

And while venture capitalists’ hesitation to invest does not close the door on financing options for small businesses entirely, the restrictions of the traditional bank loan market basically does. Ami Kassar writes a blog for the New York Times called “Searching for Capital” in which he routinely profiles the small business lending market. In his post, “The State of Small-Business Lending,” Kassar, a loan broker by trade, forecasts doom for the small business community by writing “if you’re trying to start a business today, you can almost forget about going to a bank for financing”.<sup>v</sup> As of June 2013, the number of non-farm and non-residential loans of \$1 million dollars (a common loan amount for small businesses) had declined 27% since June 2008.<sup>vi</sup> And while it

**Non-Accredited Investor:** an individual that earns less than \$200,000 per year (\$300,000 for a married couple) or has a net worth under \$1 million, excluding primary residence.

**Crowdfunding:** a funding method where companies raise small amounts of money from a large number of people.

**Equity Crowdfunding:** allows companies to raise capital from a large number of people in exchange for equity. This is not limited only to individual businesses but could potentially be used to crowdfund *real estate investments*, where investors take an ownership interest in a piece of property.

**Crowdfunding for Loans:** allows companies and individuals to raise money that will be repaid to lenders after a specified time, typically with an interest rate attached (e.g. Microfinancing, Funding Circle).

**Donation-based Crowdfunding:** allows individuals to finance companies through individual donations, often with rewards based on the amount pledged (e.g. Kickstarter).

**Lifestyle Business:** companies set up and run by their founders primarily with the aim of sustaining a particular level of income.

**Venture Capitalist:** an investor who either provides capital to startup ventures or supports small companies that wish to expand but do not have access to public funding. Venture capitalists are willing to invest in such companies because they can earn a large return on their investments if these companies are successful. They can also experience major losses when their picks fail, but are typically wealthy enough that they can afford to take the risks.



looks like the percentage of small businesses who believe obtaining credit is difficult is down from earlier this year (25%), it still has a way to go before reaching pre-recession lows of 9%.<sup>vii</sup>

## Forms of the Crowdfunding Model

Recognizing the limitations of the traditional system, businesses have been exploring opportunities to secure funding outside of traditional financial institutions for years. The term crowdfunding is not universal and there are multiple options available for businesses looking to raise funds. This means entrepreneurs have a choice of what model best suits their current business needs and long-term vision going forward.

**Donation-based crowdfunding**, probably the most well-known form of the model, has gained significant prominence in recent years. The model allows individuals to make a contribution to a project or cause with no expected monetary or non-monetary return. However, project creators can offer non-monetary rewards in exchange for monetary contributions. Reward offerings can range from thank you notes to the final product that the project is aiming to produce, and are typically structured around the level of contribution. In 2009, U.S.-based Kickstarter launched as a donation crowdfunding portal. Since then, Kickstarter and its patrons have provided more than \$820 million in donations to help start and advance small businesses.<sup>viii</sup> While this model is exciting, it also has its drawbacks. On average, online donation campaigns only raise \$4,776 per campaign and collect \$25 per contribution, numbers too small to sufficiently finance most startup or existing businesses.<sup>ix</sup>

## KICKSTARTER

**Debt crowdfunding, also known as peer-to-peer lending**, allows people to lend money to an individual or company with the understanding that the loan will be repaid with interest. Recent permutations of this model date back nearly a decade. For example, in 2004, Kiva began offering peer-to-peer microlending services online to entrepreneurs all over the world, providing reasonably priced loans to businesses that traditionally would be unable to secure adequate financing. As this type of micro-financing, or crowdfunding for loans, began to expand as a safe and effective financing tool, businesses started to modify the highly successful model to suit their individu-



al needs. However, this model usually targets a very specific type of business.

Candace Klein, the CEO of SoMoLend, a popular debt-based funding platform, points out: "We are usually targeting consumer-facing brick-and-mortar companies--restaurants, retailers, salons, gyms--that already have customers, already have cash flow, and can service debt. Typically we look for a business that is at least a year old and has at least a year's worth of receipts."<sup>x</sup> As such, debt crowdfunding may not be viable for some small businesses in the startup phase.



## The Next Frontier: Equity-Based Crowdfunding and its Market Applications

The newest approach to crowdfunding, and the focus of the remainder of this guide, is **equity-based crowdfunding**. Equity crowdfunding allows businesses seeking capital to sell micro ownership stakes, allowing individuals to become shareholders, potentially earning a financial return. This model is not limited to businesses but could potentially be used to crowdfund real estate investments, where investors take an ownership interest in property.

As background, the U.S. Congress passed the Jumpstart our Business Startups (JOBS) Act in April 2012.<sup>xi</sup> The Act allows non-accredited investors (about 92.8% of households) the opportunity to invest their money in securities and receive the same protections as wealthy investors. Title III specifically allows individuals to invest up to the greater of \$2,000 or 5% of their annual income or net worth if either is less than \$100,000.<sup>xii</sup>

However, the SEC has not finalized the regulations necessary to implement the JOBS Act. Though it is expected that the SEC will release proposed final rules (which allow non-accredited investors to participate) within a year, we are not certain what the specific regulations will be.

On the other hand, some forward-looking states like





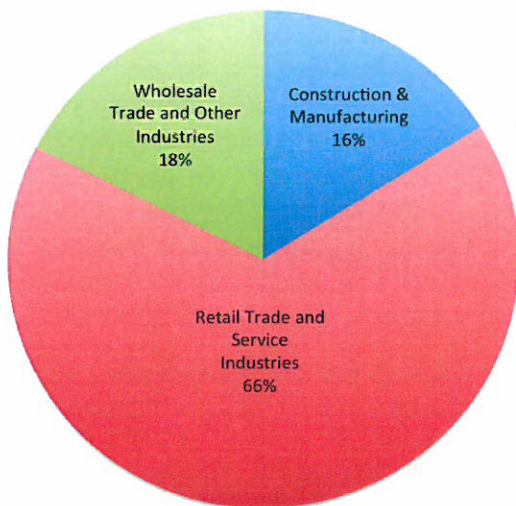
- ★ - States that have implemented intrastate crowdfunding rules
- ★ - States with pending intrastate crowdfunding legislation

Michigan are using an existing SEC intrastate exemption to open up alternative financing options for local businesses and investors within their state. Kansas, Georgia, and Wisconsin, have passed laws allowing open state-based securities offerings for businesses and investors within the state border. Washington and North Carolina currently have legislation pending in their state legislatures. Without these exemptions, you are only limited to raising money exclusively from family members and friends, with a cap of 35 investors.

**Crowdfunding: How Michigan Can Benefit**

Equity crowdfunding is a means to build up small businesses, which are essential to Michigan’s economic

Small Businesses in Michigan by Industry (2008)

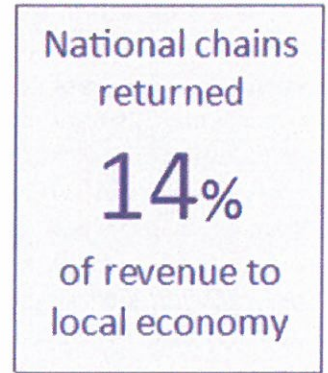


U.S. Dept. of Commerce, Bureau of the Census, Stats. of U.S. Businesses

health and well-being. Small businesses represent 98.3% of all employers and employ 52.3% of the private sector workforce in Michigan.

Of the small businesses opened in 2009, over 50% were in retail trade, health care and social assistance, construction, and accommodation and food services.<sup>xiii</sup> These industries more commonly contain “lifestyle businesses” – companies set up and run by their founders primarily with the aim of sustaining a particular level of income. These types of businesses may be well suited for the crowdfunding model.

**Advantages to Investing Locally**



Civic Economics, “Indie Impact Series: Salt Lake City, UT” 2012

Just as importantly, crowdfunding is also placemaking. Allowing Michiganders to invest in their own towns strengthens ties between local residents and has the ability to create stronger and more inclusive municipalities. Furthermore, investing locally bolsters the local and state economies.

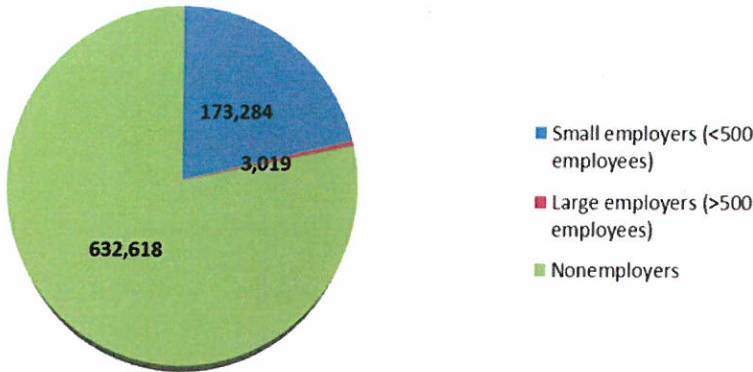
Studies have shown that money spent at independent businesses stay within the community at a higher rate than national chains; other studies have shown that shopping at local retailers can have a multiplier effect, re-circulating every dollar spent 8-10 times around the local community.

Local retailers are more likely to hire and source from their surrounding community, stimulating the local economy and creating more jobs.

In fact, a study comparing independent businesses and chains found that local retailers returned 52% of their revenue to the local economy, spending more on local labor, goods for resale and services. In comparison, national chains only returned 14% of their revenue.<sup>xiv</sup>



**Number of Michigan Businesses in 2009**



Source: US Dept. of Commerce, Census Bureau, Bureau of Economic Analysis

**Crowdfunding: How Companies Can Benefit**

Crowdfunding is emerging from the small business community's need for a new avenue to raise capital from non-traditional sources. The current popular models, including sites like Kickstarter, are great ways to fundraise small amounts of capital for temporary needs.

However, they are not sustainable options for long-term business growth. Contrast this with crowdfunding for equity or debt purposes. Because it is now an investment, the average contribution will significantly increase with expectation of a return.

Crowdfunding gives local businesses an opportunity to operate and grow with the help of their communities, which now includes non-accredited investors. However, like all financial investments, business owners need to be well informed and understand the potential risks and rewards of crowdfunding before proceeding.

The next section will cover some of the main implications drawn from extensive research and will pose important questions that all companies and business owners should consider before launching a crowdfunding campaign. Each business is unique and must determine how these considerations and questions relate to their short- and long-term vision and business plan.

The goal of this report is not to advise any particular owner about the viability of this new tool for their business or startup.

Instead, the aim is to educate the small business community about crowdfunding, spur an open dialogue between the community and local government entities, and ensure that businesses can implement this tool successfully for the betterment of their enterprise and the local community.

**What All Businesses and Startups Must Consider before Crowdfunding**

Once you familiarize yourself with the basics of crowdfunding, it is important to determine whether the method is appropriate for your business. This section provides issues for your company to consider when deciding whether the model, and in particular the sale of equity, is right for you now and well into the future.

**Determining A Vision for Your Business**

The first thing you, as a business owner must consider is your long-term objectives in starting or building your business. Having equity investors means you are taking on individuals who now own a part of your company. With crowdfunding in particular, you will largely attract non-accredited investors who can contribute up to a maximum of \$10,000 per issuer in Michigan. With this small cap per investor, you will likely need to take on multiple investors. This number must inevitably increase with the amount of capital you want to raise.

With this type of agreement, you will have to inform and consult these investors if you want to scale or sell. For companies hoping to build, grow, and remain heavily involved within Michigan or their local community, this will likely not be a major problem. However, there may be complications if your ultimate goal is to scale exponentially or attract the attention of large angel investors or venture capitalists, who may be reluctant to work with many small-stake owners.

**Michigan Small Businesses**





### *Considerations for Local Governments*

Local governments help foster a local entrepreneurial culture within their communities. Equity crowdfunding within Michigan is another tool for local economic development coordinators and downtown development authorities (DDAs) to utilize in supporting their existing small businesses and residents. These local government organizations should consider the following to promote equity crowdfunding and strengthen their communities:

- Educate local DDA and economic development departments on the mechanics, requirements, and potential benefits of equity crowdfunding.
- Recognize that equity crowdfunding is not right for every business entity. Successful implementation requires a vetting process where local officials are prepared to discuss strategies and risks with potential investees.
- Develop and then communicate the short- and long-term vision of your community.
  - o A well-developed plan with buy-in from entrepreneurs and residents will help create support and excitement for local investment.
- Dedicate a portion of your economic development or other general funds to education and outreach.
  - o There is a steep learning curve at the outset for all parties, but the potential economic benefit for the community and the business may be worthwhile for some businesses.
- Establish a government website or webpage for crowdfunding education – a one-stop shop for existing businesses, startups, and potential investors. Consider including the following:
  - o Basic information: What is equity crowdfunding? What are the risks/benefits?
  - o Online training modules
  - o Links to online platforms
  - o Local official to serve as the point person
- Create enthusiasm and excitement in the local community. Possible ideas include:
  - o Hosting periodic community conversations regarding crowdfunding where local entrepreneurs, local officials, and residents learn from each other.
  - o Promote successful crowdfunding projects and host events for start-ups to build local support.

### *Setting Clear Expectations with Investors*

As a company, you also should understand the practical implications of taking on many equity shareholders. These investors will have a stake in your company. This creates a relationship between you and them. As such, you must familiarize yourself with your reporting and financial obligations to them going forward.

To that end, it may be helpful to include in your terms and conditions, clear practices you intend to follow when consulting with investors in making significant decisions about the direction of the business. Setting clear expectations upfront and in writing will help with future communications with investors.

### *Considering Your Obligations to Investors*

You will also want to consider the financial expectations of your investors. By and large, “lifestyle” businesses are not known for rapid strategic growth, and thus your investors may not realize large financial dividends. If this arrangement is understood at the onset, it will help you

avoid investor frustrations that could complicate your future business decisions and harm your local reputation.

### **Preparing to Crowdfund Your Ventures**

This section will provide a guide for how you need to prepare to launch a successful campaign once you have decided to crowdfund. This includes both general considerations and requirements specific to Michigan under the current legislation, as well as how these requirements might look in practice.

Additional resources and educational tools may be housed in local government agencies, who also must make implementation decisions to support local businesses and investors (see box above).

As with any type of investment, fraud concerns must be addressed. In the proposed Michigan legislation, businesses must complete a series of steps detailed below to protect both investors and themselves. The flowchart in Appendix A identifies the trajectory of these requirements and illustrates their interconnectedness.



## Platform and Marketing Considerations

Before you launch your campaign you need to decide on a platform for raising funds. There are two options: (1) an online portal or website; or (2) face-to-face interactions. If you decide a website is more appropriate for your campaign, you must then decide whether to use an existing third-party portal or to launch through your own website. If you decide to work with an existing portal you will want to make an informed decision based on what services that particular platform offers.

### LOCALSTAKE BRINGS LOCAL INVESTING TO MICHIGAN

By Amanda Lewan on November 5, 2013 / 0 Comments



*Localstake, which is bringing its Indianapolis based portal to Michigan, is the first of what we believe will be many online platforms that will launch in the state.*

[www.michipreneur.com](http://www.michipreneur.com)

Platforms, like businesses, can come in a variety of shapes and sizes. What you are looking for in terms of a portal will ultimately depend on the services your company decides it needs. Platforms generally fall into two buckets - those that exist simply as hosting sites and those that not only serve as online facilitators but offer a package of consulting services as well. These consulting services can range from drafting disclosure documents, to providing legal advice to filing your tax forms.

In the end, it will be up to you to decide which one best fits your needs. But because the platform you choose will eventually serve as the facilitator between you and your investors, make sure you pick a portal that fits your needs.

If you want to run a campaign through your own website you will need to familiarize yourself with solicitation restrictions and additional requirements that websites must fulfill and determine whether you have the capacity to meet those obligations. Operating a user-friendly

website and tracking investments will likely be a labor-intensive job. Small businesses in particular must decide whether you can divert considerable staff resources to this type of endeavor.

Face-to-face options are often the most practical when you plan on fundraising capital through friends and family. If you know the people you are asking to invest in your company intimately well, then maybe an in-depth conversation would be the best strategy. Just make sure your method of raising capital is best suited to your needs.

In addition to deciding on a medium, you will want to have a clear plan for marketing your business to potential investors. Develop marketing materials, such as pitch videos and flyers that clearly communicate the mission of your company and your solid business plan.

For example, a bumper sticker company may want to prepare materials including a history of their business, financials showing there is a market for their products, their plans for expansion and their protections against others using their designs. The more information investors have about both the vision of the business and the plan moving forward, the more comfort they can have in their decision to invest.

Beyond a marketing strategy, you will also want to determine, based on the obligations to investors, the maximum number of individuals you would like to take on as shareholders. Based on this, and keeping in mind the expected crowdfunding investing range of \$1,000 to \$10,000, you will want to set an appropriate target.

**re** Reconsider @ReconsiderNow 19 Nov  
Reconsider brings local investing platform, Localstake, to Michigan.  
[#crowdfunding](#) [goo.gl/3gRVZw](#)  
Expand

**re** Reconsider @ReconsiderNow 15 Nov  
Reconsider and Revalue: Fostering Community Impact Through "Locavesting" | Xconomy [xconomy.com/detroit/2013/1...](#) via @xconomy  
[View summary](#)

*Reconsider, a local Ypsilanti business that provides investor services for companies, has partnered with Localstake, an online crowdfunding portal that just opened in Michigan.*



*Specific Michigan Requirements for Companies from House Bill 4996: Pre-Offering Checklists*

Before you crowdfund, you will want to familiarize yourself with all documentation requirements and determine whether you have the resources and staff with necessary expertise to meet them without compromising your business. Furthermore, under HB 4996, you must file the following three documents, as well as pay a \$100 non-refundable filing fee, at Michigan's Department of Licensing and Regulatory Affairs (LARA) at least ten days before opening the offering. Each document has multiple requirements and each may involve a considerable amount of preparation time.

*Requirements Pre-Offering Checklist*

Before you crowdfund, you will want to familiarize yourself with all documentation requirements and determine whether you have the resources and staff with necessary expertise to meet them without compromising your business. Furthermore, under HB 4996, you must file the following three documents, as well as pay a \$100 non-refundable filing fee, at Michigan's Department of Licensing and Regulatory Affairs (LARA) at least ten days before opening the offering. Each document has multiple requirements and each may involve a considerable amount of preparation time.

1. Notice of Claim of Exemption
2. Disclosure Statement
  - o Description of the issuer, including type and entity
    - \* Address and telephone number of principal office
    - \* Formation history
    - \* Business plan
    - \* Intended use of offering proceeds, including any amounts to be paid as compensation to any Owner, Director, Executive Director, Managing Member or any similar position
  - o Identity of each person that owns more than 10% ownership interest of any class of securities of the issuer
  - o Identity of Executive Officers, Directors, Managing Members of the issuer, and any others who hold similar status, including their titles and prior experience
  - o Terms and conditions of the offering and any outstanding securities of the issuer
    - \* Minimum target offering
    - \* Maximum target offering
    - \* Either the percentage ownership represented or valuation of the issuer implied by the offering price
  - o Identity of any person retained who assists with the offering, including website owners. Excludes those acting solely as an Accountant or Attorney and employees whose primary job responsibilities involve business operations and not assisting in raising capital.
    - \* Description of the consideration being paid to each person for their assistance
  - o Description of any litigation or legal proceedings involving the issuer or its management
  - o Name, address, and URL of any website you intend to use for the offering
3. Escrow Agreement
  - o Bank or other depository institution located in Michigan
  - o Includes minimum target offering, which only when and if met, that the bank will release funds to the issuer



## Steps To Follow Once You Launch Your Crowdfunding Campaign

### *Specific Michigan Requirements for Offering from House Bill 4996: Time of Offering Checklists*

Once you have prepared your campaign you will have to meet a series of requirements both at the time of the securities sale and throughout the offering. Make sure your business plan includes resources and staff with necessary expertise to meet these documentation and reporting requirements, both in the short and long term.

#### *Requirements at Time of Offering Checklist*

The following describes the steps companies must complete at the time of the securities offering.

1. Inform potential investors of offering's risks
  - o Securities are not registered under federal or state securities laws
  - o Securities are subject to limitation of transfer and resale
  - o Significant factors making this offering risky or speculative
2. Provide copies of Notice of Claim of Exemption and Disclosure Statement to potential investors
  - o Displays legend conspicuously on cover page of Disclosure Statement
3. Obtain investors' signature and initials next to each paragraph of the certification
4. Provide evidence to website operator and Administrator that you are organized pursuant to Michigan laws and are authorized to do business in the state
5. Obtain residency information from investors if using online web portal
  - o Valid operator's license, chauffeur's license, or official personal ID card issued by Michigan
  - o Current Michigan voter registration card
  - o Signed affidavit (described in Sec. 7cc(2) of the General Property Tax Act, indicating that the investor owns and occupies property in Michigan as his or her principal residence
  - o Any other record or documents issued by Michigan establishing that the investor's principal residence is Michigan

### *Specific Michigan Requirements After Offering Closes from House Bill 4996: Offering Checklist*

Selling equity in your company is a sustained financial relationship and the requirements do not end once the security is sold. This section includes obligations you must continue to meet throughout the offering, and thus, having the resources and staff to meet these requirements must be included in a long-term business plan.

#### *Requirements after Initial Offering Period Checklist*

Selling equity in your company is a sustained financial relationship and the requirements don't end once the security is sold. This section includes obligations you must continue to meet throughout the offering, and thus, having the resources and staff to meet these requirements must be included in a long-term business plan. Listed below are the legal requirements as specified in HB 4996.

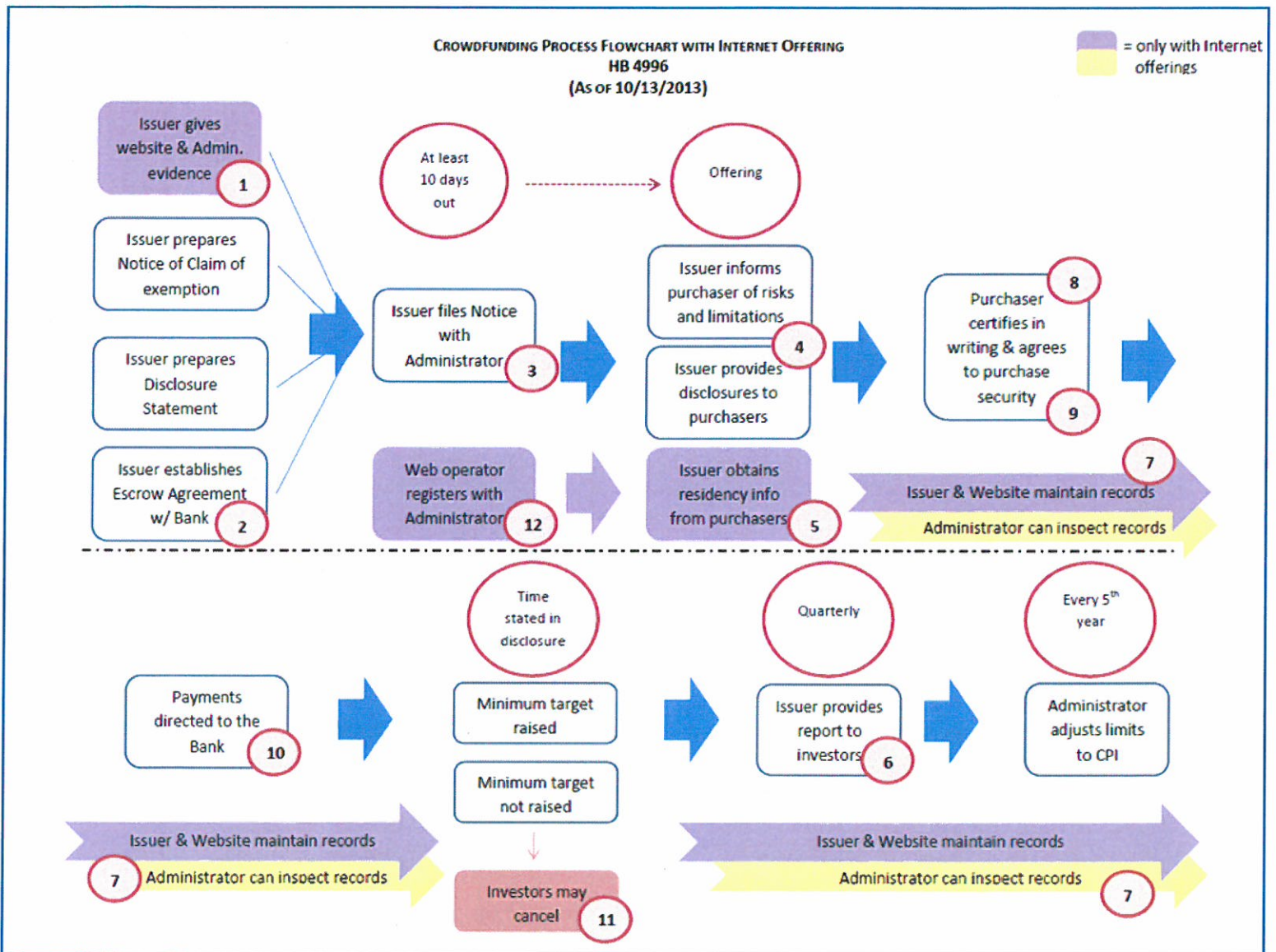
1. Maintain investor records if using online web portal
2. Prepare Quarterly Report
  - o Compensation received by each Director and Executive Officer, including cash received since the previous report and on an annual basis, stock options, rights to receive securities, and any other compensation
  - o Analysis by management of business operations and financial condition
3. File Quarterly Report with Michigan's Department of Licensing and Regulatory Affairs and provide a copy to each investor within 45 days of end of fiscal quarter
4. If you did not previously use an online web portal but subsequently decided to use one, file supplemental notice of website used for offering



# 10 Michigan Crowdfunding Implementation Guide for Businesses (Dec 2013)

## Appendix A

### House Bill 4996 Crowdfunding Process Flowchart (Face-to-Face and Internet Offerings)





**HB 4996 Crowdfunding Process Flowchart Legend**

**Protections and Responsibilities by Party**

**Issuer:**

1. Issuer gives the website operator and the Administrator evidence that the issuer is organized under the laws of the state and that it is authorized to do business in this state.
2. Issuer must establish an escrow agreement with a bank or other depository institution located in the state.
3. Issuer must file Notice of Claim and Disclosure Statement, including a business plan, with the Administrator.
4. Issuer must inform potential investors of limitations and must provide a copy of the Disclosure Statement previously provided to the Administrator. The issuer must notify inform each prospective purchaser that the securities are not registered under federal or state securities laws and are subject to limitations on transfer or resale and must include legend on cover of disclosure statement.
5. With an Internet offering, the issuer must obtain residency information from investors.
6. Issuer must provide Quarterly Reports to all investors and the Administrator.
7. Issuer and the website operator, if securities are offered via the Internet, must maintain all records for inspection by the Administrator.

**Investors/Purchasers:**

8. Investors must certify in writing that they understand the investment has a high risk and that they can afford the potential loss, etc.
9. Investor's agreement to purchase an exempt security is considered a representation that he or she is a resident of the state at the time of the agreement, and if subsequently shown to be false, the agreement is void. The issuer may recover damages from the misrepresenting purchaser.
10. Investors must deposit payment with the bank, per the escrow agreement.
11. Investors may cancel their investment if the issuer does not raise the minimum target offering amount by the time specified in the disclosure statement.

**Website Operator:**

12. The website operator must register with the Administrator. Valid for 12 months and then must request a renewal.



## Endnotes

- <sup>i</sup> 17 CFR § 230.215
- <sup>ii</sup> Government Accountability Office, (2013). *Alternative criteria for qualifying as an accredited investor should be considered*. Retrieved from website: <http://www.gao.gov/assets/660/655963.pdf>
- <sup>iii</sup> *National venture capitalists association, faqs*. (2013). Retrieved from [http://www.nvca.org/index.php?option=com\\_content&view=article&id=119&Itemid=621](http://www.nvca.org/index.php?option=com_content&view=article&id=119&Itemid=621)
- <sup>iv</sup> Anderson Center for Entrepreneurship & Innovation, “Growth vs. Lifestyle Businesses”. <http://www.andersoncei.utk.edu/competitions/undergraduate-business-plan-competition/growth-vs-lifestyle-businesses/>
- <sup>v</sup> Kassir, A. (2013, January 8). The state of small-business lending. *The New York Times*. Retrieved from [http://boss.blogs.nytimes.com/2013/01/08/the-state-of-small-business-lending/?\\_r=1](http://boss.blogs.nytimes.com/2013/01/08/the-state-of-small-business-lending/?_r=1)
- <sup>vi</sup> Shane, Scott. Bloomberg Businessweek, “Collateral Damage for Small Business Credit”
- <sup>vii</sup> Gallup, “Wells Fargo Small Business Survey Topline”.
- <sup>viii</sup> *Kickstarter-stats*. (2013). Retrieved from <http://www.kickstarter.com/help/stats?ref=footer>
- <sup>ix</sup> Reconsider Tech Sheet, pg 1.
- <sup>x</sup> <http://www.crowdfundinsider.com/the-ultimate-crowdfunding-guide/>
- <sup>xi</sup> Jumpstart Our Business Startups Act (JOBS Act), H.R. 3606 (Apr. 5, 2012)
- <sup>xii</sup> Jumpstart Our Business Startups Act (JOBS Act), H.R. 3606 (Apr. 5, 2012). Title III, Sec. 302 (a)(B)(i)
- <sup>xiii</sup> U.S. Small Business Administration, Office of Advocacy. (2012). *Small business profile: Michigan*
- <sup>xiv</sup> Civic Economics, “Indie Impact Series: Salt Lake City, UT” 2012

## Stakeholder Interviews

**Angela Barbash**, CEO/Founder, Reconsider; CEO/Investment Advisor, Revalue  
**Jeff Bekiares**, COO, SparkMarket  
**Deborah Burand**, Clinical Assistant Professor of Law, International Transactions Clinic, University of Michigan School of Law  
**Amy Cortese**, Journalist, Editor, Author of *Locavesting*  
**Robert Guenzel**, Retired Washtenaw County Administrator and Lecturer at the Gerald R. Ford School of Public Policy  
**Donald Hart**, Financial Director, Practice Space  
**Kevin Hitchen**, Co-Founder, Localstake  
**Representative Nancy Jenkins** (Clayton), Michigan House of Representatives  
**David Klingenberg**, CFO, The Brinery  
**Adam Lee**, CEO, Bohemian Guitars  
**Susan Pollay**, Executive Director, Ann Arbor Downtown Development Authority  
**Craig Ruff**, Special Advisor to the Governor on Education and Lecturer at the Gerald R. Ford School of Public Policy  
**Paul Schrieber**, Mayor of the City of Ypsilanti  
**Skip Simms**, Ann Arbor SPARK

This report was written by Chris Falcone, Matthew Papadopoulos, Erin Sullivan and Jessica Teng, Master of Public Policy students at the University of Michigan’s Gerald R. Ford School of Public Policy. It was written for the City of Adrian as an assignment for Professor Elisabeth Gerber’s Applied Policy Seminar (APS), a semester-long class in which students consult for clients on real life projects. The views expressed in this report do not reflect the opinions of the University of Michigan. Because we are not financial advisors, we recommend consulting professionals before crowdfunding or investing.

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