Community Resilience Chat: Local Dollars, Local Sense

CuttingEdgeCapital.com
@CuttingEdgeCap
@JennyKassan
Research

• vibrant small-business sector -> lower rates of mortality, obesity, and diabetes

• you are 7x as likely to talk to another customer at a farmers market or neighborhood bookstore than you are at a big-box store

• Walmart moving in -> decline in civic participation, including voter turnout and the number of active nonprofit organizations
We already know this!

Small local independent businesses are essential for community well-being

What can we do to support these businesses?
Great idea, but what about where we invest?
In the beginning . . .
People invested in their communities

There were no rules about asking your neighbors, friends, and family to invest in your business.
Unfortunately, some people took advantage of this situation

Buy a share in the new bridge they’re building in New York!
Investors needed protection!
Kansas Adopted the First Securities Law in 1911
What is a security?

_Federal definition:_
“a contract, transaction or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party.”
What is a security?

State definition (about 15 states):

• Are the funds being raised for a business venture or enterprise?
• Is the offering being made indiscriminately to the public?
• Are the investors substantially powerless to affect the enterprise’s success?
• Is the investor’s money at risk due to inadequate security?
What are examples of securities?

• Co-op membership interests (sometimes)
• Preferred stock
• Notes
• Convertible notes
• Revenue sharing agreements
• Pre-sale of a gift card for a business that has not opened yet
• Promise to pay $110 in one year in exchange for $100 today
• Etc.
Basic Rules:

1. You must register with the state and federal government before you can offer or sell securities.

2. Registration means filing and getting approval for an extensive disclosure document.

3. But there are some exceptions to this rule . . .
Accredited Investors

• At least $1 million in net worth excluding primary residence or
• $200,000 in annual income
• $5 million for entities
Percentage of companies funded by VCs & angels

- 0.04% of Companies are Funded by VCs
- 0.91% of Companies are Funded by Angels

Source: http://earnmbadegree.com/jobs-act-crowdfunding-infographic/
Almost 100% of Americans’ investments are in only one-half of the economy – Wall Street companies.
Direct Public Offerings
What is a DPO?

• Offering can be made to the public
• Offering can be made to an unlimited number of accredited AND unaccredited investors
• Offer made directly to investors (no middleman)

LEGAL NOW!
How is it legal?

Federal exemption from registration requirement

- Intrastate
- Rule 504
- Nonprofit
- Farmer co-op

State registration (or exemption)
DPO Examples

Everywhere Under the Sun

Real Goods
The Original Eco General Store

Farm Power Northwest
Member loan program
• Interest paid in credits toward product
• Raising funds from California residents – multi-year offering
• Have raised over $300,000 so far
• Offering common stock
• Open to Washington residents
• $100 minimum
People’s Community Market

- Offering non-voting preferred stock/discount AND gift cards
- Raising up to $1,000,000 from California residents

Over $950,000 raised so far!
• Offered 5-year revenue sharing agreements
• Raised over $150,000 from California residents
State level exemptions for small public offerings

- Georgia – adopted
- Kansas – adopted
- Wisconsin – adopted
- North Carolina – pending
- Washington – pending
- Michigan – pending
Where do you find DPOs?
DPO Marketplace

The Direct Public Offering marketplace connecting investors with social enterprises.

Curious how direct public offerings work? Learn More

Browse Direct Public Offerings
The CROWDFUND Act

Signed by the President on April 5, 2012

Creates a new federal exemption for offerings of up to $1 million in which

- each investor invests no more than 5% of his/her annual income or net worth

- offerings are conducted through a registered intermediary

Exempt from state registration requirements

More than $100k – reviewed financials

More than $500k – audited financials

Currently in comment period for proposed rules
<table>
<thead>
<tr>
<th></th>
<th>DPO</th>
<th>JOBS Act Crowdfunding Exemption</th>
<th>Rule 506c</th>
<th>Donation-Based Crowdfunding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public solicitation/advertising allowed?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Maximum you can raise</td>
<td>Depends on federal exemption – sometimes none; sometimes $1 million</td>
<td>$1 million</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Maximum per investor</td>
<td>Usually none (California sometimes imposes a maximum for some investors)</td>
<td>The greater of $2,000 or 5% of the annual income or net worth of investor</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Currently available?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>What can you offer?</td>
<td>Anything (equity, debt, etc.)</td>
<td>Anything (equity, debt, etc.)</td>
<td>Anything (equity, debt, etc.)</td>
<td>Perks only; no securities</td>
</tr>
<tr>
<td>Open to unaccredited investors?</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Audited or reviewed financials required?</td>
<td>Usually not</td>
<td>Yes if raising more than $100,000</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Can you talk directly to investors?</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Are you required to use a web-based portal?</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ongoing reporting requirements</td>
<td>Minimal</td>
<td>Extensive</td>
<td>Minimal</td>
<td>None</td>
</tr>
<tr>
<td>Requirements to make company financials available to the public</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Requirement to allow investors to pull out at the last minute</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Federal law</td>
<td>1933 Securities Act – registration and various exemptions (e.g. Reg A, intrastate exemption)</td>
<td>JOBS Act Title III</td>
<td>JOBS Act Title II</td>
<td>Securities laws do not apply</td>
</tr>
<tr>
<td>State law</td>
<td>State level registrations usually required – which means it is generally necessary to choose a few states to conduct the offering in</td>
<td>No state level registrations required, so investors can be from any state (though some state notice filings are required)</td>
<td>No state level registrations required, so investors can be from any state (though some state notice filings are required)</td>
<td>Securities laws do not apply</td>
</tr>
</tbody>
</table>
Local Investing Networks and Investment Clubs

- Generally use federal intrastate exemption and state private offering exemption
- Be careful to check your state’s rules!

Memberships in investment clubs are designed to fall outside the definition of securities
Co-op exemptions (examples)

- Oregon – ag and fishing coop memberships exempt; food coop memberships up to $300
- California – ag coops memberships exempt; up to $300 per member for others
- Colorado – any security issued by a coop
- Massachusetts – most co-op memberships
INVEST WITH US

About Us  Invest with Us  Stock Prospectus
Welcome Back, Community Capital!

cutting edge capital
NEW CAPITAL FOR A NEW ECONOMY

CuttingEdgeCapital.com