

Crowdfunding & The JOBS Act:

A New Potential Source of Funding for Startups



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Agenda

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- Nonequity crowdfunding – does not involve the sale or offer for sale of a security; securities laws generally don't apply
- Sale or offer for sale of a security must either be
 - 1. Registered (think IPO – very costly) OR
 - 2. Exempt from registration

Rule 506(b) of Reg D – historically commonly used

Rule 506(c) of Reg D – limited to accredited investors

–became available 9/23/13 per JOBS Act

Equity Crowdfunding – not yet available

–comment period on proposed rules set to expire

2/3/14

Five Levels of Equity Capital

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ENT

F&F

AI

VC/PE

P/PSO

- 1) ENT – Entrepreneur
- 2) F&F – Friends & Family
SEC Proposed Rules – “Equity Crowdfunding”
- 3) AI – Angel Investors (“Accredited Investors”)
Rule 506(b) v. Rule 506(c) – “General Solicitation”
- 4) VC/PE – Venture Capital / Private Equity
- 5) P/PSO – Private or Public Stock Offerings

“Crowdfunding”

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- Crowdfunding involves the use of the internet and social media to raise capital, typically from a large number of people and in relatively small amounts per person
- Crowdfunding has been around for a few years in the form of small donations for arts and social projects in return for token rewards such as a product, a DVD, or a shirt
 - Kickstarter reportedly raises more money to support the arts than the National Endowment for the Humanities

Two Types of Crowdfunding

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Non-Equity Crowdfunding
– currently allowed

Equity Crowdfunding
– authorized pursuant to the JOBS Act, but not until regulations are finalized; comment period on regs expires 2/3/2014

Crowdfunding Types – Quick Glance

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- Example “Non–Equity Crowd”

Participants:	1,000
Avg \$ each:	\$25
Total per Deal:	\$10,000 – \$200,000
Given to Crowd:	Product, DVD, shirt, nothing?

- Example “Equity Crowd”

Shareholders:	50–500
Avg \$ each:	\$2,000
Total per Deal:	\$1,000,000
Given to Crowd:	Equity (shares of stock/note)

Type 1 – Non–Equity Crowdfunding

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- People have been using this reward/donation Crowdfunding for years
 - This Crowdfunding is not regulated by securities laws, and you can ask for as much as you want
 - The “backers” may not receive any type of security (as defined by the law)
 - Popular sites include *Kickstarter* and *Indiegogo*
 - While not subject to securities laws, general contract law and some tort laws likely apply – be sure not to overpromise what you can deliver

Kickstarter

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- Kickstarter is the world's largest crowdfunding platform
- Kickstarter's mission is to "help bring creative projects to life"
- Since Kickstarter's launch in 2009, 5.1 million people have pledged \$861 million, funding 51,000 creative projects
 - Such as films, music, stage shows, comics, journalism, video games, and food-related projects
- People who back Kickstarter projects are offered tangible rewards and unique experiences in exchange for their pledges
 - Backers of an effort to make a book or film often get a copy of the finished work
 - A bigger pledge to a film project might get a backer into the premiere
- Kickstarter's model traces its roots to the subscription model of arts patronage, where artists would go directly to their audiences to fund their work

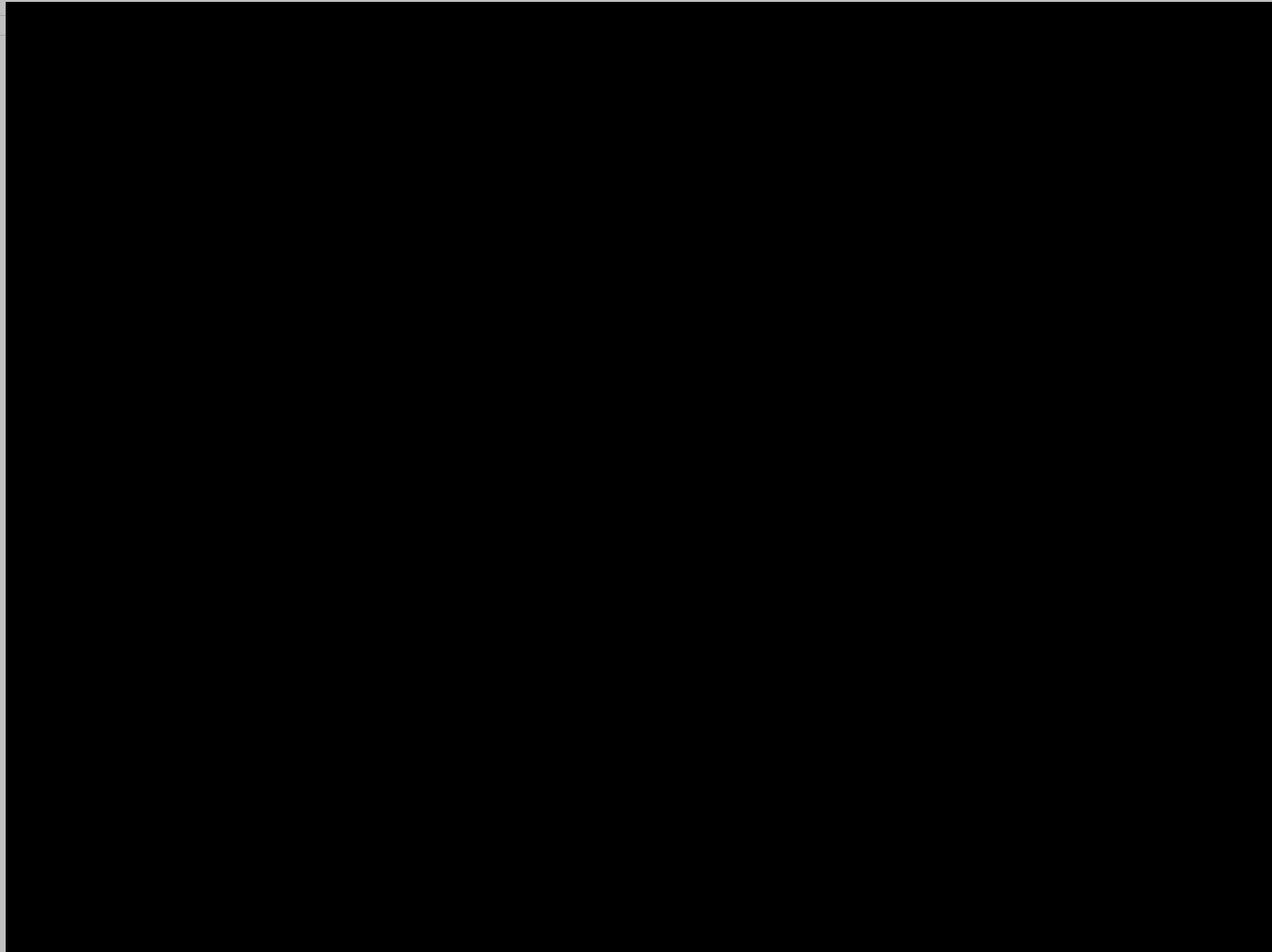
Local Kickstarter Successes

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- Oso Technologies used Kickstarter to help fund PlantLink, a system that monitors the water needs of your lawn, garden and houseplants and alerts you when they need to be watered and even waters them for you
 - Oso raised \$96,690 – 128% of its \$75,000 goal
- Electroninks Incorporated used Kickstarter to help fund Circuit Scribe, a rollerball pen with conductive ink that allows users to draw real, working circuits instantly.
 - Electroninks raised \$674,425 – 793% of its \$85,000 goal

Electroninks Kickstarter Video

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Local Kickstarter Successes

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- UI Professor Deke Weaver used Kickstarter to help fund his multidisciplinary show *Wolf*
 - Weaver raised \$9,378 – nearly doubling his \$5,000 goal
- Author Jason L. Blair used Kickstarter to help fund his book *Little Fears Nightmare Edition – Blessed are the Children*
 - Blair raised \$9,071 – exceeding his \$1,500 goal six fold

Indiegogo

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- Indiegogo is a crowdfunding platform where people who want to raise money can create fundraising campaigns to tell their story and get the word out
- People all over the world are using Indiegogo – both to raise money and to contribute to other peoples’ passions
- There is no limitation on who can use Indiegogo as long as one has a valid bank account
- People contribute to campaigns for many reasons, but usually it’s because they want to be involved in what the campaign is doing or because they want the perks that are part of the campaign

Local Indiegogo Successes

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- The Green Observer Magazine used Indiegogo to help make it financially sustainable
 - GOM raised \$1,259 – 125% of its \$1,000 goal
- Error Records used Indiegogo to help fund Champaign–Urbana’s only all–ages music venue and record store
 - ER raised \$3,480 – 116% of its \$3,000 goal
- Logan Liu used Indiegogo to help fund MoboSens, a water pollution sensor for smartphones
 - Liu raised \$5,105 – meeting his \$5,000 goal

Other Crowdfunding Sites

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- *Crowdfunder* is the crowdfunding platform for businesses, with a growing social network of investors, tech startups, small businesses, and social enterprises (financially sustainable/profitable businesses with social impact goals)
 - *Crowdfunder* offers Crowdfunding from individuals and angel investors, and was a leading participant in the JOBS Act legislation
- *RocketHub* powers Non-Equity Crowdfunding for a wide variety of social projects
- *Crowdrise* is a Non-Equity Crowdfunding site for causes and charities
 - *Crowdrise* has attracted a community of do-gooders and funds all kinds of inspiring causes and needs

Other Crowdfunding Type Sites

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- *Somolend* is a site for lending for small businesses in the U.S., providing debt-based investment funding to qualified businesses with existing operations and revenue
- *Appbackr* is the niche community for mobile app development
- *Invested.in* is a Venice, CA-based company that is a top name “white label” software provider, giving entrepreneurs the tools to get started and grow
- *Quirky* is a place for inventors, makers, and tinkerers to collaborate and crowdfund with a community of other like-minded folks

Crowdfunding Under the JOBS Act

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- The Jumpstart Our Business Startups (JOBS) Act of 2012 will eventually allow crowdfunding to be used for for-profit enterprises
 - Effect – A startup that needs money to expand its business can now turn to everyday investors
- Depending on what the startup chooses to offer, the investors may receive equity (i.e., a “share” of ownership in the business) or debt (i.e., providing a small loan to the business)

Federal Securities Regulations

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- Large-scale crowdfunding was not previously permitted under federal securities regulations
- In broad terms, selling an interest in one's business is the sale of securities, and any offer or sale of securities has to be registered with the SEC (e.g., in an IPO) or tailored to fit one of the exemptions from registration, which are very narrow (and mainly for "accredited investors," i.e., rich people)

Type 2 – Equity Crowdfunding

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- Effect – Equity Crowdfunding expands the “friends & family” level of Equity Capital
- Soon, in addition to friends and family, everyday people unknown to the entrepreneur can invest small amounts in the enterprise and receive an equity (ownership) stake in the company in return
- Note – Equity Crowdfunding is not currently allowed, but is expected to launch soon
 - As Congress directed in the JOBS Act, the SEC is in the process of promulgating rules to regulate Equity Crowdfunding

Why Bother with Equity Crowdfunding?

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- Why would entrepreneurs want to give up even a small amount of the ownership in their company to people they do not know, who probably cannot help them much with advice and experience the way angel and venture capitalist investors can?
 - For some companies, crowdfunding may be the only way to acquire the “seed capital” to develop their idea enough to get to the stage where angels and venture capitalists will take notice of them
 - Other companies may be in geographic areas where it is difficult for startups to get noticed
 - Many entrepreneurs can be found in communities that have not been well-served by traditional banking and capital markets

Why Invest in Equity Crowdfunding?

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- The worst reason would be because you think *you* are going to get rich and change *your* life
 - To begin with, you can only invest a small amount of money through crowdfunding
 - Regular folks are limited to \$2,000 a year
 - Even the richest among us can only invest \$100,000
 - Even if you think you've identified the next Facebook, after further rounds of financing (which will "dilute" your investment) and the length of time it takes to get a company to the IPO stage, a crowdfunding investment isn't going to change your life

Why Invest in Equity Crowdfunding?

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- The best reason to make a crowdfunding investment is because you love the idea the entrepreneur is presenting, or you are a fan of the product, or you believe in the entrepreneur herself, and you want to give her a shot at making it
- Indeed, the best reason for making a crowdfunding investment is to give someone else the chance to change the other person's life

The JOBS Act: Equity Crowdfunding Specifics

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- Title III of the JOBS Act will soon allow business enterprises to raise capital through crowdfunding initiatives
 - These companies can raise capital from individual investors by offering stock for sale through their third-party intermediaries
- The JOBS Act amends the Securities Act of 1933, providing a new exemption for the small business from registration for the offer and sale of securities in connection with crowdfunding transactions
- The JOBS Act will allow companies to raise up to \$1 million without having to comply with the Securities Act's registration requirements

Not So Fast...

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- Congress directed the SEC to promulgate regulations to implement Equity Crowdfunding
 - The SEC failed miserably in meeting Congress' deadline
- October 23, 2013 – The SEC voted unanimously to propose rules under the JOBS Act to permit companies to offer and sell securities through Equity Crowdfunding
 - The SEC is currently seeking public comment on the proposed rules for a 90-day period following their publication in the Federal Register
 - Depending upon the tone and substance of the comments, the SEC may move quickly to adopt the rules as proposed, adopt the rules with certain modifications based on the comments, or re-propose the rules for additional public comment

SEC Proposed Rules – Summary

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- Consistent with the JOBS Act, the proposed rules would, among other things:
 - Limit the amount of money a company can raise;
 - Permit individuals to invest subject to certain thresholds;
 - Require companies to disclose certain information about their offers; and
 - Create a regulatory framework for the intermediaries that would facilitate the crowdfunding transactions

Company Threshold

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- A company would be able to raise a maximum aggregate amount of \$1 million through crowdfunding offerings in a 12-month period

Investor Threshold

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- Investors, over the course of a 12-month period, would be permitted to invest up to:
 - \$2,000 or 5% of their annual income or net worth, whichever is greater, if both their annual income and net worth are less than \$100,000
 - 10% of their annual income or net worth, whichever is greater, if either their annual income or net worth is equal to or more than \$100,000
 - During the 12-month period, these investors would not be able to purchase more than \$100,000 of securities through crowdfunding

Eligibility

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- Certain companies would not be eligible to use the crowdfunding exemption
- Ineligible companies include:
 - Non-U.S. companies;
 - Companies that already are SEC reporting companies;
 - Certain investment companies (such as hedge funds);
 - Companies that are disqualified under the proposed disqualification rules;
 - Companies that have failed to comply with the annual reporting requirements in the proposed rules; and
 - Companies that have no specific business plan or have indicated their business plan is to engage in a merger or acquisition with an unidentified company or companies

Disclosure by Issuing Companies

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- Consistent with Title III of the JOBS Act, the proposed rules would require companies conducting a crowdfunding offering to file certain information with the SEC, provide it to investors and the relevant intermediary facilitating the crowdfunding offering, and make it available to potential investors

Disclosure Requirements

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- In its offering documents, among the things the company would be required to disclose:
 - Information about officers and directors as well as owners of 20% or more of the company;
 - A description of the company's business and the use of proceeds from the offering;
 - The price to the public of the securities being offered, the target offering amount, the deadline to reach the target offering amount, and whether the company will accept investments in excess of the target offering amount;
 - Certain related-party transactions;
 - A description of the financial condition of the company;

Disclosure Requirements

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- In its offering documents, among the things the company would be required to disclose:
 - Financial statements of the company that, depending on the amount offered and sold during a 12-month period:
 - shall be certified to be true and complete by the issuer's principal executive officer (for target offering amounts of \$100,000 or less);
 - shall be reviewed by a public accountant who is independent of the issuer (for target offering amounts more than \$100,000 but less than \$500,000); or
 - shall be audited (for target offering amounts more than \$500,000)

Disclosure Requirements

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- Companies would be required to amend the offering document to reflect material changes and provide updates on the company's progress toward reaching the target offering amount
- Companies relying on the crowdfunding exemption to offer and sell securities would be required to file an annual report with the SEC and provide it to investors

Crowdfunding Platforms

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- One of the key investor protections for crowdfunding is the requirement that crowdfunding transactions take place through an SEC–registered intermediary, either a broker–dealer or a funding portal
- Under the proposed rules, the offerings would be conducted exclusively online through a platform operated by a registered broker or a funding portal, which is a new type of SEC registrant

Requirements for Intermediaries

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- The proposed rules would require these intermediaries to:
 - Provide investors with educational materials;
 - Take measures to reduce the risk of fraud;
 - Make available information about the issuer and the offering;
 - Provide communication channels to permit discussions about offerings on the platform; and
 - Facilitate the offer and sale of crowdfunded securities

Prohibitions

- The proposed rules would prohibit funding portals from:
 - Offering investment advice or making recommendations;
 - Soliciting purchases, sales, or offers to buy securities offered or displayed on its website;
 - Imposing certain restrictions on compensating people for solicitations; and
 - Holding, possessing, or handling investor funds or securities
- The proposed rules would provide a safe harbor under which funding portals can engage in certain activities consistent with these restrictions

Issue – State Laws

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- The SEC will make the Issuer information available to state regulatory authorities
- The JOBS Act does preempt state securities laws concerning registration, documentation, and offering requirements for securities issued pursuant to the crowdfunding exemption
- The JOBS Act does not limit or impact states' enforcement actions concerning fraud, deceit, or unlawful conduct of an issuer, funding portal, or any other person or entity using the exemption
- States may impose fees if they are the issuers' principal place of business or if more than half the purchasers of a crowdfunding offering are in that state
- A funding portal's home state may regulate the portal, but cannot impose rules that are different or additional to what is required under the JOBS Act

Equity Crowdfunding – Benefits

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- Outside “validation” of product
- Capital raising is opened to a broader audience
- Equity Crowdfunding could formalize friends & family investments
- Equity Crowdfunding is a way to fund entrepreneurs outside of tech & life sciences
- Opportunity for accredited investors to diversify portfolio
- Entrepreneur may retain greater control of her company
- Consumer protections
 - provision requiring companies raising more than \$500,000 through crowdfunding to provide audited financial statements

Equity Crowdfunding – Drawbacks

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- Complexity – Investor relations may be more difficult with high numbers of small investors
- Deterrence – Institutional investors may be less enthusiastic
 - No angel investment because of high valuations, big cap tables, and concerns over proposed SEC rules
- Experts in investing in startups – venture capitalists – have a high failure rate (and thus need a high return on the successes)
 - According to the National Venture Capital Association, 40% of venture capital investments fail, 40% break even, and only 20% have a decent to high return
 - Crowdfunding investors are likely to lack the diversification of venture capitalists, meaning that crowdfunding investors will not have the successes to even out the overwhelming majority of failures
 - Moreover, the crowd’s ability to pick winners may not be as good as the venture capitalists, meaning an even higher rate of failure

Equity Crowdfunding – Drawbacks

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- Audited financial statements are too expensive
 - Many startups do not have the money to hire lawyers or accountants to help them
- The fear is that the Equity Crowdfunding rules will be so burdensome or difficult to comply with that companies will forego them and continue to raise money from accredited investors only
- Lack of knowledge leads to less investment & hurts private equity
- Less sophisticated investors may be more likely to sue

Equity Crowdfunding – Drawbacks

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- Ripe for fraud
 - In the worst situation, the entrepreneur could take the money and run
 - Even without outright fraud, once the money comes in, there is no oversight, so entrepreneurs can fritter it away on their own expenses
 - Most companies will probably sidestep the review/audit of their financial statements by simply raising less than \$100,000

Rule 506 of Regulation D

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- Under the Securities Act of 1933, a company seeking to raise capital by selling its securities must register the securities with the SEC or find an exemption from the registration requirements
- Most of the exemptions from registration prohibit companies from engaging in general solicitation or general advertising – that is, advertising in newspapers or on the Internet among other things – in connection with securities offerings
- Private offerings that qualify under Rule 506 of Regulation D are exempt from registration under the Securities Act of 1933 because they do not involve a “public” offering
- Rule 506 of Regulation D is the most widely-used exemption from registration

Rule 506(b) Exemption

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- In an offering that qualifies for the Rule 506(b) exemption, an issuer may raise an unlimited amount of capital from an unlimited number of “accredited investors” and up to 35 non-accredited investors
- Under SEC rules, accredited investors are individuals who meet certain minimum income or net worth levels, or certain institutions such as trusts, corporations, or charitable organizations that meet certain minimum asset levels

Rule 506(b) Exemption Standards

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- The company cannot use general solicitation or advertising to market the securities;
 - “General solicitation” includes advertisements published in newspapers and magazines, public websites, communications broadcasted over television and radio, and seminars where attendees have been invited by general solicitation or general advertising
 - In addition, the use of an unrestricted, and therefore publicly available, website constitutes general solicitation
 - The solicitation must be an “offer” of securities, but solicitations that condition the market for an offering of securities may be considered to be offers

Rule 506(b) Exemption Standards

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- The company may sell its securities to an unlimited number of “accredited investors” and up to 35 other purchases;
 - All the non-accredited investors, either alone or with a purchaser representative, must be sophisticated—that is, they must have sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of the prospective investment

Rule 506(b) Exemption Standards

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- Companies must decide what information to give to accredited investors, so long as it does not violate the antifraud prohibitions of the federal securities laws;
 - But companies must give non-accredited investors disclosure documents that are generally the same as those used in registered offerings; the increased costs associated with allowing nonaccredited investors to invest means that many companies choose not to sell to nonaccredited
 - If a company provides information to accredited investors, it must make this information available to non-accredited investors as well

Rule 506(b) Exemption Standards

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- The company must be available to answer questions by prospective purchasers; and
- Purchasers receive “restricted” securities, meaning that the securities cannot be sold for at least a year without registering them

Companies Must File a “Form D”

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- While companies using the Rule 506(b) exemption do not have to register their securities and usually do not have to file reports with the SEC, they must file what is known as a “Form D” after they first sell their securities
- Form D is a brief notice that includes the names and addresses of the company’s owners and stock promoters, but contains little other information about the company

The JOBS Act

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- The JOBS Act required the SEC to adopt rules amending existing exemptions from registration under the Securities Act of 1933 and creating new exemptions that permit issuers of securities to raise capital without SEC registration
- On July 10, 2013, the SEC adopted amendments to Rule 506 of Regulation D and Rule 144A under the Securities Act to implement the requirements of the JOBS Act
- The amendments became effective on September 23, 2013

The SEC Adopted Rule 506(c)

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- Under Rule 506(c), issuers can offer securities through means of general solicitation, provided that:
 - All purchasers in the offering are “accredited investors”;
 - The issuer takes “reasonable steps” to verify their “accredited investor” status; and
 - Certain other conditions in Regulation D are satisfied
- Under Rule 506(c) there is no restriction on who an issuer can solicit, but an issuer faces restrictions on who is permitted to purchase its securities
 - In other words, anyone can be solicited, so long as each ultimate purchaser is an “accredited investor”

“Accredited Investors”

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- An “accredited investor” includes a natural person who:
 - Earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year; or
 - Has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person’s primary residence)
- An “accredited investor” may also be an entity such as a bank, partnership, corporation, nonprofit, or trust, when the entity satisfies certain criteria

“Reasonable Steps”

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- The JOBS Act requires that issuers wishing to engage in general solicitation take “reasonable steps” to verify the accredited investor status of purchasers
- Rule 506(c) sets forth a principles-based method of verification which requires an objective determination by the issuer (or those acting on its behalf) as to whether the steps taken are “reasonable” in the context of the particular facts and circumstances of each purchaser and transaction

“Reasonable Steps”

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- Among the factors that an issuer should consider under this principles-based method are:
 - The nature of the purchaser and the type of accredited investor that the purchaser claims to be;
 - The amount and type of information that the issuer has about the purchaser; and
 - The nature of the offering, such as the manner in which the purchaser was solicited to participate in the offering, and the terms of the offering, such as a minimum investment amount

Verification Methods

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- In addition to this flexible, principles-based method, Rule 506(c) includes a non-exclusive list of verification methods that issuers may use, but are not required to use, when seeking greater certainty that they satisfy the verification requirement with respect to natural person purchasers
- This non-exclusive list of verification methods consists of:
 - “Income Test” – Verification based on income, by reviewing copies of any IRS form that reports income, such as Form W-2, Form 1099, Schedule K-1 of Form 1065, and a filed Form 1040

Verification Methods

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- “Net Worth Test” – Verification on net worth, by reviewing specific types of documentation dated within the prior three months, such as bank statements, brokerage statements, certificates of deposit, tax assessments and a credit report from at least one of the nationwide consumer reporting agencies, and obtaining a written representation from the investor
- “Third-Party Verification” – A written confirmation from a registered broker-dealer, an SEC-registered investment adviser, a licensed attorney or a certified public accountant stating that such person or entity has taken reasonable steps to verify that the purchaser is an accredited investor within the last three months and has determined that such purchaser is an accredited investor
- “Previous Purchaser” – A method for verifying the accredited investor status of persons who had invested in the issuer’s Rule 506(b) offering as an accredited investor before September 23, 2013 and remain investors of the issuer

Rule 506(b) Exemption Still Available

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- Rule 506(b) remains unchanged following the adoption of Rule 506(c) and continues to be available for issuers that wish to conduct a Rule 506 offering without the use of general solicitation or that do not wish to limit sales of securities in the offering to accredited investors

506(b) v. 506(c) Exemptions

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Rule 506(b)	Rule 506(c)
No general solicitation	General solicitation allowed
Self-certification of “accredited” status is allowed (No additional verification requirements)	Self-certification is not necessarily allowed (Issuer must take “reasonable steps” to verify “accredited” status)
Issuer may sell to accredited investors and up to 35 non-accredited investors	Issuer may only sell to accredited investors

- An offering can change from 506(b) to 506(c), but not the other way around

Problematic for Startups?

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- The rules are highly complex – If a Startup relies on Rule 506(c):
 - Startup must file Advance Form D 15 days prior to the event
 - Startup must file materials by day of use and include legends on materials
 - “Legends” longer than a tweet
 - If Startup fails to file, it is out of compliance
- Startup can only cure once, and it must occur within 30 days
- If not cured, Startup may not again use Rule 506 for one year

The SEC Adopted Rule 506(d)

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- Rule 506(d) “Bad Actor Disqualification” – An offering is disqualified from relying on Rule 506(b) and 506(c) of Regulation D if the issuer or any other person covered by Rule 506(d) has a relevant criminal conviction, regulatory or court order, or other disqualifying event that occurred on or after September 23, 2013, the effective date of the rule amendments
- Rule 506(e) – For disqualifying events that occurred before September 23, 2013, issuers may still rely on Rule 506, but will have to comply with certain disclosure provisions

The Reach of Rule 506(d)

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- Rules 506(d) and (e) apply to BOTH 506(b) and 506(c) Exemptions
- Because Rule 506 of Regulation D is the most widely-used exemption from registration, these new rules may very well cause significant added due diligence on securities market participants and likely embarrassing revelations, as well as certain persons being *de facto* barred from significant capital markets involvement

“Covered Persons” Under Rule 506(d)

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- The issuer, including its predecessors and affiliated issuers
- Issuer’s directors, general partners, and managing members
- Issuer’s executive officers and other officers that participate in the offering
- 20% beneficial owners of the issuer, calculated on the basis of total voting power
- Promoters connected to the issuer
- The fund’s investment manager and its principals (for pooled investment fund issuers)
- Persons compensated for soliciting investors, including their directors, general partners, and managing members

Disqualifying Events

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- Certain criminal convictions;
- Certain court injunctions and restraining orders;
- Final orders of certain state and federal regulators;
- Certain SEC disciplinary orders;
- Certain SEC cease-and-desist orders;
- SEC stop orders and orders suspending the Regulation A exemption;
- Suspension or expulsion from membership in a self-regulatory organization (SRO) or from association with an SRO member; and
- U.S. Postal Service false representation orders

Rule 506(c) v. Equity Crowdfunding

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	Rule 506(c)	Equity Crowdfunding
Limitation on Offering Size	None	\$1 million during any 12-month period
Limitation on Number of Investors	None (as long as all are accredited)	None technically, but there is an outside limit because of the combination of the offering size limit
Advertising Allowed	Yes	No - companies cannot advertise; they can only refer people to portals

Rule 506(c) v. Equity Crowdfunding

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	Rule 506(c)	Equity Crowdfunding
Specific Disclosure Requirements	None required, but subject to anti-fraud requirements	Yes – very specific, detailed disclosure requirements; also subject to anti-fraud requirements
Third Party Intermediary Required	No	Yes – Issuers must go through a broker-dealer or registered funding portal
Ongoing SEC Reporting	No	Yes

How Should Startups Raise Money? – Best Practices

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- The best and easiest way for a startup to raise money is:
 - To rely upon federal securities Rule 506(b);
 - Not generally solicit or generally advertise your offering;
 - Work from contact to contact, with people you know; and
 - Only take money from accredited investors
- Why not generally solicit?
 - Potential investors may be reluctant to share their personal financial information
- Why only accredited investors?
 - Raising money from non-accredited investors involves a lot more complexity and expense

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