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“Tip of the Month”

Crowdfunding Your Business Startup

Since President Obama signed into law the Jumpstart Our Businesses Act (JOBS Act) in April 2012, the concept of “crowdfunding” has had the country abuzz. While there are many skeptics, proponents believe crowdfunding is poised to be one of the greatest opportunities afforded America’s small companies in modern history. So what is crowdfunding, and how does it affect you?

Part social networking, part capital fundraising, crowdfunding is the new way for small businesses to get start-up capital online from a larger crowd of potential investors.

The two primary forms of crowdfunding are “investment” and “equity.” Investment crowdfunding websites operate on donations in a rewards-based model. Individuals contribute money in return for a social or nonfinancial reward. On the popular site Kickstarter, for example, a musician looking to raise money to help promote his/her new album might post a profile as an investment seeker. A fan wanting to support the singer may donate just ten dollars. In return, the singer may send the fan a copy of his/her album.

Since its inception in 2009, Kickstarter has seen more than 24,000 creative projects successfully funded with \$240 million worth of pledges donated by more than two million people. In June 2012, Kickstarter witnessed its first \$1,000,000.00 plus project. It was the first of many since that time. The payback for the people donating their money has been limited to gimmicky items and maybe a shout out.

Equity crowdfunding is different. It is intended to reward equity investors with real financial returns. Until the JOBS Act, equity crowdfunding would be completely illegal in the United States. Equity crowdfunding does not comply with the old rules of the Securities Act of 1933. All of that is about to change. The Securities and Exchange Commission is making new rules to allow equity crowdfunding under the JOBS Act. The SEC is behind schedule with the new rules.

Business startups and financial backers are waiting in anxious anticipation. Over 200 equity crowdfunding sites have already been launched even though the absence of new SEC rules prevents them from operating.

Believers Fund, for instance, is a crowdfunding site for developers of mobile apps. Start Some Good is an equity crowdfunding site for social entrepreneurs. Medstartr provides a platform for the healthcare field. Even Indiegogo, a rewards-based crowdfunding site, has just added an equity-based option to its platform. Recently, Google showed its support for crowdfunding by investing \$125 million in LendingClub, an equity crowdfunding peer-to-peer lending platform.

Some think crowdfunding will change the world. Removing the requirement that only “qualified” investors (those with high net worth) can invest, crowdfunding will allow people of more modest means to choose investment opportunities.

If you are a start-up or even an established business seeking growth capital, we can help you understand crowdfunding. Call the attorneys at Mesmer & Deleault today at 668-1971, or contact us by email at mailbox @ biz-patlaw.com and get ready to grow your business.

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