

Crowdfunding for Businesses and Non-Profits (April 2013)

Entrepreneurs and non-profits are flocking to crowdfunding, an emerging field of finance that uses the Internet as a middleman to raise money. Kickstarter, Indiegogo, RocketHub, PledgeMusic, Funding4Learning, ArtistShare, FundRazr and other sites are being used to pool money in support of others' creative and business efforts. Billions of dollars have been raised this way, expanding beyond the typical financing from venture capital, angel investors and banks.

One of our clients, MIOX Corporation, has patented a personal water purifier and licensed the technology to a start-up company. It is currently being crowdfunded on Indiegogo. Check it out at www.h2gopurifier.com, where you can buy a t-shirt, place a pre-order for a water purifier or donate the water purifier to a developing nation. Brydge, one of the most successful start-ups using crowdfunding, is making an iPad keyboard with funds raised on Kickstarter. Brydge promised to ship a keyboard to donors who gave over \$170 and raised \$700,000, far surpassing its goal of \$90,000.

The crowdfunding process for startup companies is typically as follows: The start-up files a patent application and asks for funding using the crowdfunding site to begin manufacturing. Successful campaigns promise "backers" rewards if the goal is met, for example, the product being manufactured. They also find ways to have ample media coverage, e.g., social networking, enthusiast blogs and websites. It is critical to constantly update backers, particularly when things are not going as planned. When shopping for a host for a crowdfunding project, it is important to consider their fees and flexibility. For example, Kickstarter.com charges 5% of the funding, but if you do not reach your funding goal you do not receive any funding at all. Indiegogo.com, in contrast, offers a flexible plan that charges 4% if the goal is reached and 9% if the goal isn't reached. These sites charge at least 3% for credit card processing, and additional fees may be applicable for international transactions. Read the small print before you sign up. You should also consider the nature of the project, as some hosts are more successful with certain types of projects than others. Finally, it is best to have patent and trademark searches done before you engage in a crowdfunding campaign to avoid potential infringement claims.

Many non-profits are using crowdfunding as a creative and very effective way of raising funds in a non-traditional way. Reward-based crowdfunding typically involves a short video or statement, a goal to reach with a timeline and prizes for donors. Other crowdfunding offers no rewards and is purely for donations. GoFundMe and Razoo are useful websites for non-profits. Donors can get updates and track the progress of the crowdfunding project online. One of the most successful projects was GiveMN which raised \$16.3 million in one day for 4381 Minnesota non-profit organizations through the crowdfunding site Razoo, who specializes in non-profit fundraising. See www.forbes.com/sites/devinthorpe/2013/03/13/how-to-raise-16-million-from-crowdfunding-in-one-day/.

Crowdfunding is also being used to raise equity. The Jumpstart Our Business Startups (JOBS) Act, allows individuals to buy equity shares in companies via crowdfunding sites. The JOBS Act contains provisions that allow startups to sell individuals an ownership stake in the company of up to \$1 million on crowdfunding websites.