

SelfInformed

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NASE Members Tessie and Matt Wallace are the NASE's 2012 Achievement Award recipients.

Crowdfunding: Financing of the Future?



By Sallie Hyman

Have a great idea or product that you think will make you money? Or do you already have a small business that is ready to grow? Where will you get the money you need to start up or grow?

An online member survey conducted by the NASE regarding small-business funding found that 57 percent of small-business owners used personal savings to initially fund their business, while 12 percent utilized credit cards for start up. Seventy-five percent of members felt that funding opportunities were inadequate.

According to a recent survey by Experian, most small and medium enterprises rely on traditional bank loans or personal sources of cash for funding. Experian surveyed 300 small and medium enterprises and found that awareness of different types of business finance is very low among this group.

Many alternate forms of financing are available, but few know what they are. Crowdfunding was the least well-known funding form among respondents, with 69 percent never having heard of it.

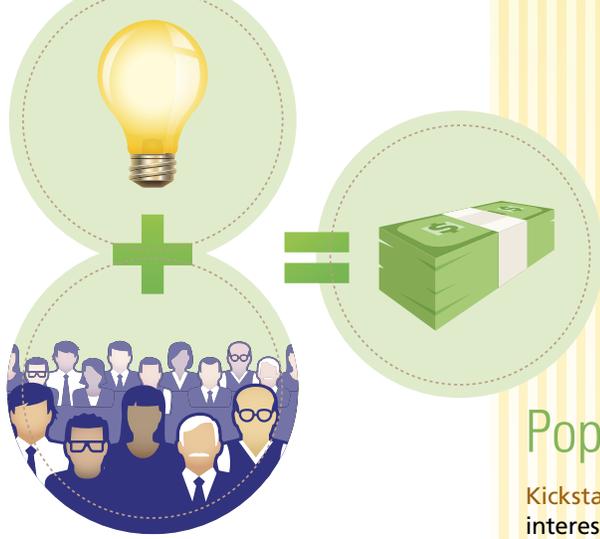
And that is a shame. \$1.5 billion dollars in crowdfunding transactions took place in 2011, \$3 billion are anticipated in 2012, and estimates for the future go as high as \$500 billion annually.

So what is crowdfunding?

Crowdfunding or crowd-sourced backing is a way of financing a project or business through small donations from many (hundreds to thousands) of investors. Crowdfunding first became popular with independent musicians and movie producers who needed cash to produce a record or movie when they could not get a big studio to pick them up. They used social media such as Facebook to reach out to their friends and fans to ask them for a small amount of money to fund the project. Traditionally, investors receive some token in exchange for their donation, such as a free copy of the music CD or the movie DVD.

NASE Member Sydni Craig-Hart is exploring the world of crowdfunding for her latest business venture. Although she had heard of ways that social media could help fund projects, she was able to see what a significant impact it could make when a networking colleague passed away suddenly. His widow set up a social media site for donations to help keep their small business running. Craig-Hart saw how the community reached out to this woman to help her keep her dream alive.

“If people believe in you, they are happy to back you,” says Craig-Hart. She also believes that lack of funds should not keep you from starting a business. She wants to model her crowdfunding project so that other women who are interested, yet hesitant, to start a business, can see how it can be accomplished. Craig-Hart is in the development phase of her campaign and is looking to launch her project in January 2013, possibly on the crowdfunding site [Indiegogo](#).



The Birth of Crowdfunding

The idea started back in the late 1990s with the British rock group Marillion, which raised \$60,000 from its fans to fund an American tour. In 2008, in the United States, a group led by Mike Migliozi, a social media marketer, saw the power in using social media to bring people together for business, as well as social matters.

Migliozi used it to bring people together to buy Pabst Blue Ribbon Beer, which had recently been put up for sale. His “crowd” raised \$282 million toward the purchase of the \$300 million company. Unfortunately, Securities and Exchange Commission (SEC) regulations prohibited this type of funding at the time.

However, the future of business funding was about to change.

Enter **Kickstarter**. Kickstarter is a funding platform for creative projects. Anyone with an idea can go to the Kickstarter site, set up a campaign for their project, and solicit donors. Since its launch in 2009, more than \$350 million has been pledged by more than 2.5 million people, funding more than 30,000 creative projects.

Crowdfunding Principles

Although Kickstarter was one of the first funding platforms, there are now hundreds of different sites that fund projects of every kind. What most have in common, though, is an all-or-nothing funding philosophy.

According to Kickstarter, this is a core part of its funding and the company has found a number of advantages to this policy. “It’s less risk for everyone,” according to the Kickstarter website. “Investors know their money won’t go to waste and that you will have enough money to complete the project. If you need \$5,000, it’s tough having \$1,000 and a bunch of people expecting you to complete a \$5,000 project. It motivates. If people want to see a project come to life, they’re going to spread the word. It works.”

Of the Kickstarter projects that have reached 20 percent of their funding goals, 82 percent were successfully funded. Of the projects that have reached 60 percent of their funding goals, 98 percent were successfully funded. Projects either make their goal or find little support. There’s little in between. To date, 44 percent of all Kickstarter projects have reached their funding goals.

Popular Crowdfunding Websites

Kickstarter: The largest crowdfunding site. Good for general interest projects.

Indiegogo: Preferred site for filmmakers, musicians and artists. Allows partial funding.

Crowdrise: Provides a public source for charity fundraising

Grow VC: An international platform that aims to connect profit-minded investors with entrepreneurs.

Peerbackers: Caters to entrepreneurs and start-ups.

Microryza: Allows anyone interested to fund scientific research.

Upstart: Targets recent grads who need seed money.

Fundable.com: Seeks to help start-ups exchange funds for equity

RocketHub: Offers exclusive real-world opportunities such as gallery showings, music showcases.

Bolstr.com: Seeks to help start-ups exchange funds for equity.

How to get Started in Crowdfunding

1. Do your homework: Know your project thoroughly before you start. Know how much money you need and how you will use it.
2. Research to find the funding platform that best suits your needs. **Kickstarter** is great for most projects, but if you have a health care idea, you need to look elsewhere. Ready to trade some equity for funding? Try **Bolstr.com** or **Fundable.com**.
3. Present the best project you can. Spend time to put together your funding campaign. You are presenting this to real investors and they want to see a real plan. Make sure you follow the guidelines on the funding platform’s website.
4. If you are trading equity for funding, know exactly what rights your investors will have in the company and state them very clearly in your campaign. Seek legal advice to be sure you have presented them properly and legally.
5. Get your friends and family involved. Even though you are looking for a wider circle of investors, recruit your social network to get the word out about your project.



How NASE can help with Crowdfunding

Gene Fairbrother, NASE business expert, poses these questions when looking for business funding.

- How much funding do you *really* need?
- What kind of funding do you need?
- What are the best sources?
- Where can you find the least expensive money?

Crowdfunding is a viable and growing source for business funding, but it is only one option. When looking for business financing, be sure you do your homework to make the best decision.

If you have any questions about raising money for your business, talk with the NASE business consultants. They are considered some of the top small-business experts in the country and you have free, unlimited access to them through your membership.

Visit NASE.org or call 800-232-6273 to ask an NASE business strategy expert your question today!

Some funding platforms, such as Indiegogo, allow for non-fully funded projects to take whatever monies they have raised, but will charge a fee for doing so. And that brings up the question of what do these funding platforms get out of setting up websites to find donors? Most charge a percentage fee, usually between 5 to 10 percent per project.

The JOBS Act

The original idea behind crowdfunding was to use social media contacts and funding platforms to raise money in exchange for non-equity capital for creative projects and charity causes. Such funding does not involve the sale of securities (stocks, bonds, or other financial instruments designed to give someone claim over future assets of a company).

This goes back to why the Pabst Blue Ribbon deal failed. At the time of that attempted buyout, U.S. law prohibited regular investors from owning equity. Since all of the investors committed to the Pabst Blue Ribbon sale were regular investors, and not accredited investors, the transaction was illegal.

Accredited investors are investors who make more than \$200,000 a year as an individual, \$300,000 per year as a couple, or have \$1 million or more in net assets excluding their home. The whole point of crowdfunding was to allow smaller investors to get into the game.

This set into motion the “Startup Exemption Framework,” developed by Jason Best and Sherwood Neiss, which became part of the JOBS Act passed by Congress in April 2012. The passage of this act now allows small businesses to use crowdfunding to seek investors (accredited or not). A company can raise up to \$1 million in equity investments this way. To protect investors, those with a net worth of less than \$100,000 may now invest 5 percent of their yearly income or \$2,000, whichever is higher. Wealthier people can invest up to 10 percent of their income.

Neiss and Best have also helped organize two groups to help Congress with the regulations as well as educate those seeking investments and investors themselves. The groups are the [Crowdfunding Professional Association](#) and the [Crowdfund Intermediary Regulatory Advocates](#).

The [Crowdfunding Professional Association \(CFPA\)](#) is dedicated to facilitating a vibrant, credible and growing crowdfunding community. The association has a very informative website, hosts webinars on crowdfunding basics, and organizes a multi-day bootcamp to teach entrepreneurs about crowdfunding.

Kickstarter and Indiegogo-type funding comes with relatively few strings attached. The money you get can be used in any way which facilitates the completion of the project. Investors will expect that the project is completed, probably want their free copy or bragging rights in a credit, but have no say in how you run your company or spend their money.

The JOBS Act now adds a new twist to crowdfunding. If you choose to raise money from investors by selling equity in your business, you have now sold away a part of your company and need to make very clear what rights investors have in decision making for the company.

Remember that most of these investors will be non-professional, unsophisticated investors who may not know the first thing about running a business. But if you let them invest, you may have given them the right to tell you how to run things. And the more investors you have, the more opinions you need to deal with. You will need to very carefully manage the technical participation of investors through voting rights, reporting rights, and whatever other terms you set.

Crowdfunding may just be the financing wave of the future. It can be a great way to secure funds for a new idea or funding for growth in a successful small business ready to grow.

Whatever the case, make sure that you know what type of funding platform suits your needs the best, that you know about and control any sale of equity in your company, and that you carefully read the SEC regulations as they apply to your situation. ■

Sally Hyman writes on small business issues and owns and operates her own small business in Leesburg, Va.



THE NASE GIVES \$15,000 Achievement Award to Members

Artist-Blacksmiths Receive Sixth Annual Award

By Molly Nelson

For many people, a job description of “blacksmith” conjures up the image of an early American in a heavy apron making sure the town’s horses are properly shod.

However, there are no horseshoes to be found at **Wallace Metal Works, LLC**, in Charleston, W. Va. Instead, company owners and NASE Members Tessie and Matt Wallace are artist-blacksmiths who create hand-forged decorative and architectural wrought

iron—much more complicated than just making horseshoes!

Like other blacksmiths across the nation and the world, they are working to keep this traditional art alive.

Using a hammer and forge, the Wallaces design and create one-of-a-kind wrought iron items, such as furniture, fire screens, and other home and garden accents, using traditional methods.

Matt Wallace started Wallace Metal Works in 2000, and Tessie took over as owner in 2009. The husband and wife team believe that the family ownership of their business is what ensures the high quality of Wallace Metal Works’ designs and products.

In need of a replacement for the unwieldy, 1960s-era drill press in their shop, the Wallaces applied for and received a \$3,000 Growth Grant® from the NASE in May 2011. Their grant was part of \$650,000 in grants awarded by the NASE since 2006.

They used the funds to purchase a new drill press for their business. The new drill press increased the business’s efficiency and allowed for the creation of additional designs for their ornament line that would not have been possible with the old drill. Tessie and Matt were able to double their ornament sales from 2010 to 2011 thanks to the drill. Additionally, the drill helped the Wallaces significantly expand their ornament line for craft shows in neighboring states in 2012.

Acknowledging the business growth that resulted from Tessie and Matt putting their grant to use and supporting the rare art of blacksmithing, the NASE awarded Wallace Metal Works with the \$15,000 Achievement Award.

Matt and Tessie Wallace plan to use the award funds to improve their studio with the installation of a water line and the addition of a new, larger forge.



Apply for an NASE Growth Grant™

Need working capital for your micro-business? Apply for an NASE Growth Grant worth up to \$5,000.

To be eligible, you must be an NASE Member in good standing and provide detailed documentation about your business.

Get all the information you need to apply at NASE.org.

An Old Business Growing in New Ways

The ornament line began in 2008 when Tessie and Matt wanted to make something that they could sell to a larger audience through their online store. The ornament line launched with two designs, and with the introduction of a new design each year (and one special edition ornament) has expanded to seven designs.

Wallace Metal Works recently launched a line of decorative metal bowls that are also being sold on the business's website. A bowl in the shape of Matt and Tessie's home state of West Virginia is already available, and they're working on other state-shaped bowls to be sold online and at upcoming craft shows.

Moving Forward

NASE President Kristie L. Arslan awarded Tessie and Matt with a \$15,000 check in recognition of the award.

"You and your business are symbolic of this country's small-business owners and the work they are doing each day in their communities," Arslan said. "We're glad to lend a supporting hand to your business as you grow."

The Wallaces have already started putting the award funds to use to continue growing their business.

Matt and Tessie had a new water line installed in their studio, and plan to purchase a larger forge—two improvements that will make their work easier and more efficient. They also plan to continue introducing their business to new audiences by attending more craft shows across the country and pursuing other marketing efforts.

As their business continues to grow, the Wallaces have a goal of starting an apprenticeship program to pass on what they know to younger students.

"This award couldn't have come at a better time for our business," Tessie said. "We love what we do, and we're so excited about more opportunities to share what we're doing with others." ■

Molly Nelson is the NASE's Member Communications Manager.

Apply for the 2013 NASE Member Council!



We want you to get the most out of your NASE Membership, and we value your feedback in making that happen. If you're interested in helping the NASE evolve as a dynamic and interactive resource for the self-employed and small business, apply to the Member Council today!

Hurry, this year's application closes on Feb. 1st, 2013!

Please contact the NASE's Member Services Center at 800-232-6273 with any questions.



Ask The Experts



Q: *I have a product that I am going to manufacture. I will have to contract out the manufacturing, and I'll also need the manufacturer's engineers to help me with the final design of the product. How do I prevent the manufacturer from stealing my product idea?*

A: I assume you are eventually planning to patent the product but cannot do so when it is still just an "idea." My first recommendation is to consult with a local attorney specializing in intellectual property. The attorney-client privilege will be your first protection once you have engaged the attorney. The attorney can also advise you about possibly patenting the product.

I anticipate that the lawyer would advise you to enter a non-disclosure agreement in writing with a manufacturer. Preparation of these agreements is a routine function of the lawyer's practice. Also, you will probably be advised to prepare a detailed journal of how you got the idea and all relevant steps involved to use as evidence if anyone in the future tries to steal your idea. The other benefit will be having a search done to make sure your product does not infringe on any existing patents.

Working with an attorney on these items will help you avoid surprises later after money and energy have been expended. If there is a chance to enter foreign markets, the non-disclosure can be even more crucial. It is a good practice to tell no one about your plans without a signed agreement of non-disclosure.

Michael Beene, NASE Legal Expert

Q: *I have a single member LLC, and I elected to file as an S-Corporation 6 years ago. I want to change that election classification and report my business income on my personal tax return. I believe I need to file IRS form 8832 to make this change. Is that correct? What else do I need to do to change the classification for federal and state tax purposes?*

GET MORE ANSWERS

The NASE's small-business experts are here to help you understand the ins and outs of operating a successful small business. And access to these professionals is free with your NASE Membership!

Just go online to the [NASE's Business Learning Center](#) where you can ask the experts questions about:

- Taxes
- Financial issues
- Accounting rules
- Marketing
- Employee relations
- And much more

The experts are available 24/7 and ready to help!

A: Form 8832 is used for certain entities to make a taxing classification. However, it is not the form to use in terminating an S election. Unfortunately, the IRS does not have a prescribed form for terminating an S election, but instead requires that the entity submit a "statement" indicating the termination request. The statement must be signed by each shareholder consenting to the termination and those shareholders must comprise more than 50 percent of the ownership of the entity. In your case, since the entity is owned solely by you, your signature on the statement will meet the required consent.

The statement needs to include the fact that 100 percent of the shares are owned by you and that with your signature, more than 50 percent of the outstanding shares do, in fact, consent to the termination. You must also state the effective date of the termination. In order for a termination to be effective for the year in which it is filed, it must be filed within 2 months and 15 days of the beginning of that tax year. If filed after that, the effective date will be the beginning of the next tax year. You can find more detail related to terminating the election on page 2 of the instructions for [IRS form 1120S](#).

Keith Hall, NASE Tax Expert ■

Member Spotlight

Picture Perfect

Vince Wallace has been an NASE Member since 2006. He owns Silver Hill Images in Franklin, Tenn.

Tell us about your business.

I studied photography in college, and did some work for my university when I was getting my master's degree. After graduating, I did freelance videography and writing for a few years. Video production is very expensive to do as a freelancer, so in 2002 I decided to do still photography full time. I was in Phoenix at the time, and began my career assisting other photographers.

I started my business, Silver Hill Images, in 2002. After moving to Nashville in 2005, I got into doing photography for bands, musicians, and artists, including photographs for CDs and promotional advertising materials. I also do typical portrait and corporate photography. For the last couple of years I've been focusing my photographic efforts more on teaching workshops and fine art sales.

What's the best thing about owning your own business?

I'm on my own. But it's a double-edged sword: the worst thing about my business is me, and the best thing is me. I love the freedom that I have and that I'm making my own decisions. I love that if I fail in doing this, I only have myself to blame, and if I succeed it's because I was able to accomplish my vision.

Tell us about the classes you offer.

I teach a series of photography classes, and I'm trying to add one type of class every season. These classes are a precursor to my long-term vision to create an arts ranch. This ranch would have apprentices who may not have had mentors due to finances or life circumstances come to the ranch for a few months and work one-on-one with an artist in residence. The ranch would have artists from many different disciplines—not just photography, but painting, drawing, ceramics, and music and other performing arts.

How do you market your business?

Getting out there and talking to people has been most helpful for me, handing out materials at local restaurants and other local gathering places, as well as word-of-mouth marketing. The other thing that's really helped me during the last two years with my photography classes is Groupon and Living Social. I've found that these daily deal sites reach a large audience over a short period of time with no upfront cost. The deals I've done for my classes bring people in the door, which allows me the opportunity to turn them into customers, but even if someone doesn't sign up for a class they've seen my name and know I'm here.

What advice would you offer to your fellow NASE Members?

Don't be afraid to try new ways of doing things. Stay creative by remembering why you started the business and occasionally revisiting that, even if you don't get paid to do it. It keeps your skills sharp and helps you get out of administrative ruts! ■

GET PUBLICITY FOR YOUR BUSINESS!

Your business could be featured in the *SelfInformed* Member Spotlight or in another NASE publication. Let us know you'd like to be featured and tell us more about your business on our [Publicity Form](#).





SMALL BUSINESS Committee Leadership to Look Very Similar in 113th CONGRESS

The Senate and House Committees with jurisdiction over small business and entrepreneurship issues will be led, for the most part, by the same members in the upcoming 113th Congress. The biggest change will be on the Senate Small Business and Entrepreneurship Committee, as Ranking Member Olympia Snowe (R-Maine) chose not to seek re-election and therefore her position as chair will be filled by another Republican.

House Committee on Small Business to Play Important Role

The House Small Business Committee will once again be led by Chair Sam Graves (R-Mo.) and Ranking Member Nydia Velazquez (D-N.Y.). Reps. Graves and Velazquez both held the same leadership spots in the 112th Congress. The rank and file membership will look very different given that the committee ended the session with two vacancies, and five current members lost re-election bids, including Roscoe Bartlett (R-Md.), Allen West (R-Fla.), Joe Walsh (R-Ill.), Mark Critz (D-Penn.), and Jason Altmire (D-Penn.). (As of our publication deadline, Republican Jeff Landry (La.) was in a run-off election.) Membership on the committee is not necessarily seen as a plum assignment, however. Given the emphasis on the importance of the small-business community and comprehensive tax reform, this committee could play a larger role in the 113th Congress.

The House Small Business Committee will once again be led by Chair Sam Graves (R-Mo.) and Ranking Member Nydia Velazquez (D-N.Y.).

U.S. Senate Committee on Small Business and Entrepreneurship to See Little Change

In the Senate, Sen. Mary Landrieu (D-La.) will remain Chair of the Small Business and Entrepreneurship Committee. However, the senator filling the Ranking Member slot is unknown. Senator David Vitter—the Republican Junior Senator from Louisiana—is slated to take the position. However, it is fairly uncommon to have two senators from the same state serve as Chair and Ranking Member on the same committee. It is possible that Senator Jim Risch (R-Idaho) might hop over Sen. Vitter and take the spot. If that happens, Sen. Vitter will most likely leave the committee entirely. There is a little evidence that the committee members will change dramatically, as only one—Senator Scott Brown (R-Mass.)—lost re-election. One could predict that Senator-elect Deb Fischer (R-Neb.) will take the Republican vacancy, especially when considering her personal background of running a small business in Nebraska.

Looking Ahead

The NASE looks forward to working with the Senate and House committee leadership and members to advance legislation that support the self-employed and the dream of entrepreneurship. ■

Kristie L. Arslan is president and CEO of the NASE and provides critical insight to policymakers on issues affecting our nation's self-employed. You can contact her at advocacy@NASE.org.



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