TOPIC: Crowdfunding for University Startups (information item)

COMMITTEE: Economic Development and Technology Commercialization

DATE OF COMMITTEE MEETING: March 28, 2013

SUMMARY: Crowdfund investing offers individuals an opportunity to engage with small businesses and startups and participate in their growth. The Committee will be briefed on crowdfunding opportunities and the status of SEC regulations to implement the crowdfunding provisions in the JOBS Act.

ALTERNATIVE(S): This item is for information purposes.

FISCAL IMPACT: This item is for information purposes.

CHANCELLOR’S RECOMMENDATION: This item is for information purposes.
Crowdfunding for University Startups

Tony Stanco
Executive Director
Opportunities in Crowdfunding

• Crowdfunding raised $1.5 billion in 2011
• 530 crowdfunding platforms

Source: Business2Community, October 2012
Most successful crowdfunding campaigns

- for an e-paper wristwatch called Pebble Watch, raised $10 million
- one for a video game, raised $6.3 million from 90,000 fans online
Hype Cycle of Technology Innovation

Opportunities in Crowdfunding

4 types of crowdfunding models:

1. Pre-sale product (millions of dollars)
2. Donation-based (could be hundreds of thousands; average $5-10 thousand)
3. Equity-based (could be millions); waiting for SEC
   - crowdfunding to accredited investors only; approved now
4. Debt (could be millions); waiting for SEC
Pre-sale Based Model

- Funders buying product that generally needs to be created
- Providing funding for design/manufacture
- Funders expect delivery of product
Pre-sale Based Model
- Problems

• Late delivery/No delivery
• Not what they expected
• Think it's like Amazon
  • Don't understand the risks
  • No refunds for non-delivery or disappointments
• FTC looking into it because of some complaints
  • Better disclosure of what funders should really expect
Equity-Based Model

• Funders are investors, who are financially-motivated
• Equity is given to funders
• Funders expect a return
Equity-Based Model
– only to Accredited Investors

• Related but legally different
• Crowdfunding to sophisticated/accredited investors only
  • no unsophisticated investors
• Some doing this already
Equity-Based Model
- Problems
  • Will angel investors and VCs follow-on?
    • less problem for angel/VC only crowdfunding
  • Capitalization tables can be messed up with hundreds/thousands of investors
  • Unsophisticated investors with unreasonable expectations
    • Don't realize 90-100% failure rates in startups
    • Class-action potential
  • Market of lemons
    • Only those that can't get angel or VC funding
  • Investors Fraud
Some fraud protections

• THE JOBS Act contains investor protections
  • Capped the amount that unaccredited investors can invest
  • Capped up to $2,000, or 5 percent of their income, whichever is greater in a given year

• Also, businesses that raise money on crowdfunding portals must disclose relevant financial information;
  • for companies seeking more than $500,000, that includes audited figures
Raising business finance through online investments
Crowdcube helps startup and growing businesses to raise business finance by letting people invest via our equity crowdfunding platform

£4,875,000 funded - 28,314 registered investors
Donation-Based Model

- Funders are donors; don't expect return or product
- Want to help some cause
- Clearly patient groups can help life science technologies and companies
  - Looking for better care or cures
Crowdfunding

These projects are part of a new crowdfunding initiative to support research at Children's National Medical Center, one of the world's leading children's hospitals and pediatric research centers. Crowdfunding is an increasingly popular way for people to support causes and projects they care about through online giving. People are able to make small or large donations to support projects like the ones featured on this page.

For more information about the crowdfunding initiative, click here.

For information about Children's National, visit www.childrensnational.org.

Disclaimer:

Children's National Medical Center does not guarantee or warrant actual outcomes for this project. The results of any research project may turn out to be unfeasible or no longer desirable because of unexpected issues. If for any reason a project cannot continue as planned—or if a project raises more than its established fundraising goal—Children's National will move forward as planned, or the funds will be transferred to another initiative. To donate directly to the Children's National Medical Center, visit www.childrensnational.org.

$10,064 raised so far
Registration has closed, but you can still donate to participants

Contact
Ben Cohen
(301) 565-4963
bcohen@childrensnational.org

Events (1)

14 Nov Mustache for Kids DC 2012
Washington DC

Campaigns (2)

The Joshua Project
Ends 1/6/2014
And 1 past campaigns (View all)
Our Beta Site – open to some now on test basis

http://ustartups.com
NCET2 Funding Continuum

**Research Funding**
- Pure Research

**Commercialization Barrier**

**Research Commercialization Funding**
- Proof of Concept
- Productivity
- Scalability
- Profitability

**Gov’t funding Foundations**

**SBIR Phase I**

**SBIR Phase II**

**Investors: Angels/VCs/Global 1000**

**Self-Sustainability/M&A/IPO**

**USTARTUPS.COM**

**SBIR Workshops**

**University Startups Showcase**

NCET2 Funding Continuum
Crowdfunding to Angels, VCs, Global1000
http://ncet2.org/uss

4D Teleport Technologies, Inc.
by Normando Chavez
Information Technology
University of Illinois at Urbana-Champaign (UIUC)
Showcase: Thursday, 24 January 2013 08:30 am

4D Teleport is a Delaware corporation with offices in the University of Illinois Research Park. The company licenses proprietary technology developed by one of the nation's leading universities, University of Illinois, Professor Mike Schmidt. The technology includes a dynamic location, privacy and security platform for virtual networking solutions for complex time-sensitive multimedia interactive systems. In the near-term, our mission is to develop a software platform for distributed real-time 3D immersive systems that will empower...

GraphIQ, Inc.
by John Mitchel
Information Technology
University of Illinois at Urbana-Champaign (UIUC)
Showcase: Wednesday, 23 January 2013 08:30 am

GraphIQ adds fast and easy-to-use graph analytics to the relational database system (RDBMS). Querying and analyzing massive graph data (graph analytics) not only can help users find patterns; it also allows users to predict future events and find new opportunities. With the rise in size of government intelligence, this is an area that offers great potential for growth. "We"/

SeeMore Technology
by Sarah Rees
Electronics/Media/Communications
University of California, Davis
Showcase: Thursday, 24 January 2013 08:30 am

SeeMore is a software/equipment start-up, focused on Enterprise and Service Providers. We are a non-intrusive monitoring of your network's usage and traffic patterns. Our products are designed to provide a simple and user-friendly solution to a complex network management problem. We are the first company to offer this type of product, which is becoming increasingly important as businesses seek to understand and manage their network traffic.

Crowdfunding to Angels, VCs, Global1000
http://ncet2.org/uss
OsteoDynamics is an early stage company that has already raised over $500k and completed three human clinical studies demonstrating that its proprietary diagnostic medical device technology can enable more accurate identification, than current diagnostic tests permit, those patients who will suffer an osteoporosis related bone fracture. More accurate identification of these fracture prone patients can reduce, by as much as half, the number of osteoporosis related fractures by directing these patients to currently available and effective therapies. There are two million osteoporosis related fractures annually in the US resulting in $20 billion in direct healthcare costs. The company’s technology is OsteoDynamics’ second technology venture, after a successful start-up company.
| 1. 3M | 32. Colgate-Palmolive | 62. Lockheed Martin (3-5 attendees) | 86. Roche Molecular Systems |
| 2. ABB Technology Ventures | 33. COVIDIEN Ventures | 63. Matrix Partners | 87. Rock Spring Ventures |
| 3. Abbott | 34. Core Capital Partners | 64. Merck | 88. Saint-Gobain External Venturing |
| 4. Access Bridge Gap Ventures | 35. DBL Investors | 65. Meridian Ventures Partners | 89. Sanofi |
| 5. Acero Capital | 36. DFJ Mercury | 66. Microsoft | 90. SBIR Program Managers (10 attendees) |
| 10. Applied Ventures | 41. Evonik | 71. New Vantage Group | 95. Silicon Valley Bank |
| 11. Artiman Ventures | 42. Faurecia | 72. New Venture Partners LLC | 96. Sony |
| 13. Ashland | 44. Flybridge Partners | 74. Northrop Grumman Corp. | 98. STNewVentures |
| 15. AT&T | 46. Garage Technology Ventures | 76. Novak Biddle | 100. Takeda Ventures |
| 16. Atrium Capital | 47. General Electric | 77. ONSET Ventures | 101. The Sherwin-Williams Company |
| 17. BASF | 48. General Motors | 78. Opus Capital | 102. Triathlon Medical Ventures |
| 21. BD Technologies | 52. H.I.G. BioVentures | 82. Philips (5 slots) | 106. Vista Ventures |
| 23. Blue Tree Allied Angels | 54. IDEA Fund Partners | 84. Reckitt Benckiser Group | |
Thank you!

- Email: tony@ncet2.org
- Conference: http://ncet2.org
- University Startups Showcase: http://ncet2.org/uss