



CROWDFUNDING

TABLE OF EXPERTS

SPONSORS





JOSEPH BARISONZI
Co-founder and CEO,
CommunityLeader Inc.

Joseph Barisonzi is co-founder and CEO of CommunityLeader Inc.

CommunityLeader is a provider of platform solutions for the online solicitation, sale and support of private securities. Its integrated, white-labeled platform is used by many crowdfunding sites in the United States.

Barisonzi has co-authored numerous whitepapers on crowdfunding and published “Navigating Your Portal Launch” as an eBook in 2013.

A senior executive with more than 20 years of leadership experience in community and business development, Barisonzi is a voice for a community-based approach to crowdfunding.

Barisonzi resides in Minnesota with his spouse and daughter. He is active with many community and civic organizations.



DAVID REILING
CEO, Sunrise Banks

David Reiling is a social entrepreneur with a history of innovation in community development finance. Under Reiling’s leadership, Sunrise Banks became the first Minnesota bank certified as a Community Development Financial Institution, the first Minnesota B Corp and the first Minnesota bank to join the Global Alliance of Banking on Values.

Reiling was recognized by Trust Across America as one of 2014’s Top 100 Thought Leaders in Trustworthy Business. He also has received Ernst & Young’s Entrepreneur of the Year award and Minneapolis/St. Paul Business Journal’s 40 Under 40 award. He serves on the Consumer Financial Protection Bureau’s Community Bank Advisory Council with other national leaders in banking to ensure that the perspectives of depository institutions with less than \$10 billion in assets are brought to the attention of the CFPB.

Reiling is an avid surfer, bicyclist and traveler.



MARSHALL SAUNDERS
Partner, Saunders Dailey

Marshall Saunders has been a leader in the Twin Cities real estate industry since acquiring half of RE/MAX Results in 2008. Building on a 12-year career in residential real estate sales, Saunders, along with his partner John Collopy, doubled the size of RE/MAX Results during a difficult real estate market by adopting new technology and maintaining a high level of customer service. In September 2014, Saunders sold his half of RE/MAX Results to his partner and started www.SaundersDailey.com, a website that introduces the concept of community-based investing in real estate investments. By harnessing the power of the Internet, accredited investors can contribute as little as \$5,000 and become owners in single-family and multifamily housing. Heretofore, these investments were only available to REITs or high-net-worth individuals. By using SaundersDailey.com, a new set of investors can own income-producing property in their own neighborhoods and cities.



RYAN SCHILDKRAUT
Shareholder, Winthrop & Weinstine

Ryan Schildkraut is a business transactions attorney who works closely with established and emerging companies.

Schildkraut regularly counsels his clients on corporate finance, raising money from investors, and mergers and acquisitions. He adds value for his clients by quickly focusing on the meaningful issues in each transaction and efficiently leading the parties through each step and towards a successful closing of each deal.

Schildkraut is an advocate for Minnesota entrepreneurs. He co-authored proposed legislation called MNvest, which would permit securities crowdfunding in Minnesota.

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Key Crowdfunding Terms

Crowdfunding: The process of initiating a campaign to raise funds for a specific purpose by engaging “the crowd.”

Securities-based Crowdfunding (also called equity crowdfunding): The process of initiating a campaign to raise investment for an issuer by engaging “the crowd.” The investment could be either debt or equity in the issuer or its business.

Donation-based Crowdfunding (also called premium crowdfunding): The process of initiating a campaign to raise donations for a company or organization by engaging “the crowd.” The donation may or may not come with a gift (often called a premium).

Accredited Investor: A real person who has met an income or net worth level or professional certification which allows participation in private securities.

Private Securities: A security which has qualified for an exemption from public registration.

Qualified Investor: An investor who meets specific qualifications may participate in certain private securities in accordance with specific state laws. For example, under the proposed MNvest legislation, a Minnesota resident could invest up to \$10,000 in a private security offered through the MNvest portal.

Issuer: A company soliciting the sale of a security in their business or its operations.

Security: An investment instrument which offers evidence of debt or equity.

Raise: The specific offering being presented to qualified investors by an entity raising capital. When the desired amount of capital is obtained, the raise is successful.

Portal: The front-end marketing website that connects businesses seeking capital with interested investors.

Platform: The behind-the-scenes software and services that allow the portal to work effectively.

Source: **Navigating Your Portal Launch** by Joseph Barisonzi
CommunityLeader, Inc. © 2013

THE PROMISE OF EQUITY CROWDFUNDING

BY ELIZABETH MILLARD

Contributing writer

The *Minneapolis/St. Paul Business Journal* held a roundtable Jan. 7 featuring a trio of expert panelists to explore topics about how equity crowdfunding could change the investment landscape.

Joseph Barisonzi, CEO of crowdfunding portal development company CommunityLeader Inc. in Minneapolis, served as moderator. Panelists included David Reiling, chairman and CEO of St. Paul-based Sunrise Banks; Marshall Saunders, owner of St. Paul-based Saunders Real Estate Investment; and Ryan Schildkraut, a shareholder at Minneapolis-based Winthrop & Weinstine.

Their discussion has been edited for length and clarity.

Barisonzi: Crowdfunding is all over the place with sites like Kickstarter and Indiegogo. It seems like there's so much money being raised. What do those represent, in terms of crowdfunding?

Saunders: Those are raising money for certain projects like restaurants, music, inventions – you're raising money for something and the people who give you money don't own what's being made. They might get incentives, but don't actually own it. What we're talking about today is equity crowdfunding. To me, it's one of the reasons the Internet exists, since you can harness what millions of people can do when they come together, and do something they couldn't have done individually. I think it got its start from crowdsourcing, where there was a major problem in a computer program, and you throw it out there and someone in Bangladesh and Oklahoma works on it, and it harnesses all that knowledge and combines it.

Barisonzi: I joke that in Minnesota we have one of the most successful crowdfunding entities called Minnesota Public Radio. But that's obviously a distinction from a security. Ryan, could you distinguish when it crosses the line to this new world of securities?

Schildkraut: Absolutely. I think the difference is that in securities or equity-based crowdfunding, the people who are contributing money are actually acquiring some kind of ownership in the company as a result of their contribution, as opposed to just making a donation or pre-ordering a product. So, in an equity crowdfunding campaign, you're converting donors into owners.

Barisonzi: I'd like to expand on that a little bit. A lot of folks call it equity crowdfunding, but there are securities that are not equity ownership. Security is a promise of a return.

Schildkraut: Yes, security is an investment contract, so it could be a percentage of interest, could be interest in an LLC,

could be royalties – anything that has the potential of financial return. What it's not is a brewery that goes on Kickstarter and in order to raise money, they'll give you a T-shirt. If it has some kind of upside in terms of a return, then you're into the world of securities.

Barisonzi: So on Kickstarter and Indiegogo, we've lived in this fantastic world of presale of product, of aggregating donations, but we haven't been able to offer financial return.

Schildkraut: Right. Kickstarter, and other similar donation-based crowdfunding sites are great for a retail or consumer-facing company that has a product or service to sell. They're not great for a B2B type of company. So, it's great for restaurants or an inventor who can raise money to make a product prototype, but not great for a medical device company or a software company. Kickstarter is an awesome tool, but it only works for certain types of businesses.

Barisonzi: One of the things that excites me is that it's not just about equity ownership. There's different ways to own, and that comes into your space, David. The syndicated sale of debt instruments to folks has traditionally been seen as a banking function, now it's getting all these competitors.

Reiling: Absolutely. From that standpoint, there's democratization of capital, whether it's in debt form or ownership form, and that's amazing. If you take a banker's view that's contrary, this is a competitor, it's a threat. If you take a complementary view, one of the biggest problems with small and medium-sized businesses is a lack of capitalization, of actual equity, which partners great with bank debt and greater things can happen. So greater access to both of those funding vehicles, whether it's ownership equity or debt, makes for a broader and better economy, whether it's locally, nationally or globally.

Barisonzi: Marshall, this idea of the democratization of capital as a whole has a flip side that as we go big, we become micro-local and it renews the opportunity for local. I know that's a huge driver for you in this real estate space. Can you talk a little bit about what that shift is?

Saunders: The example I use is someone is driving down Grand Avenue in St. Paul and they see these gorgeous seven-unit buildings, and they're \$1.5 million to own. So, that means it's commercial financing, lot of closing costs. To own that, a person would need about \$500,000 cash, free and clear. How many people have that? So, when you look at the tax info on these owners, nothing against them, but they live in Florida and Texas and California. They're a REIT in New Jersey. I mean no ill will against them, but the fact is that when

that building produces a profit, that gets mailed out of the area. If that building was owned by people in Crocus Hill or Summit Avenue or Highland Park, when that building produced a profit, then it would go to the people who live in the community, and would then go to local stores. It's like a self-fertilizing investment.

Barisonzi: Community is fundamental to me. We put it in the name of our business and saw crowdfunding as an opportunity to renew that community spirit. There's this promise that people can aggregate, but we don't have that ability yet. So, Ryan, why not?

Schildkraut: Generally speaking, a company can't legally conduct an equity crowdfunding campaign in Minnesota because current laws don't allow you to advertise the fact that you are seeking investors for your business. It's been illegal for over 80 years. As a general rule, any time you're selling a security, you either need to register the security or find an exemption from registration. The main registration exemption that most small companies use is the private-placement exemption. The general rule with that type of exemption is that you can only ask people to invest in your company if you have a

substantial pre-existing relationship with them. So, when you hear about people doing a "friends and family round," that's exactly what that is -- they're just selling to people with whom they have that pre-existing relationship.

Barisonzi: You talked about who you can talk to, but we've also had a restriction on who is qualified to even participate.

Schildkraut: Right. Now, for companies that need to raise over a million dollars, as a practical matter, they should only be selling to accredited investors. Basically, accredited investors are high net worth individuals. If non-accredited investors are involved in the capital raise, then you trigger a bunch of additional disclosure requirements, which just makes it cost prohibitive.

Barisonzi: It honestly doesn't make sense to me that Paris Hilton can invest in my company, but my economics professor from Gustavus can't. Is there some way this is going to change to make equity crowdfunding into a real possibility?

Schildkraut: This is a rare bipartisan issue. Congress, who can't seem to agree on anything, even agrees that it should be



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legal for small businesses to use the internet to connect with people who might want to become investors. In 2012, Congress actually passed laws as part of the JOBS Act that legalized this. Congress then directed the Securities and Exchange Commission to come up with rules for it. Congress gave the SEC 270 days to release the rules, and so far it's been nearly 1,000 days, and the SEC still has not released final rules. The SEC did release proposed rules. They are 587 pages long and have been met with universal and widespread criticism. States have been frustrated by the delays at the federal level, so, one by one, they've been passing their own crowdfunding laws. In Minnesota, there's a new legislative proposal called MNvest. It's modeled on laws that have been based in other states, like Wisconsin and Michigan. Once MNvest passes here, any Minnesota company will be allowed to use the Internet to connect with Minnesotans who might want to invest, regardless of whether they're accredited or non-accredited.

Barisonzi: I know the three of you have been trying to pull together what that Minnesota exemption would look like. Why? David, as a banker, shouldn't you be afraid of new, emerging places providing alternative financial vehicles outside of the regulatory environment of the bank?

Reiling: I view it differently than a contrary type of view where this is just a competitor. Believe me, there's enough headwind against banks, and particularly

community banks due to regulations and economic factors that we don't need more against us. But the fact is that when you look at it from complementary view, these small and medium businesses do not have the same type of access to capital that large ones do. And that's a glaring need. For our community and our economy in Minnesota, we have to address that. From a community banker's perspective, we have deal flow: we have relationships with small and medium customers; we have connections to the local economy, so we have a good pulse on what's needed. If Marshall said I need more equity, and he can raise 50 percent and he needs a bank loan for 50

percent, my ears would perk up because that's a loan I'd love to have.

Barisonzi: So, the proposed MNvest legislation would create an intrastate exemption for the state so that Minnesota businesses could raise funds from Minnesota residents. Could we hear about, in the proposed legislation, what the limits are?

Schildkraut: Yes, this isn't the Wild West where anyone who wants money can go on a website and solicit money. You still need to provide potential investors with a thorough disclosure document or prospectus. Minnesota has a rich tradition of protecting consumers and there are dozens of laws on the books that protect prospective investors. All those laws will continue apply. In addition, MNvest adds an entirely new layer of regulation that gives additional protection to consumers, but I think it's also designed in a way that still makes the system very usable and cost-effective for businesses trying to raise capital.

Barisonzi: One of your points is about protecting the investor, and it's also about protecting businesses, especially when it comes to protecting platforms and defining reporting requirements. Marshall, if this were to pass, would you be expanding your offerings?

Saunders: Absolutely. We're ready to flip the switch once we get a good idea of what the rules are. I'm assuming that when it goes through the legislative process, some changes will happen. But I don't think I'd offer different investments, whether they're to accredited investors or not, it just would widen the pool and the process we would go through as we did it. I do think it would transform how people invest. You would see more investment and growth, and I think it would help everybody.

Barisonzi: I think it's profound, because it doesn't just change how people invest, I think it changes their relationship with the business community. I'm not just a consumer anymore, I'm also looking at it from the lens of owning a piece of the bakery I'm visiting, for example. That's about establishing a sense of ownership in the community. This isn't just about the money, either, for the businesses, it's about the personality of

the investment that comes in. So instead of business getting funds from a REIT or a hedge fund, it's a different quality of investment.

Reiling: It is. All investors come with personalities, whether it's a REIT or a venture capitalist. They come with their own blessings and curses, same as having 100 neighbors own everything. But the fact is that those 100 neighbors probably take a longer viewpoint than those who are maximizing short-term profits and seeing investments as a liquidity event. From a banker's point of view, you have to take an optimistic view of this and figure out how you can be relevant in this space. We need to adopt some methodology around crowdfunding where we might see a lower return for the bank, but a higher return in terms of community building and social purpose.

Saunders: What a fascinating day that will be if someone comes in for a business loan and instead of turning them down because they don't have equity, you can direct them to some kind of equity crowdfunding portal where they can raise money. Then you can say, "If you raise 40 percent, I'll give you the other 60."

Barisonzi: That would be great, but let's be realistic: Some things are going to go wrong, so let's talk about that.

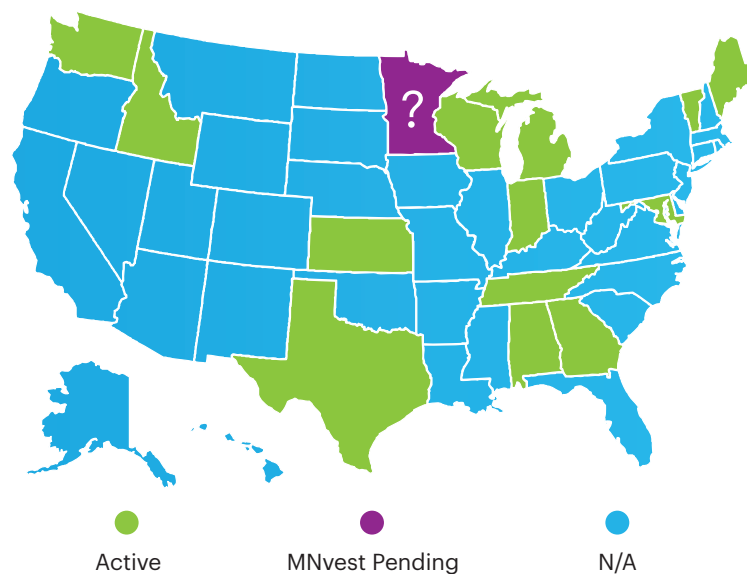
Saunders: I do worry that in the early days of equity crowdfunding you'll have these deals that look too good to be true and that promise an immense return on investment, and they'll turn out to be false. Then you might have people pointing at that and saying we shouldn't allow it.

Reiling: I think what will need to be emphasized is that there's still risk involved. Any investment you make will have risk, with certain industries having more than others. So, I think the management of equity crowdfunding will be very important, along with education. We would need to let people know, especially new investors, that if you lose money in an investment, it doesn't mean that fraud is occurring.

Barisonzi: We can't avoid the fact that there will be some businesses that fail, even with equity crowdfunding. And that's a good thing, because it means we have a vibrant economy. But despite the possible drawbacks, I think equity crowdfunding presents an opportunity for people. It can have a social impact. You can invest based on your values and your interests, and have more ownership in your community. For example, think about community solar projects. Why shouldn't they be able to go to the residents of those communities and get investments that way?

Schildkraut: Also, there are benefits in terms of job creation. When small businesses have easier access to capital, it allows them to hire more people. And more jobs only benefits and helps build the local economy. I think we are going to see a democratization of funding, where it will be easier and faster for people to get access to capital, and that will have a ripple effect through the Minnesota economy, from job creation, stronger businesses, and stronger communities. It's hard to argue against those as goals for Minnesota.

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