



August 16, 2012

Financial Industry Regulatory Authority
1735 K Street, NW
Washington DC 20006-1500
Attn: Ms. Marcia E. Asquith, Senior Vice President and Corporate Secretary

Re: Title III - Legal Structure of Crowdfunding Investors

Thank you for allowing EarlyShares the opportunity to comment and assist FINRA with the rulemaking process for Title III of the JOBS Act. We acknowledge that FINRA will be tackling a multitude of issues during this process. As an equity-based crowdfunding platform, EarlyShares supports FINRA in its promulgation of rules and policies that will allow crowdfunding to flourish, which will ultimately allow American small businesses to flourish. In this comment, EarlyShares suggests that FINRA establish procedures that would effectuate the structuring of crowdfunding investors of a successful crowdfunding investment round into an investor syndicate (a single legal entity within the entity seeking to raise capital) in a way that does not restrict or inhibit future investment rounds.

Under the crowdfunding exemption, crowdfunding investors will receive equity in return for their investment. While this will allow for entrepreneurs to access much needed capital, it may also drastically complicate the ownership structure of the entity seeking to raise capital. A business that has three to ten shareholders may take on thousands of additional shareholders by the completion of a successful crowdfunding investment round. To that end, one unintended consequence that may arise is that businesses that obtain funding under the exemption will have an extremely difficult time obtaining future rounds of financing from angel investors and venture capital firms (liquidity for investors).

David S. Rose, CEO of Gust.com and expert in the venture capital arena, has validated this danger when he posted a response to, "How do venture capitalists feel about following a crowdfunding raise?"¹ His response reflected a unanimous agreement from this year's Venture Forward 2012 Conference where "many of the top angels, VCs, lawyers, and pundits in the industry [stated] that 'direct, equity-based, common stock crowd funding as envisioned by the JOBS Act' would absolutely, positively preclude future investment by any serious professional investor, either angel or VC."² Rose went on to mention that there were some workable options discussed that could make businesses coming off of a successful crowdfunding investment round attractive in future rounds. One option was to round crowdfunding investors into a single vehicle with a professional manager.³

¹ David S. Rose, *Crowdfunding: How do venture capitalists feel about following a crowdfunding capital raise?*, available at <http://www.quora.com/Crowdfunding/How-do-venture-capitalists-feel-about-following-a-crowdfunding-capital-raise> (last visited August 10, 2012).

² *Id.*

³ *Id.*



This is not a new concept in the crowdfunding industry. In fact, Symbid, a major equity-based crowdfunding platform in the Netherlands, organizes the investors of a successful crowdfunding investment round into a single purpose vehicle that it refers to as an “Investor Cooperative.”⁴ This Investor Cooperative entitles the investors indirect voting rights into the business seeking capital by way of an ownership interest in the Investor Cooperative (which holds the agreed upon percentage of ownership interest/equity in the business seeking to raise capital).⁵ This structure serves as empirical evidence that such a structuring would keep shareholder maintenance efforts reasonable and still offer the investors adequate protection and rights.

Accordingly, EarlyShares believes that investors and entrepreneurs will stand to benefit, and that they will agree that this formation is a critical component for the success of any business utilizing the crowdfunding exemption. Further, the investor syndicate will be heard as a group and stand behind one powerful vote representing the entire amount of the equity offered in the fundraising campaign. This concept derives from the fact that investors invest as one collaborative unit: the crowd. Thus, the crowd should be represented as one collaborative unit with a common goal: the success of the company.

Addressing the voice of all shareholders is also a critical component for the success of any business utilizing the crowdfunding exemption. This component can be accomplished by way of a funding portal serving as the manager of the newly formed investor syndicate to serve as a liaison that projects the voice of the investor syndicate. The funding portal managing the investor syndicate will ensure that the investors’ voices are heard, and at the same time, the business will remain attractive to future rounds of financing. Thus, entrepreneurs and investors will work as one collaborative unit with a common goal: the success of the company and, ultimately, liquidity.

The JOBS Act was implemented to “Jumpstart Our Business Startups.” The adoption of some form of this proposal will provide an efficacious vehicle to support the heart of the Act. Please contact EarlyShares if there is anything we can do to assist FINRA with this process.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "M. Lopes", is written over a horizontal line.

Maurice Lopes
CEO
EarlyShares.com, Inc.

⁴ <http://www.symbid.com/howitworks#legal> (last visited August 10, 2012).

⁵ *Id.*