

# PAYING IT FORWARD

*Karma411 spinoff will bring crowd funding to startups*

By JOHN CALLEGARI



**JOHN MURCOTT: The Karma411 CEO said he will collaborate with the spinoff's top executive.**

The recent signing of the bipartisan Jumpstart Our Business Startups Act has at least one established company licking its chops.

Bolstered by new provisions allowing start-up companies to raise capital through crowd funding, Jericho-based Canrock Ventures plans to spin off the technology from Karma411, in which it is a majority stakeholder, into a for-profit funding portal.

The JOBS Act amends the Securities Act to allow companies to raise up to \$1 million per year through individual investors without conducting a public offering, which typically proves too costly for most small businesses in their infancy.

Under the 1933 Securities Act, crowd funding for startups was only allowed through donations. Unlike shareholders, contributors could not receive any type of financial stake in a company. And a startup was prohibited from having more than 500 of these donors or would risk being forced to go public.

The newly amended act allows crowd-funding investors to earn a piece of the company without going through the rigors of a public offering.

Individuals are limited in the amount they can invest in a startup. Those with annual incomes below \$100,000 can't contribute more than \$2,000 or 5 percent of their income. Those earning more than \$100,000 per year can't invest more than 10 percent of their earnings.

Jericho-based Karma411 already has the technology in place for for-profit crowd funding. The company has done numerous crowd-funding campaigns for nonprofit organizations, some of which have even broken the seven-figure mark. Karma411 isn't the first to employ crowd funding; other websites, such as Kickstarter, currently utilize a similar approach to fund artistic projects and charities.

A spinoff of Karma411 will be created to handle the for-profit fundraising, because, according to Farrell Fritz Partner Alon Kapen, for-profit funding portals must be registered with the Securities and Exchange Commission and be a member of a national securities regulator such as the Financial Industry Regulatory Authority.

"I expect we'll have something up and running within three months," said Jim Estill, a partner with Jericho-based Canrock Ventures. "The programming is done, we just have to re-skin it and add some resources for the businesses that are starting."

Additional regulations will follow.

"This is such a new concept that a lot of the requirements for funding portals will be fleshed out in SEC rules that have to be issued within nine months," Kapen said. "It's hard to say what the phase-in will be, but it's possible the portals could begin operating one way and have to change the way they do things once the new regulations come out. That's why I think you'll see a lot of activity

starting to pick up in nine months or so."

Canrock Ventures has done this before, spinning off General Sentiment's external brand perception technology into Thrive Metrics, which looks at how employees perceive their company. Like Thrive, the Karma411 spinoff will be given its own team of leaders.

"There will be collaboration for sure," Karma 411 CEO John Murcott said, "because we're all part of Canrock. But the goal is to bring in a new CEO as it is a separate entity."

Estill said he anticipates the Karma411 spinoff to serve as a preview of potential clients for Canrock Ventures, with the crowd-funding portal attracting mostly Internet-based technology companies that don't need a lot of capital to get started. That doesn't mean, however, that other new businesses couldn't use the spinoff fundraising venue.

"You wouldn't be able to start a manufacturing plant where you'd need \$5 million or \$10 million using crowd funding," Estill said, "But I could foresee individuals starting a coffee shop utilizing the service. I actually think it can be used to raise all the money [a company needs]."

But some aren't so sure.

"I think the jury is still out on whether this will have a major impact on startups," Kapen said. "I could see a market developing, but because of the caps, I think it will provide more utility for smaller startup companies at the lower end of growth."