Crowdfunding Plan to Recover Acuisition Costs

	1997					
Target Raise	**$5,000,000**					
Distributor Program Level		**Base**	**Silver**	**Gold**	**Platinum**	
% of Post Sale Participating Distributors		100%	10%	8%	2%	We assume that: 1) 100% of the current 25,000 Distributors will continue participation post-sale. 2) Some smaller percentage of current Distributors will opt-in for the new higher level programs. 3) These higher programs will offer better incentives like higher profit sharing percentages, promotional support, regional adversting, etc.
Number of Participating Distributors per program		25,000	2,500	2,000	500	
Required Initiation Fee		$200				"Initiation Fee" buys Distributor base level of Class B shares
Share Price		$5.00	$5.00	$5.00	$5.00	
Minimum Class B Shares per Distributor		40				
Addtional Shares per Distributor Level			60	160	260	
Total Class B Shares purchased per Distributor		40	100	200	300	
Cost of additional Class B shares per Distributor by program level			$300.00	$800.00	$1,300.00	
Total Distributor investment by program level		$200	$500	$1,000	$1,500	
Funds raised by program level		$5,000,000	$1,250,000	$2,000,000	$750,000	
Total proceeds from sale of Class B shares		**$5,000,000**	**$6,250,000**	**$8,250,000**	**$9,000,000**	**GOAL Retire, within 1 year, debt incurred for acquisition.**
Proceeds in excess of Target Raise		**$0**	**$1,250,000**	**$3,250,000**	**$4,000,000**	
Shares Outstanding						
Pre-sale outstanding Ordinary shares reclassified as Class	10,000					Ordinary shares reclassified as Class A stock with full voting rights.
Post-sale new shares issued to Distributors as Class B		1,000,000	250,000	400,000	150,000	New shares issued as Class B Redeemable non-voting stock
Post sale shares outstanding		1,010,000	1,260,000	1,660,000	1,810,000	Total shares outstanding across all program levels
Pre-sale cash on hand		498,058	498,058	498,058	498,058	
Post-sale cash on hand		**-1,942**	**1,248,058**	**3,248,058**	**3,998,058**	

A Thought Experiment: New Shares for Distributors

As a class we have devised several good financing scenarios for Hamer to purchase Paint-Pen. But what happens post-sale? Depending on the financing scenario chosen the new owner will be saddled with personal and corporate debt which can inhibit their ability to focus on growing the business.

This thought experiment looks at how this debt can be retired within a year through the creative use of customer funding techniques my Group 8 learned while researching our Final Project. I found myself being drawn deeper into this experiment than I originally intended so I stopped my deeper dive into a fundamental marketing program, incentive plan, etc. For the purpose of argument stipulate that all this can be worked out and examine the basic assumptions posed here.

First, I believe it is a mistake to try to hide the sale of the business from the distributors. The owners can do what they want but, I suggest they should make the distributors partners with a vested interest in preserving the relationship with their sales channel.

The Distributors represent a built-in crowd. They are already familiar with and support the product. They have a demonstrated willlingness to invest money and time in the business.

A profit sharing program can be implemented that incentivizes Distributors to fund the acquisition through the payment purchase of shares in the company. Retiring debt from the acquisition can become a common goal in which the Distributors can participate. Management can frame their participation as an investment in the future of the company. The direct benefit to Distributors is that the cash raised will be used to fuel growth through marketing and advertising programs which enable Paint-Pen to better compete with larger well-funded competitors.

Program Description: As envisioned the funding program has four levels: Base, Silver, Gold and Platimum. The Base level is required for particiption as a Distributor. This was referred to earlier by my Group 8 as an "Initiation Fee". The amount to join at the Base level is $200 for which a Distributor gets 40 shares of Class B stock. All Distributors are required to join at this level.

For $500 ($200 Base + $300 upgrade) a Distributor can upgrade to the Silver level which gives them 60 additional Class B shares for a total of 100 shares. The Gold level increaases the shares by 160 for a total of 200 shares at a cost of $1,000 ($200 Base plus $800 upgrade). And, finally, the Platinum level provides requires an investment of $1,500 ($200 Base plus $1,300 upgrade) to increase Class B shares by 260 for a total of 300 shares.

A variation on Option 3 is to offer Distributors an incentive in exchange for the proposed Initiation Fee. Distributors may resist paying the Initiation Fee because they feel they are being asked to pay for something they already have, namely the right to sell Paint-Pens. However, offering Distributors the opportunity to invest in the new company may encourage Distributors to pay the fee. What they really are doing is purchasing shares. The stocks could be classified with existing stock (i.e. ordinary shares) as Class A with all the existing rights. A new class B could be issued to Distributors only. These shares can be restricted as Non-Voting and Redeemable. By being classified as non-voting, management keeps control of the company through ownership of Class A shares. By being classified as Redeemable, Distributors who leave the business must sell their shares back to Paint-Pen. By doing so they will no longer have a right to profits and/or dividends.

An extension of this approach would be to allow Distributors to purchase more than the 40 shares equivalent to the $200 initiation fee. For example, if a Distributor wanted to purchase 100 Class B shares

Scenario B would increase cash on.hand to $.
Scenario C would increase cash on hand to $.

The additional funds could be used for:
Payoff Accounts Payable liabilities of $223,970
marketing and growth initiatives to compete with larger competitors.

An argument can be made to sweeten the pot to gain seller financing for 1 year.

"Presell" the Distributor shares so that purchase money is immediately available upon closing.

Option 4: Seller Financed Modified Crowd Funding Approach					
Pay Seller more than asking price	**5250000**				
Have a long escrow which is contingent upon collection of	25000	Distributors			$5,000,000
Buyers have 90 days to collect Initiation Fee from 40% of Distributors	Months 1-3	40%	10000	$200	$2,000,000
Buyers have 180 days to collect Initiation Fee from 80% of Distributors	Months 4-6	40%	10000	$200	$2,000,000

Buyers have 270 days to collect Initiation Fee from 100% of Distributors	Months 7-9	20%	5000	$200	$1,000,000	
Buyer plans to Implement additional Class B programs within 360 days	Months 10-12					