



Grassroots Economic Organizing

Catalyzing worker co-ops & the solidarity economy

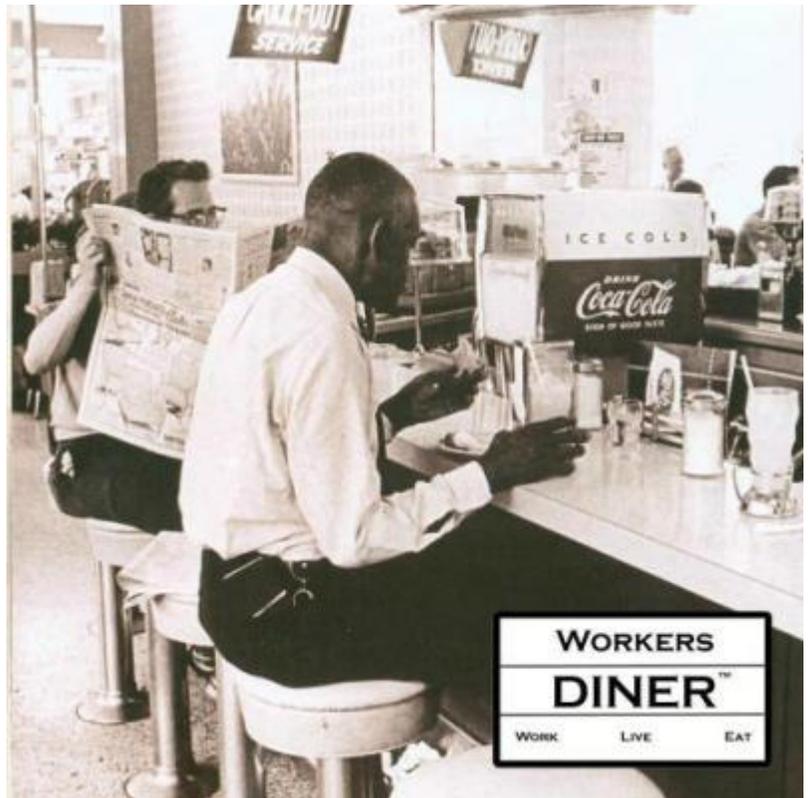
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Crowd Financing Worker Cooperatives

Lessons from the Workers Diner

by Christopher Michael and William Cerf

In the past year, over a dozen investors made an amazing commitment to the future of worker cooperation and worker-controlled enterprise by investing in Workers Diner. These investments signaled the potential for a new method of raising startup capital for worker cooperative businesses. On the basis of decades-old securities rules, Workers Diner conducted a direct public offering (DPO) in New York, New Jersey, and Connecticut. Non-voting preferred shares would earn a 3.25% fixed, non-cumulative dividend. Wealthy and non-wealthy investors alike had the opportunity to purchase stock via a custom-made web platform. And the offering itself was legally advertised in email blasts, on the Workers Diner website, as well as on Facebook and Twitter. In late April 2012, Workers Diner set out to sell stock and raise enough money to open its doors.



Unfortunately, Workers Diner did not achieve its financial goal of raising \$500,000. This result was likely due to the lack of seed funding to promote the offering, a shortfall of professional experience among the startup team, and the newness of the concept among the general public. Workers Diner's developers understood from the start that there was a possibility of failure. For the duration of the offering, stock subscriptions were securely held in an escrow account at Lower East Side People's Federal Credit Union. The offering is now closed, and all funds have been returned to investors. Thankfully, there will be many more opportunities for direct investment

in worker cooperatives, as legislation at the federal level expands the use of direct public offerings.

It may be that one of the immediate successes of the Workers Diner project was to inspire the crowdfunding provisions of the JOBS Act, federal legislation that intends to lower regulatory hurdles for online direct public offerings and facilitate investments from (and to) Main Street.

In detail, the Workers Diner team set out four years ago to use the existing framework of the SEC’s “Small Company Offering Registration.” We partnered with Jenny Kassan—an engaging and brilliant lawyer from Northern California—who took on the project as a learning experience. (She called us her “guinea pig.”) In the time since, Jenny has developed an entire firm around the practice of crowdfunding. Cutting Edge Capital (CEC) is now the most highly reputed expert in the field, and has managed the successful offerings of People’s Community Market (\$630,000 and counting) in the Bay Area, Quimper Mercantile (\$500,000) in Washington, and Real Pickles worker cooperative (\$500,000) in Massachusetts. At the same time, Jenny leveraged her role as Director and Co-Founder of the Sustainable Economies Law Center to draft a legislative proposal that later became the above-mentioned crowdfunding provisions of the JOBS Act.

More recently, the JOBS Act has generated a host of crowdfunding organizations and conferences, such as SeedInvest, Crowdfunding Professional Association, and CrowdfundingRoadmap—not to mention a number of online public offering platforms, such as Cutting Edge Capital’s CuttingEdgeX (CEX) platform and EasyShares. These equity-based platforms join a growing pool of donation-based crowdfunding platforms like Kickstarter, Indiegogo, and GoFundMe. A year ago, many of these resources did not exist. As mentioned above, Workers Diner built a homemade platform to allow the online purchase of shares, as well as to securely accept legally required and confidential investor data. The startup team was thrilled to have been a small part of these grassroots economic innovations and learned much throughout the process.

For those interested in lessons learned, [this post](#) on Cutting Edge Capital’s website captures much of Workers Diner experience. In short, Workers Diner approached financing with a goal of raising all of its startup capital in equity. The intention here was to create a replicable tool for other startup worker cooperatives that lacked resources. That said, it is likely the case that a mixed method of funding—a “whatever works” approach—would be more effective.



Workers Diner Facebook Ad

For instance, Workers Diner could have greatly benefited from conducting a brief \$10,000 Kickstarter or Indiegogo campaign—soliciting donations only. These funds could then have gone toward supporting the promotion and sale of stock. It is noteworthy that Quimper Mercantile, another client of CEC, had a fund of \$50,000 to spend while marketing their stock. This was likely one factor in their success (Quimper raised \$300,000 in the first three months of its DPO). A promotional fund would likely

have gone a long way in helping Workers Diner to organize investor parties in Manhattan and Brooklyn, as well

as in developing credibility among Connecticut-based investors. Likewise, it may have been beneficial to target a lower minimum offering (e.g. \$100,000) and attempt to gain the balance through other means, such as loans or additional donations-based campaigns.

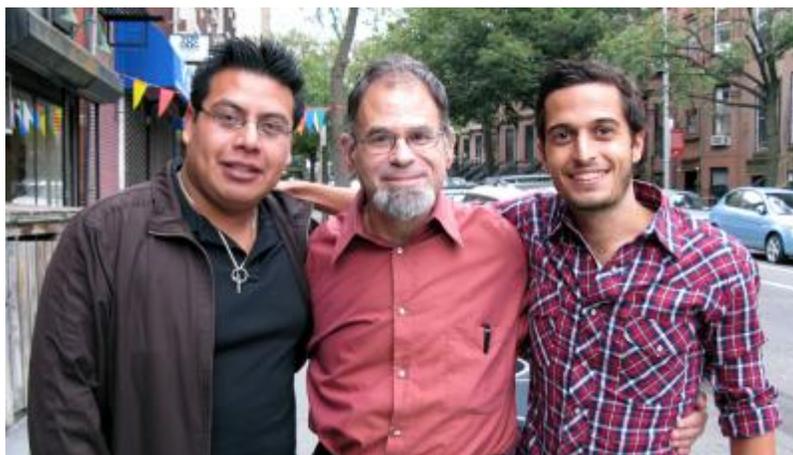
That said, some of the greatest obstacles in terms of public perception are rapidly changing. Where the phrase “direct public offering” required much explaining one year ago—not to mention the term “worker cooperative”—direct public offerings are now becoming a part of the lingo of the investor class. One year ago, it was typical to receive highly negative responses from professional financiers—discarding out-of-hand the possibility that a small startup project could sell stock online and solicit to the general public. The Workers Diner team and Jenny Kassan were confident that their approach was legal, but very few others shared this opinion. However, as this financing technique becomes more mainstream (see [this article in the New York Times](#), for instance) and as the JOBS Act provisions relating to crowdfunding are implemented, investors’ unfamiliarity with DPOs will no longer be an obstacle.

At the same time, one of the greatest takeaways from this experience is a reluctance to recommend the use of direct public offerings at all. DPOs cast an incredibly wide net—allowing investment from every resident adult within the states approved for an offering. It’s not clear that casting such a wide net is necessary.

DPOs bear a not insignificant drawback in the time required for conferring with regulators during the approval process, not to mention the costs associated with approving and promoting the offering. In Workers Diner’s experience, state regulators vary greatly in process and approach. New Jersey regulators were relentless in their precision, concern for consumer protection, and respect for procedure. After every iteration of the stock prospectus, the entire 80-page document was required in hard copy. The approval process for New Jersey demanded no less than a year of back-and-forth with regulators.

On the other hand, New York essentially stamped and registered the prospectus on the day it was received. (There was about a one week delay on the basis of a single request for additional paperwork.) Although, it should be stated that New York requires pre-approval in another state before they apply a “rubber stamp.” Connecticut was a happy medium—requiring few changes and giving approval within six months.

A time delay of several months is not a huge downside where the potential benefits include raising large amounts of equity capital. However, this same equity can be raised by virtue of a private offerings that requires no approval process—or, much more simply, donations. Of course, JOBS Act rules have not yet been implemented, and the crowdfunding community will soon discover the severity or laxity of the new procedures. In the present moment, however, a worker



Workers Diner Developers

cooperatives might just as well benefit from attracting several dozen large investors.

Cutting Edge Capital's own direct public offering and Real Pickles' DPO appear to be cases in point. Each business raised several hundred thousand dollars in equity from just several dozen individuals. CEC and Real Pickles may have been just as successful by hosting a few private parties for the same investors, and forgoing the DPO process. In any event, a private offering should be a strong consideration for any cooperative looking to raise equity—especially given that a successful private offering will not necessarily bar a future DPO to a wider group of potential investors.

Looking ahead, Workers Diner's developers sincerely hope that activists and social entrepreneurs across the country utilize the new modifications in federal securities laws—and an emerging awareness among investors—to grow the worker cooperative economy. As developers, we gained valuable experience in researching, planning, and executing a direct public offering. In the process of drafting the stock prospectus, we developed relationships with securities regulators in New York, New Jersey, and Connecticut. Hopefully, these lessons and relationships will prove valuable in future ventures. The team would never have started this project but for an intention to build worker cooperative enterprises—and we remain focused on that broader goal. As said in the international worker cooperative community, we build the road as we travel. Workers Diner was one small step on that road.

Christopher Michael is completing a JD/PhD (Politics) at the City University of New York with a focus on cooperative financial structures, community economic development, and labor law. He is currently co-editing a companion volume to “Ours to Master and to Own: Workers’ Control from the Commune to the Present,” for which he wrote a chapter comparing unionized worker cooperatives in the U.S., Italy, Argentina, and Canada. Chris is also a founding director of [NYC Network of Worker Cooperatives](#).

William Cerf received his Master of Arts in Business Communication (MABC) from Jones International University in November 2011 and began doctoral studies in January 2012 at Union Institute & University with a Concentration in Ethical and Creative Leadership and a Specialization in Martin Luther King, Jr. Studies. Additionally he is an active participant in the Poverty Scholars Program of the Poverty Initiative at Union Theological Seminary in New York City and an advocate for empowerment of low-income people through involvement in Community Voices Heard (CVH). He is passionate about the development of worker-owned cooperatives and is a member of the [NYC Network of Worker Cooperatives \(NYC NoWC\)](#).

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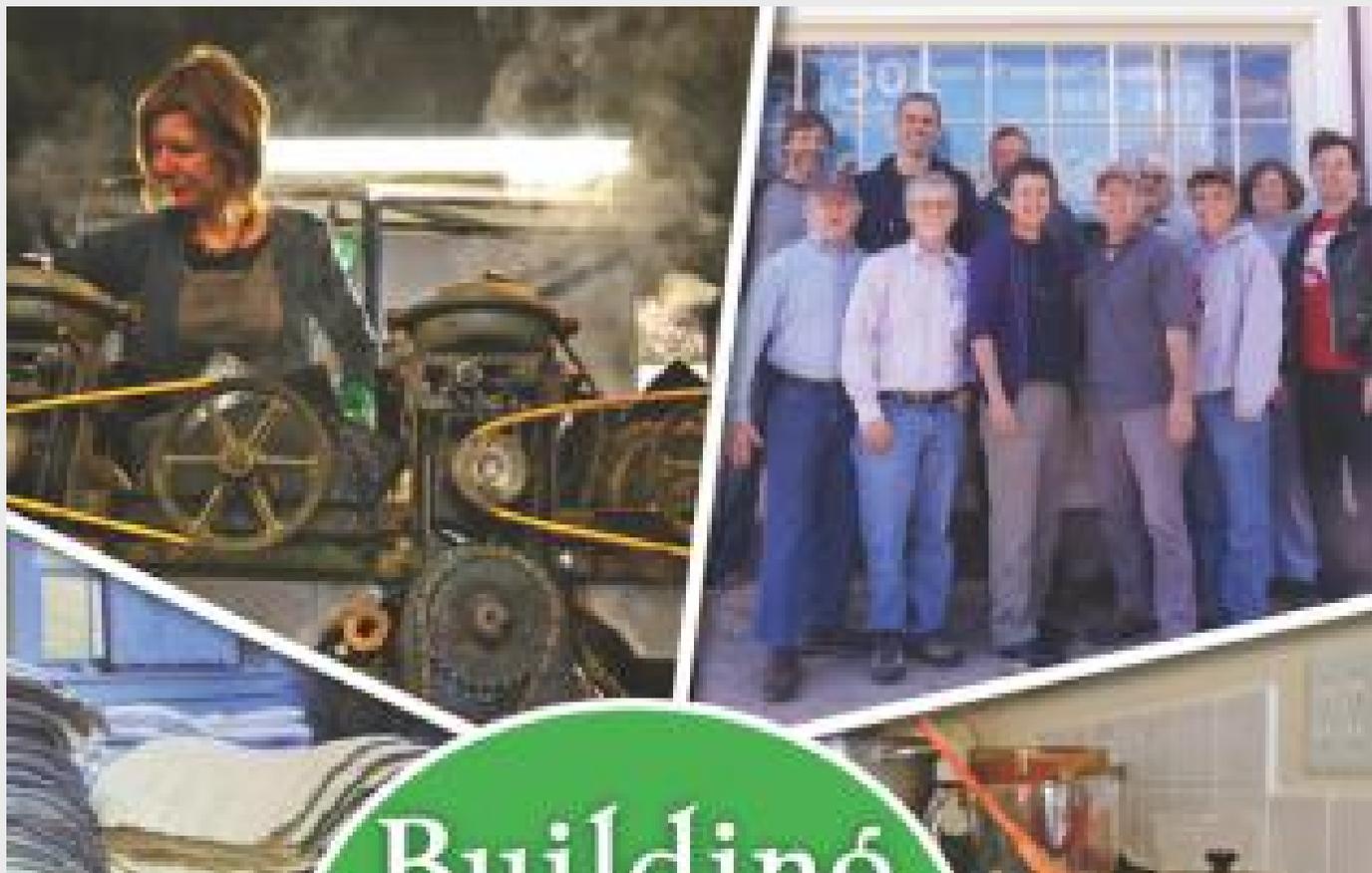
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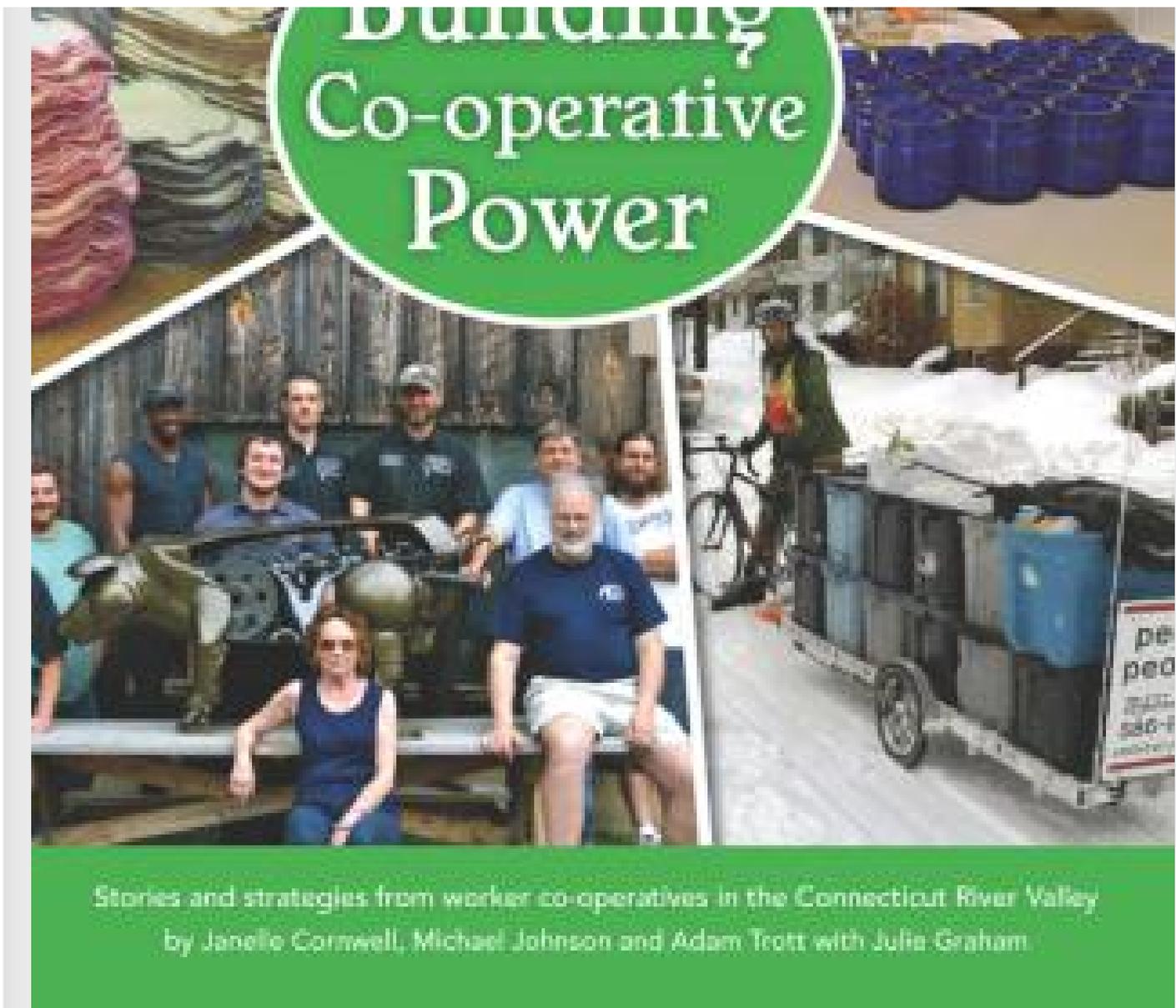
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