

Financing Curzio Research With A Security Token Offering (STO): Case Study



Executive Summary

The following real-world case study highlights a successful Security Token Offering (STO) and issuance of the Curzio Equity Owners (CEO) token. Upon completion, the reader will understand in detail the costs, benefits, requirements, and time-frame in which an STO can be used to accomplish a businesses' capital formation and management needs.

Curzio Research: A Real-World Case Study

As one of finance's leading independent financial newsletter publishers, Curzio Research provides individual investors with access to curated investment research and analysis. Founded in 2016 by Frank Curzio, a financial publishing industry veteran, the company quickly established itself as a go-to source for investor education and recommendations; within the first 18 months of business, Curzio Research amassed a noteworthy reader list of 40k individuals.

A publisher's success is largely dependent on its ability to convert its reader list into paid subscribers. Curzio Research has excelled in this area and possesses one of the highest conversion and retention rates in the industry. The company generated an impressive \$6.4 million within the first two years of launch which is even more remarkable when factoring in their modestly sized reader list. Over the same period, their largest competitors booked \$2 billion in sales while distributing to millions of readers.

The opportunity is quite clear; as Curzio Research's readership expands revenue growth will coincide. In the newsletter industry it all comes down to list size. After analyzing the data from their existing list and getting the proper management team in place, Curzio Research was ready for strategic expansion. Since capital serves as the fuel for scaling a business the company set out to explore its options for raising \$3-\$12 million in 2018.

The STO

Frank Curzio has been analyzing markets for over 25 years. During this period he built out an impressive network within financial services. While tapping into this network, he was presented with two logical fundraising options for Curzio Research: (1) Traditional Private Offering or (2) a Security Token Offering (STO).

Private placements can be offered under Regulation A+, Regulation CF, or, most commonly, Regulation D (Reg D). Regulation CF has a maximum raise limit of \$1M, so Frank immediately eliminated that option. He wasn't interested in Regulation A+, due to the increased reporting requirements and 60 day waiting period. By process of elimination, Reg D was the logical choice: (1) No raise limits (2) No waiting period and (3) If issued under Rule 506(c), an allowance for general solicitation. Since sales and marketing are specialties of Curzio Research, a Reg D 506(c) offering appeared to be the best option.

However, once Frank started looking into the financing terms and expenses he became discouraged; intermediaries wanted to extract exorbitant fees for simply making introductions to potential investors, while brokers sought rent without guaranteeing adequate liquidity for Curzio Research's potential financial instrument. It started to look like Curzio Research's traditional private placement was going to generate more value for the middlemen than Curzio Research's stakeholders.

Luckily, Frank had been following the developments within the digital securities market, so he reached out to his industry contacts to learn more about STOs. Frank started out by examining security token issuance platforms within the digital securities ecosystem. After researching the track record of each company, its management team, prior token issuances, affiliated partnerships, and vision for the future, Frank set up a meeting with Securitize.

*Dependent on volume on security marketplaces

During their meeting, Frank discussed his plans for expanding Curzio Research and how he was targeting a raise of \$3-\$12 million. Securitize then walked Frank through its standard 3-step STO process. After hearing Securitize's step-by-step process, Frank communicated that he had been considering a traditional private placement.

Securitize assured Frank that a STO under Reg D, Rule 506(c) would not only cost less upfront, but also deliver savings down the line as the security life-cycle events and related compliance processes could be streamlined. Furthermore, a security token would guaranteed liquidity for each token after the standard 12 month lock-up period. Since security token exchanges trade 24/7, Frank saw this as a unique benefit for his investors, as they would realize more potential liquidity through a STO than a traditional private placement.

Frank was excited to hear about the potential cost savings from a STO, as this would allow him to put more capital back into his business. He planned to utilize the funds to not only increase the front-end reader file, but also expand the products that were offered to Curzio Research's customers. Existing subscribers had previously expressed an interest in learning more about digital assets and specifically the investment opportunities that were within the security token market.

Frank planned on giving equity in Curzio Research to its investors so a security token raise would offer a great value proposition to his stakeholders. By participating in the STO they would not only own a piece of Frank's business, but they would also be funding their future education on this burgeoning industry. It was also brought to his attention that digital securities are programmable or customizable, meaning the tokens could facilitate multiple business functions. Security tokens could provide access to a web based platform such as Curzio Research, or they could serve as an instrument for receiving future potential dividends.

After hearing both the monetary savings and stakeholder benefits that Curzio Research could expect from a STO, Frank decided to issue the Curzio Equity Owners (CEO) Token.

The STO Process Overview + Timelines

While working with Securitize, Curzio Research followed our 3-step process to setup, execute, and manage its CEO token offering:

STEP 1: Setup Phase

Before each security token issuance, Securitize works with its clients to create a customized STO strategy. This process entails determining how to best (A) structure each offering, (B) originate or modify the required documentation, (C) acquire the appropriate legal reviews, and (D) arrange marketing campaigns.

STEP 2: Issuance Phase

The security token issuance process involves (1) minting the company's tokens, (2) properly overseeing the KYC/AML/Accreditation procedures for each investor, and (3) directing the capital and token exchanges between the issuer and its investors.

STEP 3: Life-cycle Phase

Once the tokens are issued and distributed to each wallet, the investor life-cycle stage begins. During this phase Securitize's platform provides an avenue for ongoing investor communication and secondary market trading compliance.

STO Process Overview and Timelines

Steps		Estimated Time	Responsible	Securitize Role	
STEP1: Pre-STO	Company Charter	1 Week	Company, Counsel	Advise, Knowledge Sharing	Total Time From Kick-Off Until Issuance: 2-6 Months
	Offering Document	1 Month	Company, Counsel	Advise, Knowledge Sharing	
	VC Fund Specific Setup	0-4 Weeks	Company, Counsel, Securitize Partners	Support	
	Marketing	3 Months	Company, Broker-Dealer	None	
STEP2: Issuance	KYC/AML/Accreditation	Ongoing	Securitize	Lead	
	Token Issuance	1 Day	Securitize	Lead	
	Funding	1 Day	Securitize	Lead	
STEP3: Life-cycle Management	Ongoing Communications	Ongoing	Securitize, Company	Execution	
	Secondary Trading	Ongoing	Securitize	Lead	

STEP 1 Details Setup Phase

CORPORATE STRUCTURE

With the assistance of his legal counsel, Frank structured the CEO token to represent a share of Curzio Research's Series A Non-Voting Preferred Stock. Therefore the CEO token constituted ownership in his company, Curzio Research, Inc. a Delaware corporation. Per the company charter, Curzio Research, Inc. was authorized to issue 5 million shares of preferred stock which was adjusted to complete the security token offering. Using a Simple Agreement for Future Equity (SAFE), investors were entitled to the right to acquire CEO tokens.

CEO TOKEN OFFERING DOCUMENTS

Next, Curzio Research created a private placement memorandum (PPM), which described the corporate structure, terms of the offering and potential risks to prospective investors. It is important to note that Curzio Research engaged outside legal counsel to assist with the creation of the PPM, as well as other legal disclaimers related to the CEO token offering.

CEO TOKEN OFFERING:

The most notable terms of the CEO token offering are listed below

Amount of Financing:

A minimum offering amount of \$3,000,000 and up to a maximum offering amount of \$12,000,000.

Minimum Investment Size:

\$25,000 USD

Token Price:

\$5 per token USD

Token Discounts:

Tokens were subject to certain discounts that were offered at Curzio Research's sole discretion, depending on the timing of each investment throughout the offering period, as follows:

- *Private Sale (Week 1 to 2) - 10% Token Discount*
- *Pre-Sale (Week 2 to 4) - 5% Token Discount*
- *Main Sale (Week 5+) - 0% Token Discount*

There was also a special 10% token discount available to the subscribers of Curzio Research's publications at the time of the offering.

Bonus Newsletter

Subscription:

Based on the aggregate investment in the tokens, investors were eligible for a free subscription to Curzio Research's 5 existing newsletters, as well as every newsletter Curzio Research produced in the specified periods:

- *\$25,000 USD - 2 Year Membership*
- *\$50,000 USD - 5 Year Membership*
- *\$100,000 USD - Lifetime Membership*

Eligible Purchasers:

United States accredited investors and Qualified non-U.S. investors (based on international jurisdiction regulations)

Forms of Payment:

Investors could use Bitcoin, Ethereum, or U.S. dollars to purchase CEO tokens.

Maximum Token Supply:

3,332,000 CEO tokens

Token Sale Period:

February to April 2019

Token Holder Rights:

- A direct equity stake in Curzio Research by way of the company's Series A Non-Voting Preferred Stock.
- Eligible for anticipated future 3% dividends.
- CEO Owner's Club membership

Token Holder Obligations:

Curzio Research established the right to redeem the CEO tokens in certain circumstances; the potential blockages were under scenarios in which potential investors failed to properly complete the KYC/AML/Accreditation process, or did not sign the SAFE agreement.

Use of Token Proceeds:

The CEO token proceeds were designated to be used for general corporate purposes, such as capital expenditures, acquisitions, infrastructure and personnel, development of products and services, and offering, legal and accounting expenses. Specifically, Curzio Research planned to:

- *Increase its front-end reader file to 100k+*
- *Further monetize its existing podcasts*
- *Build a world-class investor education platform*
- *Add new podcasts and reader-requested newsletters*
- *Hire more expert analysts and other key personnel*
- *Collaborate with large external media outlets to increase brand awareness*

Token Format:

The CEO token would be ERC20-compliant and embedded in the Ethereum blockchain as a smart contract.

MARKETING THE CEO TOKEN

Curzio Research chose to conduct its token offering under Regulation D, Rule 506(c) which allowed the company to broadly solicit and generally advertise the CEO token. Since marketing is one of Frank Curzio's specialties, the Curzio Research team came up with a well-developed strategy, which consisted of the following:

CurzioEquityOwners.com:

Curzio Research created a unique website, CurzioEquityOwners.com, to serve as an information portal for the CEO token offering. The landing page elegantly displayed (1) an interview between Frank and distinguished financial journalist, Farnoosh Torabi, where they discussed the CEO token offering in detail, (2) the benefits of the CEO token and a graphic of high level steps for CEO token investors, (3) images and career bios of Curzio Research's stellar executive team, and (4) frequently asked questions (FAQs) on security tokens and the specifics of the CEO token offering.

If potential investors wanted more detail, they simply clicked on a link to download "The Curzio Equity Owners (CEO) Step-by-Step Guide to Investing." This PDF file gave potential investors instructions for directly accessing the CEO token white paper, PPM, SAFE agreement, and other pertinent information.

Social Media:

Frank leveraged Curzio Research's social media accounts (Facebook, Twitter, LinkedIn), as well as its YouTube channel to promote the CEO token; this channel included Frank's interview with Farnoosh Torabi and a recording of Frank's investment

presentation at the 2019 Vancouver Resource Investment Conference.

Curzio Research Subscribers:

Curzio Research's subscriber list was the first go-to as the company's existing readers had already expressed an interest in learning more about the digital asset market. Frank notified his subscribers on the details of the offering and directed them to CurzioEquityOwners.com if they were interested in learning more.

Podcast:

Frank strategically leveraged Curzio Research's top-ranked Wall Street Unplugged podcast; with over 200k monthly downloads, Frank was able to convey the CEO token's value proposition to his audience.

Frank also made an appearance on quantitative fund manager Meb Faber's, The Meb Faber Show podcast. During this episode Frank discussed his decision to raise capital through a STO vs. a traditional private placement. Meb revealed that he had raised \$3 million for his company through a traditional private placement several years earlier, and that he was fascinated by the developments within digital assets; Meb also showed interest in the enhanced liquidity that security tokens could provide investors.

Curzio Research's promotional strategy for the CEO token offering proved to be a massive success, as the company met its soft cap goal of \$3 million within the first 8 trading days of the raise: all the more impressive, considering Curzio Research spent less than \$20k to market the CEO token offering.

STEP 2 Details

Issuance Phase

KYC/AML | ACCREDITATION PROCEDURES

As mentioned earlier, the CEO token offering was limited to United States accredited investors and those designated to be Qualified non-U.S. investors. To subscribe to the offering, prospective investors had to first register at <https://dashboard.curzioresearch.securitize.io/login> or <http://www.curzioequityowners.com/>, and then submit the necessary information and documents to Curzio Research through the Securitize website.

With the assistance of Securitize it was then confirmed that each prospective investor (1) met all applicable investor suitability criteria, including those imposed by that investor's country of domicile, (2) completed know your customer (KYC) verification, and (3) conducted anti-money laundering (AML) due diligence and screening. Prospective investors were also required to execute and deliver the SAFE Agreement and an accompanying questionnaire that was available on the website.

CEO TOKEN ISSUANCE

Curzio Research used Securitize's standard smart contract as a framework for conducting the CEO token issuance. Their attorneys con-

firmed that all necessary Reg D, Rule 506(c) restrictions and related global compliance requirements were programmed into the Ethereum blockchain as a smart contract. The resulting ERC20-compliant token took into account the investor limits, lock-up periods, and secondary trading restrictions, among other compliance mandates. The CEO token smart contract was also customized to allow for the distribution of future potential dividends that Curzio Research intends to pay its token holders.

FACILITATED FUNDING

The purchase price of the CEO token was designated in U.S. dollars. Payment was accepted in U.S. dollars, Bitcoin (BTC) or Ether (ETH). Payments in BTC and ETH were valued in U.S. dollars according to the terms set forth in the PPM; the cryptocurrency subscriptions were delivered to a designated digital custodian, who converted the BTC and ETH into USD on the date of the payment. Five investors chose to purchase the CEO tokens using cryptocurrency (2 used BTC and 3 used ETH). In accordance with the requirements defined in the setup phase by Curzio Research, Securitize assisted with both the collection of investor subscriptions and the issuance of the CEO tokens to each investor's designated digital wallet.

STEP 3 Details

Life-cycle Phase

STOs require the issuer to manage the life-cycle of both its investors and the related security tokens. Curzio Research is able to leverage Securitize's online platform to facilitate ongoing communications with investors and monitor the secondary trading of the CEO token.

ONGOING COMMUNICATIONS

Throughout the life-cycle of the CEO token, Curzio Research may need to communicate with CEO token holders, as per details defined in the PPM. Such events included, but were not limited to, the potential future declaration and payment of the anticipated dividend, optional redemption and/or repurchase of the CEO tokens by the company, and information rights related to the delivery of unaudited financial statements following the close of each fiscal year.

SECONDARY TRADING

Under securities regulations, the CEO tokens were classified as restricted shares, meaning they were subject to standard lock-up periods and there were designated caps on investors from certain geographical locations. Managing these restrictions can be discouraging to startups.

Luckily, Curzio Research's legal counsel assured them that secondary market trading restrictions were embedded in the CEO tokens, courtesy of Securitize's smart contracts, so they were within full compliance of applicable laws and regulations.

Conclusion

In 2018, the highly regarded financial newsletter publisher, Curzio Research, set out to explore its options for raising capital to expand its reader list. The company's founder, Frank Curzio, reached out to his extensive network within financial services, which presented him with two logical options: a traditional private placement or a security token offering. After performing a cost-benefit analysis, Frank decided that it was in the best interest of Curzio Research's stakeholders to issue a security token using Securitize.

The aforementioned Curzio Equity Owners tokens fit perfectly into Curzio Research's web-based business model and vision for the future. Through this innovative fintech financing mechanism, Curzio Research successfully hit its \$3 million soft cap goal within the first two weeks of the offering. In total, Curzio Research raised \$4.1 million from just over 100 investors by way of the CEO token. The process was completed within several months, with the greatest amount of time being spent on preparation of the offering documents and legal reviews.

Overall, the CEO token investors, many of whom had previously participated in multiple traditional private placements, were impressed by the STO format and the ease at which Curzio Research was able to raise capital. They look forward to the enhanced liquidity that will be provided by the security token exchanges upon expiration of the lock-up period, as well as the convenience of all future life-cycle events being managed in one place by Securitize.

As for Frank, not only does he now have the capital necessary to expand his business, but he has become the go-to source within his network for other entrepreneurs interested in exploring a potential STO. In fact, the demand for understanding the CEO token offering was so high, that Curzio Research allowed us to write this case study, providing a step-by-step overview for following in Frank's footsteps: this is nothing new to Frank Curzio of course, as he built his entire career on paving the path for individual investors.

Questions?

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