
CRUSHPAD SYNDICATE



RAISING CAPITAL FOR YOUR WINE BUSINESS.

GAINING OUTREACH FOR SELLING YOUR WINE

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WHAT IS A SYNDICATE?

A syndicate is a group of people who have come together to achieve a single aim: in this case, to provide the capital to produce wine and manpower to drive sales.

Syndicates are the modern way to grow a wine brand by leveraging the power of groups. Instead of 1 person being responsible for all of the start-up capital and all of the effort to sell, 10 people or 100 people can do the job much easier and get significant benefits of being a winery investor. Similar to the phenomenon of crowd sourcing online, Crushpad Syndicate brings crowd funding to the world of wine.

The idea is as simple as it seems: share the cost, effort and lifestyle benefits of having your own wine brand with a network of wine enthusiasts, and you can keep complete control of the brand and equity in the process. Whether your goal is to build a traditional wine business or simply create an experience you can share across a large community (or both), Crushpad Syndicate makes it easy to attract and support your investor pool. Combined with Crushpad Commerce, you can go from an idea to a full-blown wine brand with a built-in marketing team in a handful of weeks, not years.

What Investors Get

It's up to you how attractive you want to make the financial terms, but investors get a lot more than just a financial return. Just being able to say "I'm an investor in this winery; try my wine" carries huge lifestyle benefits. Backed up with logowear, business cards, special events and other investor-only enhancements, your team of investors get the social currency they crave while giving you the capital and marketing engine you need. And because ultimately their investment is backed up with wine, there is very little risk. Add to this certain tax advantages for investors and it's an extremely compelling proposition for any wine enthusiast.

What Brand Owners Get

Crushpad Syndicate is based on a revenue share model. Unlike shared equity models, revenue share enables the brand owner to retain complete control over the business and avoid the hassles of dealing with voting and financial reporting (no K-1's to file). What you do get is capital to run the business and a team that takes a lot of the promotional workload from your shoulders.

CRUSHPAD SYNDICATE OVERVIEW

Crushpad Syndicate is a winery investment package in a box - everything you need to plan, determine capital requirements, solicit investors, file the necessary investment paperwork, and support your team with collateral and event support. Of course, everything is built on top of Crushpad Commerce which provides luxury-quality winemaking and winery operations.

You can use Crushpad to manage the entire process for one simple fee or do it yourself with our complete document set.

HOW IT WORKS

Create your LLC¹. You can use your own legal resource, a online service such as legalzoom.com or we'll arrange it for you.

Plan your business. Our planning package includes a winery modeling tool to determine your level of production, revenue, costs and how much money you'll need to finance the business. Additionally, we provide a business plan template that you customize with your wine brand information and financial plan.

Solicit investors with a Private Investment Agreement that outlines the plan, investment levels and repayment schedule, as well as all of the non-financial benefits that investors will receive. We'll make sure that you stay compliant with federal and state solicitation and filing requirements.

Deposit funds and return signed copies of agreements to investors.

File any necessary federal and state forms. We'll help you do this or you can outsource it all to us if you don't have the time.

Operate your wine business. We'll support you all the way, not only with world-class winemaking and fulfillment, but with best practices on how to turn your investor base into a huge source of demand - both for personal use and for sale into their extended networks. And, of course, Crushpad's facilities in Sonoma and Bordeaux are open to your investors.

¹ You can use any organization structure but we recommend LLCs (LLPs in some states).

Crushpad Syndicate

Crushpad can help you through the entire process - from business planning to distributions. We've helped launch and operate over 150 wine brands, and since your success is our success, we're highly-incentivized for your investment syndication effort to go smoothly.

INVESTMENT DETAILS

LLC Overview

An LLC is a “limited liability company” that separates the wine business from your personal activities. As its name implies, it provides protection to its members by shielding them from personal liability for company operations. It is also less cumbersome and provides greater flexibility in managing things such as taxes than a corporation. An LLC is governed by an Operating Agreement that defines the roles, responsibilities and voting rights of its members. Note that if you use a revenue sharing approach (see below), then investors are not actual members of the LLC and therefore you retain complete control of the LLC and minimize your administrative work. Many small business tax and legal professionals can form an LLC for you or you can do it yourself quite easily with online services such as legalzoom.com. You can also use our LLC formation services as part of the overall Crushpad Syndicate offering.

Revenue Share Agreement

Revenue share is an investment approach that is the basis for the Private Investment Agreement that your investors receive. It is a way to raise capital for your business that does not involve issuing equity and does not require you to assume traditional debt that requires interest payments. Instead, in return for the capital they provide, you agree to share with your investors a percentage of your revenues. The advantage for you is that you don't have to share control of the company because you continue to own all the equity and hold all the voting rights. You also don't pay out investors when you have no revenues. So you get capital and because your investors become part of your distribution channel you also increase your ability to sell.

Imagine you need to raise \$50,000. Perhaps you invest \$10,000 yourself and then you approach ten people you know and ask each one to invest \$4,000. In return you agree to share 20% of your revenues per year for a period of seven years. In this case each of your investors will receive 2% of your revenues every year for a total of seven years. Of course you are at liberty to set different terms for your investment – maybe the percentage of revenues you share will be

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smaller or larger, maybe the period for which you share revenues will be longer or shorter. The great thing about a revenue sharing agreement is that you can design the investment terms that make most sense for you and your investors, and give you the greatest long-term control.

Equity Alternative to Revenue Share

If your goal is to grow your business well beyond its initial production level and want to share the financial risk and potential upside with your investors, you may want to consider raising capital by means of issuing equity instead of by means of a revenue sharing. You can issue non-voting stock in your business, which will enable you to retain full operational control. In this type of model your investors can initially get equity appreciation and only later receive cash distributions. However, this approach requires a substantial administrative effort that may not be worth it for small investors. For simplicity, we recommend sticking with revenue share.

Who Can Invest

While anyone with enough money can go out and buy publicly traded stock, there are various restrictions on who can invest in unlisted entities such as your new wine business. Crushpad has done the legal groundwork to ensure that your investment agreement will be in compliance with all relevant Securities & Exchange Commission (SEC) regulations as well as the state-level regulations that vary from state to state.

The most significant distinction in your investor pool is whether they are “accredited” or “non-accredited” investors. Accredited investors² generally have greater income and/or assets, and are considered more sophisticated investors. Non-accredited investors typically have lower income/assets and are less sophisticated investors, and therefore receive extra protections from the SEC. At a high level, you can solicit accredited investors through your extended personal and professional networks, whereas if you solicit from non-accredited investors, you must have an existing, substantial relationship with them (friends, family, colleagues).

² The definition an accredited investor is an individual or married couple whose net worth (excluding their residence) exceeds one million dollars, or an individual whose annual income exceeds \$200,000 (or \$300,000 for a couple), a member of your LLC or a relative of that member living in the same residence.

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You may have a very large number of accredited investors, but only up to 35 unaccredited investors. Additionally, you may not raise more than \$2 million with a 12-month period (this amount may be reduced depending upon which states your investors live in).

Private Investment Agreement

You need to present potential investors with enough information for them to make an informed decision about your prospects. This doesn't mean that you have to disclose every possible problem imaginable or go through every potential scenario in detail, but it does mean that you need to provide a reasonable picture that includes enough relevant information for a normal person to understand your business model. Use the Private Investment Agreement template that we provide to communicate your business plan, risks and opportunities to prospective investors. Each of your investors must read this document, indicate the amount they will invest, sign, date and return the original.

Each state has its own regulations governing third-party investments in privately held companies and we've compiled this information in our compliance guide. If you need any help with filing requirements, we'll be able to help you out. After you have completed your financing and commenced operations, you must provide your investors with an annual report showing all revenues for each year following the close of your financing so that they can see what percentage of your revenues they can expect.

MAXIMIZING THE VALUE OF YOUR SYNDICATE

For their part, your investors are getting a unique opportunity to become part of the wine world in a low-cost, low-risk way. By tapping into their enthusiasm for wine and for investing, you can harness a team that can really drive sales. In addition to providing them a reasonable financial return, to get the most out of your team you should create a great experience for your investor network that maximizes the non-financial upside of being a winery owner. Indeed, for many investors, it is the non-financial elements of being a winery owner that really drives their investment decision. Happy investors are motivated investors.

We strongly recommend that you get investors decked out in logowear, provide them business cards, and create special investor-only offerings such as branded glasses or even a special investor "reserve" bottling. We can help you with all of this. If appropriate, create an investor

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page on your website - they get social currency and are more likely to refer their network to the site to purchase wine.

Events can also be a great way to bring your team together. You can host an “investor day” either locally or at Crushpad Sonoma where we have special rates at local hotels and can arrange a very special day for your investors. And winery owners often are eligible for inter-winery discounts when they are in wine country - more incentive for them to come out.

You should determine how much wine you want your investors to purchase. For instance, you may allow or require investors to purchase a certain number of cases - either discounted or not. As an investor, they should be supporting the cause and most will be very happy to do so.

Finally, you want your investor base to always be on the lookout for sales opportunities and you should make it very easy for them to convert prospects. Again, 10 or 100 people bringing their wine and pouring it at their favorite local restaurants or for colleagues, friends and family will drive a whole lot more revenue than what you can do alone. Combine this with selling futures, your wine club and the Crushpad Sonoma tasting room and wine club and you’ve got a sales machine.

SUMMARY

Crushpad Syndicate continues Crushpad’s goal to democratize the wine industry. From our roots in winemaking in 2004 to the ground-breaking Crushpad Commerce in 2006, we have been focused on turning people’s passion for wine into wine businesses. Crushpad Syndicate is based on the same philosophical approach - we’ll do the heavy lifting so you can focus on fun parts of making and selling wine.

You can use the pre-packaged Crushpad Syndicate documents that include the business plan, investment package and compliance instructions. Or if you’re strapped for time, you can use Crushpad to do the paperwork for you.

For more information or to get started with Crushpad Syndicate, please contact Rodney Gagnon at 1.877.946.3404 x 7027 (rodney@crushpadwine.com).

APPENDIX - CONTENTS OF CRUSHPAD SYNDICATE PACKAGE

Following are the key components used by Crushpad Syndicate.

Winery Business Plan

The Winery Business Plan includes an overview of how to create an LLC and includes a financial planning model that you use to determine the revenue, expenses, capital requirements and payback plan for investors. Additionally, it includes a basic business plan template that you customize with your wine brand and it incorporates the financial reports and charts directly from the planning model.

Investment Agreement

This is a simple agreement for investors and it is based on the revenue share model (it can be easily tailored to a shared equity model if necessary). The business plan is attached as an appendix to the Investment Agreement. Investors read, sign and return this agreement along with a check for their investment.

Compliance Kit

The Compliance Kit comprises the federal- and state-level securities restrictions, filing instructions and forms. Additionally, a spreadsheet is provided that implements a compliance check to ensure that you are staying within regulatory parameters for the number and type of investors you have.