

## Before You Invest...

You will not “get rich quickly” by investing through equity crowdfunding. You will be making a long-term investment and are not likely to see any return on your investment for years. Additionally, expect your ability to sell your ownership stake in the company to be limited for many years.

Money invested through equity crowdfunding should be money that you do not need in the near future. Like all forms of investing, crowdfunding involves risk — you could potentially lose some or all of the money you invest.

As with any investment, you should “investigate before you invest.” Actual offerings found on crowdfunding websites have not been registered through federal or state regulators. Not all companies whose offerings will be found on crowdfunding websites will succeed, not all will have sound business plans and some may not even be legitimate operations. It is important that you do your homework and/or seek trusted professional advice before investing your money in an equity crowdfunding opportunity.

Equity crowdfunding will work for some investors, but not others. It is important for individuals seeking to invest in a crowdfunding opportunity to review all of the available information in order to find investments that are right for their situations, goals and levels of risk tolerance.

## Additional Resources

U.S. Securities and Exchange Commission  
1-800-SEC-0330 (800-732-0330)  
[sec.gov](http://sec.gov)

Pennsylvania Office of Attorney General  
1-800-441-2555  
[attorneygeneral.gov](http://attorneygeneral.gov)

North American Securities  
Administrators Association  
[nasaa.org/investor-education](http://nasaa.org/investor-education)

PA Investor Education on Facebook  
[facebook.com/PAInvestorEducation](https://facebook.com/PAInvestorEducation)

“The use of money is all the advantage there is in having it.”

-Ben Franklin

# Understanding Crowdfunding



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DEPARTMENT OF BANKING  
AND SECURITIES

17 North Second Street | Suite 1300  
Harrisburg, Pennsylvania 17101  
**1.800.PA.BANKS** (1.800.722.2657)  
[dobs.pa.gov](http://dobs.pa.gov)



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> protect > regulate > inform

## What is Crowdfunding?

Crowdfunding is a way for an organization, company or individual to raise money over the Internet for a cause, a project, a service or a product. Until recently, crowdfunding has been used only to raise contributions over the Internet.

Individuals who contributed did so because they wanted to support a project or product — without expecting any type of substantial financial return. For example, individuals would contribute to support an artist's or non-profit's project, or to support the launch of a small business that could help revitalize a town's economy.

However, new rules in some other states (not including Pennsylvania), have created "equity crowdfunding," a non-traditional way for small businesses and start-up companies to raise capital over the Internet in their own states by offering equity, or ownership interest, in the company to investors.

## How Does Equity Crowdfunding Work?

When the final rules are issued by the U.S. Securities and Exchange Commission, small business owners and entrepreneurs will be allowed to offer and sell up to \$1 million in ownership interests in their companies across state lines over any 12-month period. Individual investors will have limits placed on the amount of money they can invest in relation to their level of income and/or net worth.

These offerings will be made over the Internet using websites run by "intermediaries." These intermediaries will be either licensed broker-dealers or registered as online "funding portals." The intermediaries are independent of those business owners and entrepreneurs seeking investors. The intermediaries simply serve as the online venue to connect business owners and entrepreneurs with interested investors.

Potential investors should expect to be sent a questionnaire from the intermediary that includes questions about their own personal finances.

By using equity crowdfunding, investors will be taking a financial stake in the company as a partial owner. However, investors should expect to have limited voting rights and limited, if any, input regarding business decisions made by the company's management.



## Crowdfunding Investment Basics

You may want to consider the following factors, among others, when considering investing in a crowdfunding opportunity:

- **Finances:** Review closely the financial projections in the company's offering, as well as any other financial statements from the company or the offering's intermediary.
- **Timeline:** Review closely the projections for bringing the product or service to the market, as well as other issues such as strategies, costs, manufacturing and distribution.
- **Capitalization:** Assess whether the company will raise sufficient capital to ensure success, as well as any information about future capital needs.
- **Management:** Assess the backgrounds of the managers and directors to satisfy yourself that they have pertinent experience and skills to successfully start, build and grow a business or bring a new product or service to market.

# The JOBS Act and Crowdfunding

The federal Jumpstart Our Business Startups (JOBS) Act was signed into law in 2012. The JOBS Act was designed to assist small business and startup funding by easing federal restrictions on solicitation and investing through the process called "crowdfunding." Crowdfunding allows businesses to accept investments from private individuals without having to go through the formal initial public offering (IPO) process.

