

# U.S. securities-based crowdfunding under Title III of the JOBS Act<sup>1</sup>

Vladimir Ivanov

Anzhela Knyazeva

---

February 28, 2017

## Summary

Below we present initial evidence on the offering activity in the Title III crowdfunding market for offerings initiated during May 16, 2016-December 31, 2016.

During this period, there were 163 unique offerings by 156 issuers, seeking a total of \$18 million based on the target amount. The median (average) offering targeted approximately \$53,000 (\$110,000). Almost all offerings accepted oversubscriptions up to a higher amount, typically close to \$1 million, corresponding to the maximum amount sought of \$101 million in the aggregate.

As of January 15, 2017, approximately \$10 million in proceeds was reported raised for 33 offerings by issuers filing Forms C-U. For the offerings that reported raising at least the target amount on Form C-U, as of January 15, 2017, the median (average) amount raised was approximately \$171,000 (\$303,000).

For offerings initiated in 2016, 24 were withdrawn by issuers or associated with an intermediary whose FINRA membership was terminated and funding portal registration withdrawn, seeking a total of \$2.3 million based on the target amount. Including allowance for oversubscription, these withdrawn offerings had sought up to \$19.5 million based on the maximum amount.

---

<sup>1</sup> This study was prepared for Scott Bauguess, Acting Chief Economist and Acting Director of the Division of Economic and Risk Analysis (DERA). This analysis is not intended to inform the Commission about compliance with or enforcement of federal securities laws. This study benefited from helpful comments and suggestions from Scott Bauguess, Julie Davis, Sebastian Gomez Abero, Hari Phatak, Amy Reischauer, and participants at the DERA Empirical Corporate Finance workshop, as well as helpful assistance with some of the filings data from Greg McTure. The U.S. Securities and Exchange Commission, as a matter of policy, disclaims responsibility for any private publication or statement of any of its employees. The views expressed herein are those of the authors and do not necessarily reflect the views of the Commission or of the authors' colleagues upon the staff of the Commission.

Most offerings solicited in all states. The most popular type of securities was equity, followed by simple agreements for future equity (SAFEs) and debt. The most popular state of incorporation was Delaware and the most popular location of the business was California.

The median issuer had under \$50,000 in assets, under \$5,000 in cash, \$10,000 in debt, no revenues, and 3 employees. About 40% of issuers reported non-zero revenue and 9% of issuers reported a net profit in the most recent fiscal year. Among issuers that reported non-zero assets in the prior fiscal year, the median growth rate was 15%. Crowdfunding has so far been attracting issuers that have not extensively used the Regulation D safe harbor, which is otherwise a very popular private offering method.

Offerings initiated during this period involved 21 intermediaries, including 13 funding portals and 8 broker-dealers. Overall, as of December 31, 2016, 21 funding portals have registered with the Commission and FINRA. One funding portal that originally registered had its FINRA membership terminated and withdrew its SEC registration. Funding portals have so far accounted for most of the offering activity. The median intermediary percentage fee was 5%. Intermediaries took a financial interest in the issuer in approximately 16% of offerings.

## **I. Introduction**

The Jumpstart Our Business Startups (JOBS) Act was enacted on April 5, 2012. Title III of the JOBS Act amended Section 4 of the Securities Act of 1933 (Securities Act) and created a new exemption from registration for Internet-based securities offerings of up to \$1 million over a 12-month period. Title III was intended to help small and startup businesses conduct low-dollar capital raises on the Internet. It can be thought of as an Internet-based method of raising seed financing from a broad, mostly retail investor base. The JOBS Act included a number of investor protection provisions, including investment limitations, issuer disclosure requirements, and a requirement to use regulated intermediaries. The SEC proposed securities-based crowdfunding rules on October 23, 2013, and adopted final rules on October 30, 2015.<sup>2</sup> Issuers were able to use the new exemption beginning May 16, 2016, when the final rules became effective.<sup>3</sup>

While securities-based crowdfunding shares certain similarities with non-securities-based (lending-based, reward-based, donation-based, and royalty-based) crowdfunding, such as the ability of the public to participate and the use of an Internet-based platform to solicit backers,

---

<sup>2</sup> See SEC Releases No. 33-9470 (Oct. 23, 2013) [78 FR 66427] (“Crowdfunding Proposing Release”) and No. 33-9974 (Oct. 30, 2015) [80 FR 71387] (“Crowdfunding Adopting Release”).

<sup>3</sup> Provisions related to funding portal registration became effective on January 29, 2016, to give funding portals additional time to undergo the SEC registration and FINRA membership process.

there are important distinctions. Most online, peer-based funding models fall outside the scope of a securities offering and thus generally are not subject to regulation under federal securities laws. Non-securities-based crowdfunding campaigns do not necessarily involve a profit-seeking business and ones that do may have a project-specific nature. Although crowdfunding investors may have nonpecuniary reasons for investing, backers in non-securities based crowdfunding campaigns are more likely to be guided by such motives. Overall, the differences in the legal framework, characteristics of fundraisers, and objectives of funders limit extrapolation from non-securities based crowdfunding to Title III crowdfunding.

In this study we analyze new data<sup>4</sup> related to crowdfunding<sup>5</sup> offering activity, issuer characteristics, intermediaries, security design, and preliminary data on funding raised in crowdfunding transactions. The crowdfunding offering framework is characterized by the Internet-based nature of financing, the involvement of registered intermediaries, and unlimited participation of nonaccredited investors, which, in combination, distinguish it from other offering exemptions. The 2015 SEC rules implementing Title III crowdfunding established requirements for issuers and intermediaries seeking to participate in an Internet-based crowdfunding offering. The key provisions are summarized below:<sup>6</sup>

- A given issuer is able to raise up to \$1 million across all crowdfunding offerings in a 12-month period. An issuer must raise at least the target amount to receive funds. Crowdfunding securities are generally subject to resale limitations for one year.
- The rules imposed limits on the amount that an investor can invest in all Title III crowdfunding offerings over a 12-month period. Investors with both an annual income and net worth of at least \$100,000 can invest up to 10% of the lesser of annual income or net worth, but an investor's total investment across all Title III offerings may not exceed \$100,000 in a 12-month period. Other investors can invest the greater of \$2,000 and 5% of the lesser of annual income or net worth;

---

<sup>4</sup> Another recent study also presents evidence on Title III crowdfunding activity. See Abrams, E., 2017, Securities crowdfunding: more than family, friends, and fools? Working paper, available at [http://ssrn.com/abstract\\_id=2902217](http://ssrn.com/abstract_id=2902217). See also Crowdfund Capital Advisors, 2016 Year End Regulation Crowdfunding Analysis, available at <http://crowdfundcapitaladvisors.com/2016-year-end-regulation-crowdfunding-analysis/>.

<sup>5</sup> “Equity-based crowdfunding” is sometimes used broadly to refer to a range of financing activities, such as “accredited investor crowdfunding” under Title II, “mini-IPO offerings” under Regulation A+, intrastate crowdfunding, and securities-based crowdfunding in foreign countries. Here we use “crowdfunding” within the meaning of securities-based crowdfunding offerings that rely on the federal exemption under Title III and Regulation Crowdfunding.

<sup>6</sup> See Crowdfunding Adopting Release for details.

- Crowdfunding issuers are subject to disclosure requirements at the time of the offering (on Form C), during the offering's progress and on completion of the offering (on Form C-U) and annually in the form of annual reporting requirements (on Form C-AR). Issuers in larger offerings face additional financial statement requirements – in offerings of over \$100,000 in a 12-month period, financial statements must be reviewed by an independent accountant, and in offerings of over \$500,000 in a 12-month period (except the issuer's first offering), financial statements must be audited.
- Crowdfunding securities must be offered through a registered broker-dealer or a registered funding portal, a new intermediary type established by the 2015 rules. These intermediaries are mandated to take measures to reduce the risk of fraud, make required disclosures about issuers available to the public, provide communication channels to permit discussion of offerings on the platform, disclose the compensation received by an intermediary, provide educational materials to investors, and comply with additional requirements related to investor commitments, notices to investors, and maintenance and transmission of funds. Registered funding portals that participate in crowdfunding offerings may engage in a narrower set of activities than broker-dealers.

Given the offering limits, crowdfunding is primarily used by relatively small issuers, thus many of the economic considerations applicable to small and early-stage issuers apply to crowdfunding as well.<sup>7</sup> The availability of unlimited nationwide solicitation over the Internet, irrespective of the location of the issuer (as long as the issuer is a U.S. issuer) vis-a-vis the investor, and the application of common investment limits and offering requirements distinguish Title III crowdfunding from securities-based crowdfunding regulated under state law that typically relies on Securities Act Rules 147 or 504 (recently amended).<sup>8</sup>

## II. Evidence on Title III crowdfunding

The statistics below are based on the analysis of data as reported by filers in EDGAR filings of Forms C, C-U, and CFPORTAL through December 31, 2016, except as specified otherwise.<sup>9</sup>

---

<sup>7</sup> See Crowdfunding Adopting Release.

<sup>8</sup> See SEC Release No. 33-10238 (Oct. 26, 2016) [81 FR 83494]. Amendments to Rule 504 took effect on January 20, 2017. The amended Rule 147 and the new Rule 147A will take effect on April 20, 2017.

<sup>9</sup> Data comes from the XML portion of Forms C and C-U and amendments to them. When we refer to offerings, we refer to initiated offerings that have not been withdrawn, unless specified otherwise. We analyze withdrawn offerings separately. When discussing completed offerings, we refer to offerings that have reported proceeds of at least the amount raised on Form C-U. Offerings with Forms C-U filed without proceeds information reported are excluded from the analysis, unless specified otherwise.

For offerings that have been amended, the information is generally based on the latest amendment associated with that CIK and file number as of the report date, except as specified.

## A. Offering activity

Between May 16, 2016 and December 31, 2016, excluding 24 withdrawn<sup>10</sup> offerings and potential duplicate filings,<sup>11</sup> there were 163 unique offerings by 156 issuers (including 7 issuers that filed for more than one crowdfunding offering). Of those, 28 offerings reported offering success on Form C-U as of December 31, 2016.<sup>12</sup> Statistics are presented at the offering level.

---

<sup>10</sup> Withdrawn offerings include unique offerings for which a Form C-W was filed and a new Form C or amendment was not subsequently filed and offerings that used an intermediary that filed a Form CFPORTAL-W to withdraw its funding portal registration, even if the filings themselves had not been withdrawn. During this time period, 24 offerings were classified as withdrawn. The remaining sample may contain additional withdrawn or abandoned offerings that have not been identified using these criteria (*e.g.*, offerings that have reached the deadline date but have not been associated with filing activity or updates) and additional offerings may be classified as withdrawn at a future date (*e.g.*, if the issuer withdraws an offering or if the portal through which it is offered withdraws its registration). Overall, since amounts sought may not be successfully raised, statistics on the amounts sought should be interpreted with caution. The actual *ex post* amount of capital formation in this market may be considerably lower than the amounts sought in offerings that had been initiated.

<sup>11</sup> Cases of multiple filings by the same filer on Form C with substantially similar offering information made within a short span of time are consolidated into a single offering.

<sup>12</sup> In addition, there were four Forms C-U filed during January 1, 2017 - January 15, 2017 for offerings with deadline dates in 2016; for one of two offerings for which Forms C-U were filed before January 1, 2017 without proceeds information, proceeds information was obtained on the funding portal page. As of January 15, 2017, approximately \$10 million in proceeds was reported raised for 33 offerings by issuers filing Forms C-U. No offerings have been withdrawn on Form C-W between January 1, 2017 and January 15, 2017.

**Table 1. Market size statistics (at the offering level)**

	Aggregate (\$ million) <sup>13</sup>	Median (\$ 000s)	Mean (\$ 000s)	Observations
Target amount	18.0	53	110	163
Maximum amount <sup>14</sup>	101.1	999	647.5	163
Amount raised	8.1	171	290	28 <sup>15</sup>

The median (average) offering targeted approximately \$53,000 (\$110,000). For almost all of these offerings, oversubscriptions up to a higher maximum were accepted (the median issuer set the maximum close to the limit in the final rules, \$1 million). Of the offerings that reported having raised at least the target amount, the median (average) amount reported raised was significantly larger, at approximately \$171,000 (\$290,000).<sup>16</sup>

Amounts reported raised are based on filings of Form C-U and generally pertain to completed and not ongoing offerings. Under the final rules, interim progress updates may be provided by the intermediary and are not required to be filed on EDGAR, but issuers must file Form C-U within five business days of reaching the target amount for offerings that do not accept amounts in excess of the target amount known as “oversubscriptions” and within five business days of reaching the offering’s deadline date for offerings that accept oversubscriptions.<sup>17</sup>

As reported in Table 2 below, almost all offerings accept oversubscriptions and the average offering is open for a few months, thus a number of offerings initiated during 2016 remained ongoing at the time of this analysis. Offerings that accept oversubscriptions but have not yet reached the deadline, and offerings that have reached the deadline but have not filed a Form C-U,

<sup>13</sup> For issuers with multiple crowdfunding offerings, if the cumulative target or maximum offer amount are greater than \$1 million, we cap it at \$1 million for purposes of computing aggregate amounts offered. For example, if an issuer seeks up to \$1 million in the first offering, raises \$200,000, and seeks up to \$800,000 in the second offering, we record the cumulative maximum amount sought by the issuer as \$1 million.

<sup>14</sup> Maximum amount is defined as the maximum amount as specified in Form C if the offering accepts oversubscriptions (investments above the target amount) and as the target amount if the offering does not accept oversubscriptions.

<sup>15</sup> Excludes reports without information on the proceeds (for example, reports noting “end of offering” without indicating a dollar amount of proceeds).

<sup>16</sup> Unless specified otherwise, amounts raised are based on data through December 31, 2016. If data from note 12 above is added, the median (average) raise becomes approximately \$171,000 (\$303,000), which illustrates the caveat that estimates obtained from small sample can be highly sensitive to the addition of new data.

<sup>17</sup> See also Crowdfunding Adopting Release, at 71417.

are not included in our calculations. Including all Regulation Crowdfunding offerings that have reached the minimum funding target, one industry source estimates that investors funded approximately \$18.5 million as of January 17, 2017.<sup>18</sup>

All of the offerings that have reported raising at least the target amount on Form C-U have raised more than the target amount. Because the issuer must raise at least the target amount to receive funds, the typical offering sets both a target and a maximum amount, to increase the likelihood of raising at least some funding while preserving the flexibility to raise up to a higher limit.

To get a preliminary sense of the rate of success of funding outcomes, we look at the percent of offerings with a deadline date<sup>19</sup> in 2016 that have reported proceeds that meet or exceed the target amount on Form C-U filings as of January 15, 2017. To avoid a survivorship bias, we treat offerings that had been withdrawn as “offerings that closed with zero proceeds.”<sup>20</sup> There are 104 offerings with calendar year 2016 deadline dates, including 18 offerings that had been withdrawn (or whose portal withdrew its registration<sup>21</sup>) and 86 offerings that had not been withdrawn. Of those 104 offerings, 32% (33) reported offering success – proceeds of at least the target amount – on Form C-U as of January 15, 2017.<sup>22</sup>

Figures 1a-1b and 2a-2b below provide early evidence of the time series trends in monthly crowdfunding activity.<sup>23</sup> Figures 1a and 2a provide cumulative totals through the end of the respective month starting from the date when the final rules became effective, on May 16, 2016. Figures 1b and 2b provide statistics of incremental changes in crowdfunding activity as

---

<sup>18</sup> See <https://wefunder.com/stats> (retrieved Jan. 17, 2017).

<sup>19</sup> Deadline dates are based on the latest amendment for that offering.

<sup>20</sup> We recognize that treating withdrawals as failed offerings may result in a downward bias in some downward success rates, to the extent that some withdrawals were due to erroneous submissions or to obtaining more favorable financing terms elsewhere, on which we do not have data. We tabulate information, as reported in Form C, for the withdrawn offerings in Section II.E below.

<sup>21</sup> Issuers with a prior offering on the portal that withdrew its registration had not filed for an offering on another portal as of January 15, 2017.

<sup>22</sup> This includes 28 offerings that reported proceeds on Form C-U before January 1, 2017; 4 offerings with deadline dates on or before December 31, 2016 that reported proceeds on Form C-U filed between January 1, 2017 and January 15, 2017; and 1 offering with the deadline date on or before December 31, 2016 that filed a Form C-U before January 1, 2017 without proceeds information, for which proceeds information was found on the funding portal page.

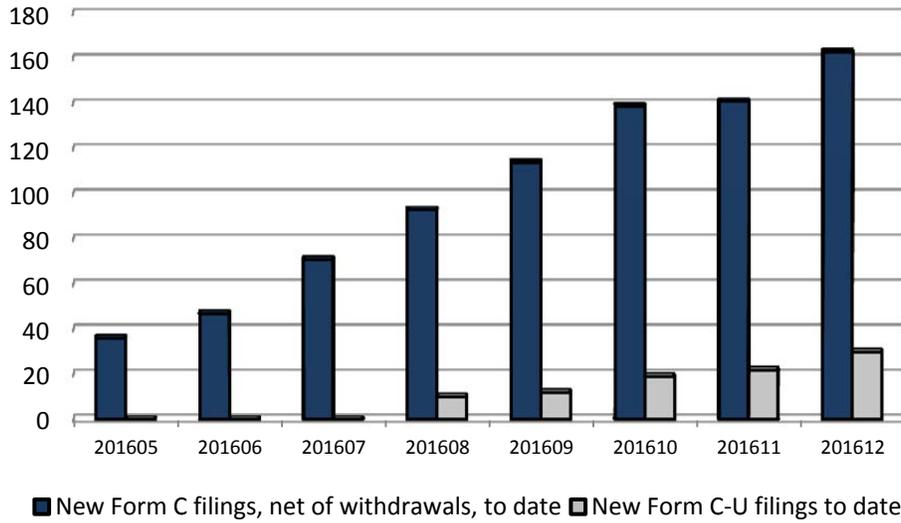
<sup>23</sup> It should be noted that filings of Form C and amount sought in offerings that had been initiated, as reported on Form C may not ultimately end up being raised. See also note 10. We also note that the timing of offering activity for purposes of the monthly trends is captured based on filing dates. For example, if an offering closed on 8/31 but a final progress update on Form C-U was filed on 9/1, the proceeds from that offering will be included in the cumulative and incremental totals for the month September.

measured by filings made during that month (as a result of new filings, amendments to prior filings, and offering withdrawals reported).

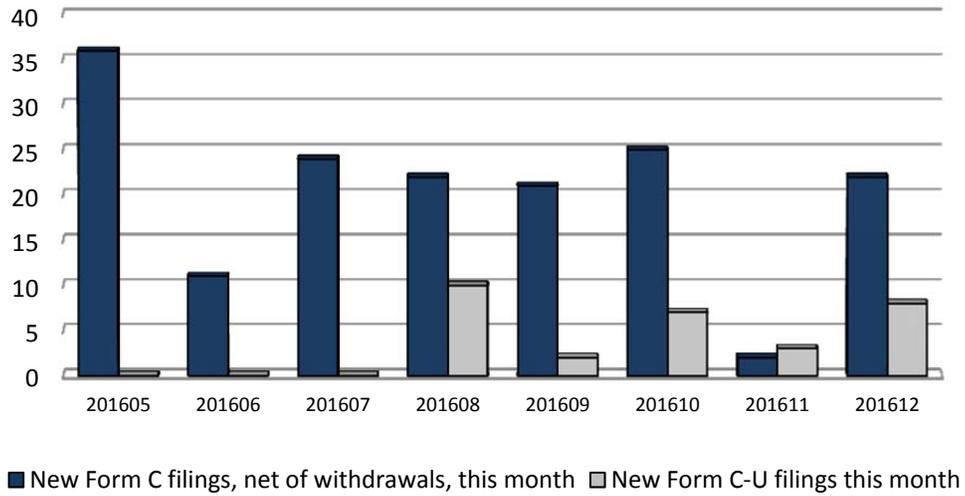
There is an uneven monthly pace of offering activity that began with an initial spike of new offerings in May 2016, shortly after the final rules became effective. There has been an average of 22 net new offerings initiated per month (163 offerings / 7.5 months). Given that the average offering was targeting \$110,000, the average scale of new offering activity on a monthly basis, based on offerings that had been initiated and not necessarily completed, was approximately \$2.4 million ( $\$110,000 \times 22$ ). Since the first progress reports began to be filed in August, consistent with the typical duration of the offering and the start of offering activity on mid-May, in the 5 months from August to December, there were 28 reports of completed offerings, or 5.6 reports per month, with the average of \$290,000 per offering, or approximately \$1.6 million per month ( $\$290,000 \times 5.6$ ). The aggregate amounts raised versus sought are not directly comparable because offerings in the sample have different deadline dates and the composition of offerings reporting proceeds and offerings that have been initiated during these periods is not necessarily the same. Monthly figures should also be interpreted with caution due to possible seasonality in offering and industry activity. The standard caveats about a small sample size and short time period that significantly limit potential extrapolation continue to apply.

These initial results may not be representative of future crowdfunding activity for several reasons. In particular, the early adopters that sought to issue securities in the newly formed crowdfunding market as observed during our sample period may not be representative of the subsequent crowdfunding market entrants. As the market matures, issuers, investors and portals are likely to gain experience that shapes and potentially changes behaviors in ways that the evidence from this short sample period may not capture. Moreover, potential future changes in the crowdfunding market, such as the entry of new intermediaries, adoption of alternative funding methods by issuers (*e.g.*, intrastate and regional crowdfunding), industry shocks, or changes in aggregate market conditions may cause crowdfunding activity to vary significantly in future periods.

**Figure 1a. Cumulative number of initiated offerings over time**

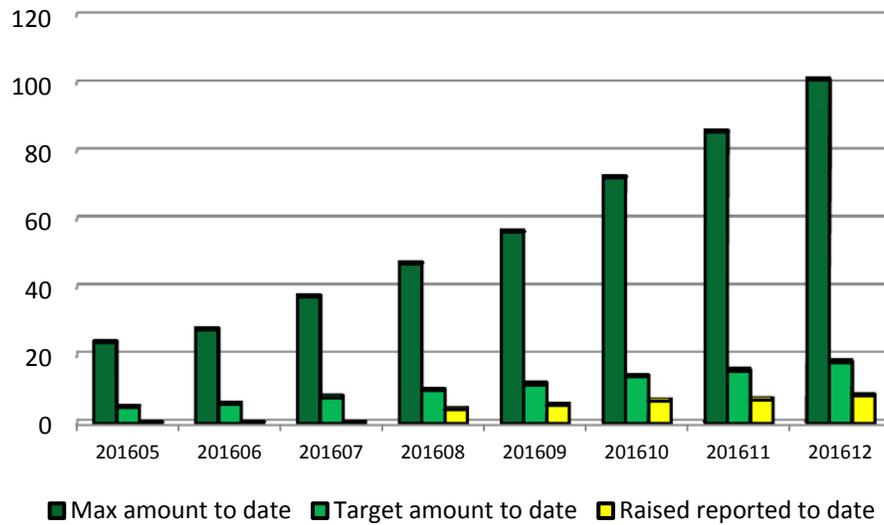


**Figure 1b. Number of initiated offerings over time (monthly totals)<sup>24</sup>**

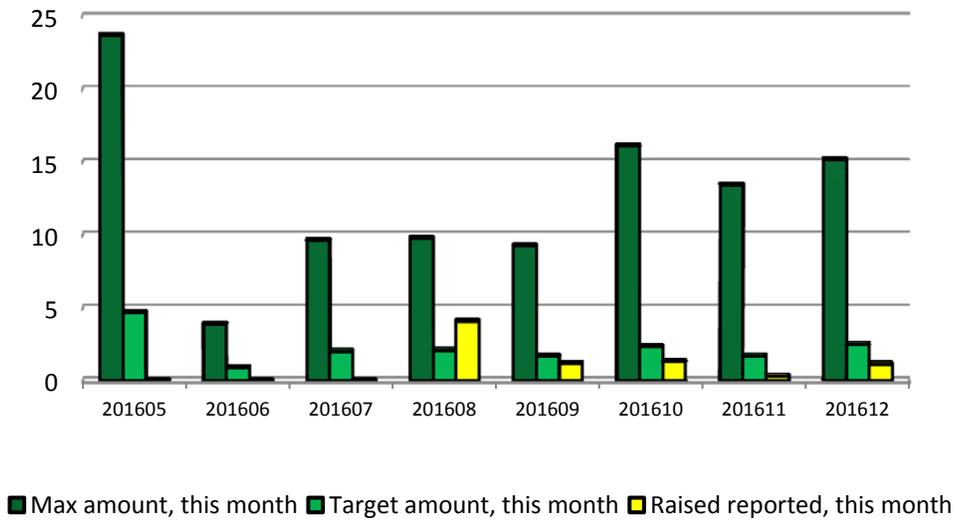


<sup>24</sup> Figures for May 2016 are based on offerings for the period of May 16, 2016 – May 31, 2016.

**Figure 2a. Offering activity over time (cumulative aggregate amounts through the end of the month in \$ million, excluding withdrawn offerings)**



**Figure 2b. Offering activity over time (monthly aggregate amounts in \$ million, excluding withdrawn offerings)<sup>25</sup>**

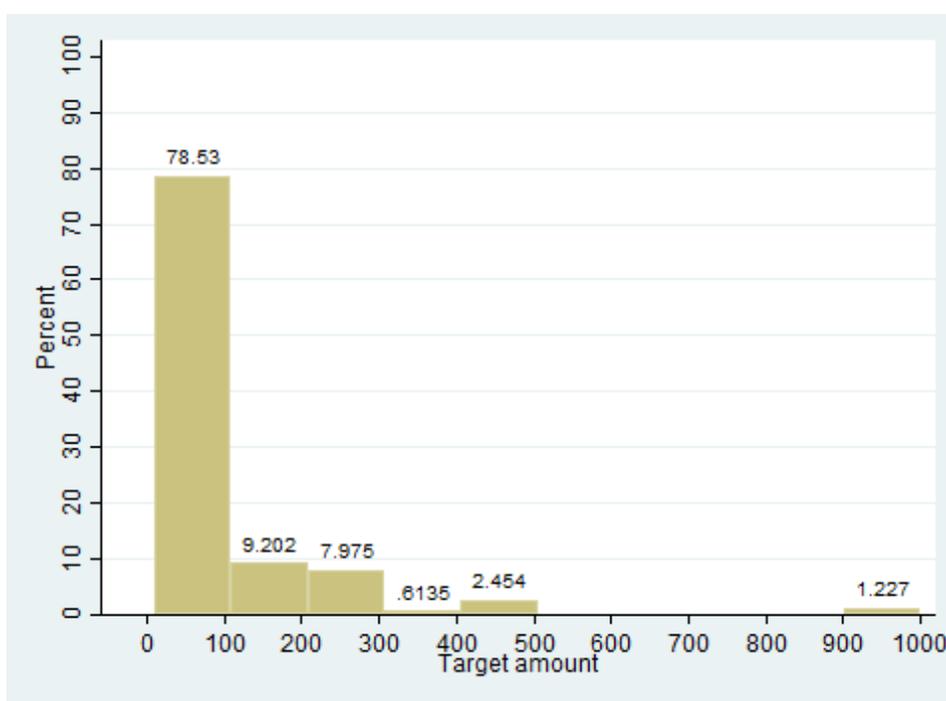


<sup>25</sup> Figures for May 2016 are based on offerings for the period of May 16, 2016 – May 31, 2016.

## B. Characteristics of crowdfunding offerings

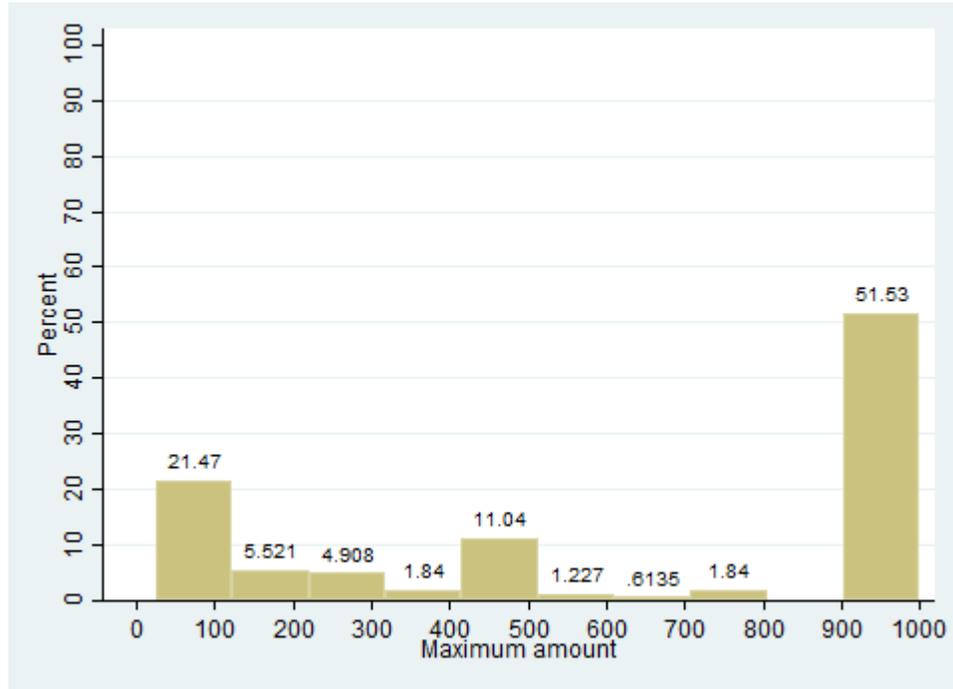
The histograms in Figures 3a and 3b show the distribution of target and maximum offer sizes respectively, using \$100,000 buckets from \$0 to \$1,000,000. There is clustering in the up to \$100,000 category, both in target and maximum offer amounts, which may be due to the requirement of reviewed financials for offerings seeking over \$100,000. Most maximum offer amounts are set around \$1 million, but there also is a cluster of amounts around \$500,000. While this is the threshold for the requirement of audited financial statements, first-time crowdfunding issuers are not subject to it, so it is not entirely clear why it appears in the sample, given the relatively small number of repeat issuers so far. In the future, as more repeat issuers initiate offerings and therefore become subject to the audited financial statement requirement for offerings over \$500,000, we may expect to see more pronounced clustering of maximum offer amounts around the \$500,000 threshold, to the extent that there continues to be a cost differential between reviewed and audited financial statements.<sup>26</sup>

**Figure 3a. Distribution of target offer amounts**



<sup>26</sup> See also Crowdfunding Adopting Release, at 71502–71503.

**Figure 3b. Distribution of maximum offer amounts**



The offering characteristics in Table 2 show that a typical offering was due to close within 4-5 months of initiation.<sup>27</sup> With very few exceptions, issuers permitted oversubscriptions—investments above the target amount sought. Issuers took advantage of the flexibility afforded by nationwide solicitation (in the 50 U.S. states and the District of Columbia), given the statutory preemption of state registration requirements and the Internet-based nature of the offerings.

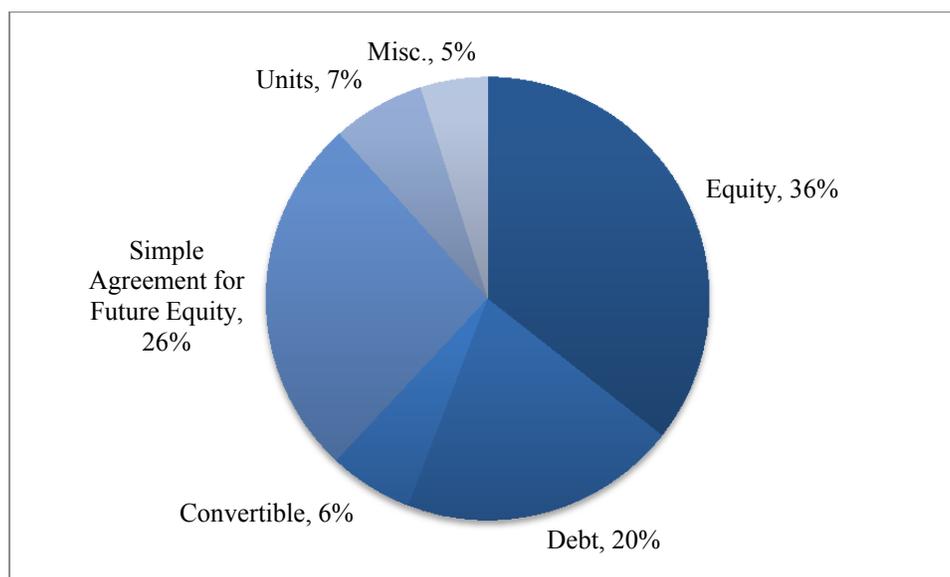
**Table 2. Offering characteristics**

	Mean	Median	Obs
Offering duration, in months	4.5	4.0	163
Oversubscriptions accepted	98%	100%	163
Number of jurisdictions of solicitation	50.6	51.0	163
Security type 'equity'	36%	0%	163
Security type 'debt'	20%	0%	163
Security type 'other'	44%	0%	163

<sup>27</sup> Offering information based on the most recent filing for each offering, except as specified otherwise. Offering duration (the number of months between the filing date and the deadline date) is based on the first filing.

As can be seen from Table 2 and Figure 4, the most popular security issued was common or preferred equity, accounting for 36% of offerings. Debt accounted for 20%, and there were various other security types, such as units, convertibles, SAFEs,<sup>28</sup> and others (including revenue sharing and membership / LLC interests).

**Figure 4. Distribution of security types**



### C. Crowdfunding issuer characteristics

The issuer characteristics reported in Table 3<sup>29</sup> reveal that the typical issuer is a small, young startup. The majority of offerings involved issuers organized as corporations. Issuer age in the median (average) offering was 1.5 (a little over 2) years based on the initial filing relative to the date of incorporation. A fifth of the offerings involved new issuers that were formed less than 3 months prior to initiating the offering. The median offering involved an issuer with 3 employees and approximately \$43,000 in assets, with one quarter of offerings by issuers reporting zero

<sup>28</sup> Simple agreements for future equity, used in 26% of the offerings so far, were designed by a Silicon Valley startup accelerator for early-stage entrepreneurial ventures to provide their holders with option-like payoffs from a potential conversion into equity contingent on a subsequent valuation event (such as a follow-on financing round or offering at a specified valuation) but no voting, dividend or coupon rights. Issuers may offer voting rights to larger investors. The conversion terms are based on whether the subsequent valuation event was at a higher than specified valuation. See Green, Joseph, and John Coyle, 2016, Crowdfunding and the not-so-safe SAFE, 102 *Virginia Law Review Online* 168, [http://ssrn.com/abstract\\_id=2830213](http://ssrn.com/abstract_id=2830213). But see Wroldsen, Jack, 2017, Crowdfunding investment contracts, 11 *Virginia Law & Business Review* (forthcoming), [http://ssrn.com/abstract\\_id=2844771](http://ssrn.com/abstract_id=2844771).

<sup>29</sup> Statistics are based on offering-level observations, thus, issuers that participated in multiple offerings appear in the sample more than once. Statistics are based on the most recent filing for each offering, except as specified otherwise. Issuer age is based on the first filing for each offering. Assets, revenue, net income, cash, and debt figures are for the most recent fiscal year.

assets. The average issuer had 5 employees and assets of approximately \$327,000. Median cash holdings were about \$5,000 and average cash holdings were about \$64,000.

The majority of offerings were by issuers that were pre-revenue (60%) and not yet profitable (91%) in the most recent fiscal year. The median offering was by an issuer with a loss of \$17,000 (the average loss was close to \$150,000).

There are indications that many issuers have high growth opportunities. Among those that reported non-zero total assets or sales in the prior fiscal year, the median asset growth was 15% and median sales growth 80% for the most recent fiscal year.<sup>30</sup>

**Table 3. Issuer characteristics and financials**

	Mean	Median	Obs.
Legal status is 'corporation' vs. 'LLC'	69%	100%	163
Issuer age (months since incorporation)	28.7	18.0	163
Issuer age is $\leq 3$ months	21%	0%	163
Employees	4.6	3.0	163
Assets (\$000s)	327	43	163
Issuer has no assets	23%	0%	163
Revenue (\$000s)	210.1	0.0	163
Issuer is pre-revenue	60%	100%	163
Net income or loss (\$000s)	-147.9	-17.1	163
Issuer has a positive net income	9%	0%	163
Cash (\$000s)	63.5	4.7	163
Debt (\$000s)	288.4	10.0	163
Debt/assets	5.2	0.7	125
Issuer has debt	61%	100%	163
Long-term debt (\$000s)	168.6	0.0	163
Long-term debt/assets	2.3	0.0	125
Asset growth <sup>31</sup>	754%	15%	75
Sales growth	169%	80%	49

<sup>30</sup> However, the interpretation of percentage growth rates should factor in low asset levels for the typical issuers.

<sup>31</sup> Asset growth is computed only if total assets for the prior fiscal year are nonmissing and positive. For newly formed issuers, asset growth is not available. This also applies to sales growth.

## Other financing activity

As can be seen from Table 3, the majority of offerings (61%) involved issuers with current or long-term liabilities – the median across all offerings was about \$10,000, but with a much larger average of about \$290,000.<sup>32</sup> Given the small asset size of many issuers, the average and median leverage ratios are high.<sup>33</sup>

The finding that most issuers were relatively young and small companies is consistent with Title III crowdfunding being their initial foray into capital raising through a securities offering. But there is some evidence that some issuers had previously or subsequently conducted an offering under Regulation D or Regulation A.<sup>34</sup> As shown in Table 4, and as of January 15, 2017, approximately 15% of offerings initiated during 2016 (excluding withdrawn offerings) were by issuers that have also reported offerings under Regulation D on Form D either before or after the initial crowdfunding filing. Approximately 3% of issuers have made Regulation A+ filings as of January 15, 2017.

Among crowdfunding issuers, approximately 12.9% of offerings were by issuers that had filed the first Form D notice prior to the first crowdfunding filing and approximately 2.5% of offerings involved issuers that had filed a Form D notice after the first crowdfunding filing. For about 8.6% of offerings, excluding withdrawn crowdfunding offerings, a Form D filing was made within one calendar year before or after the initial crowdfunding filing.

We did not identify other filing activity by issuers in initiated crowdfunding offerings (including withdrawn filings), *e.g.*, previous delistings, deregistrations, or exit from reporting status, suggesting that, consistent with their young age, crowdfunding issuers may be more likely to be new startups rather than ‘fallen angels’.

Overall, these results suggest that crowdfunding is attracting issuers that have not extensively used other private offering exemptions, such as Regulation D, which is otherwise a very popular

---

<sup>32</sup> Liabilities may include amounts owed to founders or key employees, suppliers, consultants etc. and not only loans or bonds outstanding.

<sup>33</sup> Means and medians of ratios do not equal ratios of means or medians.

<sup>34</sup> However, two caveats are in order. Data on electronic Form D filings only goes back to 2009, which suggests that we may not be able to identify current crowdfunding issuers that relied on Regulation D prior to 2009. Given the average age of crowdfunding issuers, that does not seem very likely. Additionally, issuers may rely on the statutory exemption from registration for private offerings without relying on the Regulation D safe harbor, thus, it is likely that a higher proportion of issuers has engaged in some private offering activity than the proportion that has filed notices on Form D. We also do not have information on issuer participation in intrastate crowdfunding.

private offering exemption<sup>35</sup> among similarly sized issuers as those initially availing themselves of the Crowdfunding market. The initial evidence is consistent with crowdfunding providing a new source of capital for entrepreneurial and small businesses that may not otherwise have had access to capital through alternative capital raising channels.<sup>36</sup>

It is possible that as crowdfunding issuers grow, they may attempt to raise additional financing via intrastate or regional crowdfunding, Regulation A, Regulation D, or by relying on the Section 4(a)(2) exemption. As noted above, around 4% (7 out of 163) of initiated offerings, excluding withdrawn offerings, were crowdfunding offerings by issuers that had previously initiated another crowdfunding offering. It remains to be seen which offering methods crowdfunding issuers use for future financing rounds. At the time of an initial crowdfunding offering, there may be partial substitution between a crowdfunding offering and an initial Regulation D offering. At the same time, Title III crowdfunding issuers have considerable flexibility to complement crowdfunding with Regulation D, Regulation A or other exempt offerings.<sup>37</sup>

**Table 4. Filing and offering activity history of crowdfunding issuers**

<i>Percent of offerings by issuers with a</i>	Excluding withdrawals	Including withdrawals
Form D filing <sup>38</sup>	14.7%	12.8%
after initial Form C filing	2.5%	2.1%
prior to initial Form C filing	12.9%	11.2%
365 days before or after initial Form C filing	8.6%	7.5%
Reg A filing	3.1%	2.7%
under old Reg A	0.0%	0.0%
under Reg A+	3.1%	2.7%

### Geographic distribution of issuers

As can be seen from Table 5, issuers located (identified by the state of the issuer’s physical address reported in Form C) in California accounted for 34% of offerings and 38% of aggregate target amounts sought. The “heat map” of crowdfunding activity based on issuer location

<sup>35</sup> See Scott Bauguess, Rachita Gullapalli and Vladimir Ivanov, “Capital Raising in the U.S.: An Analysis of the Market for Unregistered Securities Offerings, 2009–2014” (October 2015), available at <http://www.sec.gov/dera/staff-papers/white-papers/unregistered-offering10-2015.pdf>.

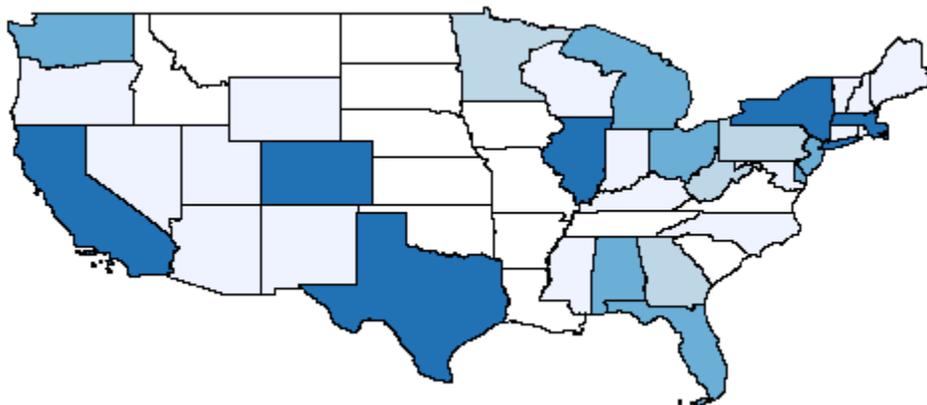
<sup>36</sup> See Crowdfunding Adopting Release, at 71492.

<sup>37</sup> See also Crowdfunding Adopting Release, at 71392.

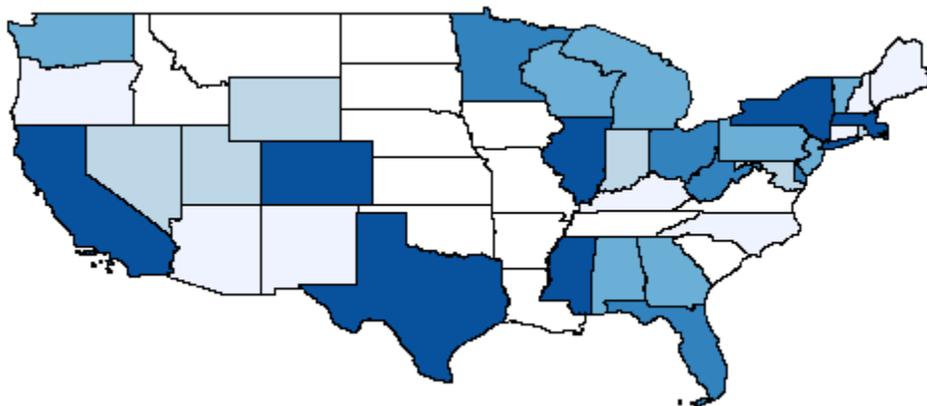
<sup>38</sup> Some offerings involved issuers with a Form D filing both before and after the initial Form C filing.

(identified by the state of issuer's physical address reported in Form C) is shown in Figures 5a-5b. Besides California, Texas and New York account for a significant presence of crowdfunding issuers. Based on Table 5, top 5 states based on the number of offerings accounted for 60% and top 5 states based on the aggregate target amounts sought accounted for 67%. Issuers from California also accounted for the biggest share of offerings reported completed and amounts reported raised to date, 36% and 34%, respectively. Given the relatively small number of offerings reported completed, top 5 states accounted for over 90% of the total amounts raised.

**Figure 5a. Geographic distribution of offerings by issuer location**



**Figure 5b. Geographic distribution of target amounts sought by issuer location**



**Table 5. Geographic distribution of offerings by issuer location**

#	Number of offerings		Target amount sought		Number of offerings reported completed <sup>39</sup>		Amount reported raised	
	State	% total	State	% total	State	% total	State	% total
1	CA	34%	CA	38%	CA	36%	CA	34%
2	NY	9%	TX	9%	TX	25%	TX	31%
3	TX	8%	MA	8%	MA	7%	MA	14%
4	IL	6%	IL	7%	DE	7%	OH	9%
5	CO	4%	NY	4%			DE	3%
Total		60%		67%		75%		91%

Separately, the most common jurisdiction of incorporation is Delaware, with close to half (45%) of offerings involving issuers incorporated in that state (not shown in the tables). This clustering is consistent with the prevalence of Delaware incorporation among Exchange Act reporting companies and the popularity of Delaware incorporation among Regulation A+ issuers.

#### **D. Characteristics of issuers and offerings reporting proceeds**

Below we examine offerings with deadline dates on or before December 31, 2016 and compare offerings that reported proceeds of at least the target amount on Form C-U by January 15, 2017 to offerings that have not reported proceeds (including or excluding ones that had been withdrawn, as specified).<sup>40</sup>

<sup>39</sup> Various states tied for the 5<sup>th</sup> place, with one offering completed in each.

<sup>40</sup> See discussion in Section II.A for important caveats, including our inability to distinguish failed offerings from offerings that have raised at least the target but not reported on Form C-U within assumed time frames.

**Table 6. Characteristics of issuers and offerings reporting proceeds**

	Offerings with deadlines $\leq$ Dec. 31, 2016 (104)			
	Reported success (33)		Not reported success, inc. withdrawn (71)	
	Mean	Med	Mean	Med
Target amount (\$000s)	100	70	123	100
Maximum amount (\$000s)	622	500	642	1000
Oversubscriptions accepted	100%	100%	94%	100%
Security type 'equity'	27%	0%	51%	100%
Security type 'debt'	30%	0%	13%	0%
Security type 'other'	42%	100%	37%	0%
Number of jurisdictions of solicitation	51	51	50	51
Employees	4.1	3.0	3.2	2.0
Assets (\$000s)	373	38	131	22
Issuer has no assets	30%	0%	34%	0%
Revenue (\$000s)	121	0	142	0
Issuer is pre-revenue	67%	100%	68%	100%
Net income or loss (\$000s)	-76	-29	-134	-17
Issuer has a positive net income	9%	0%	4%	0%
Cash (\$000s)	63	4	36	2
Debt (\$000s)	264	12	224	0
Issuer has debt	58%	100%	49%	0%
Long-term debt (\$000s)	131	0	167	0
Legal status is 'corporation' vs. 'LLC'	52%	100%	76%	100%
Issuer age (months since incorporation)	25	13	28	13
Issuer age is $\leq$ 3 months	24%	0%	27%	0%
Offering duration, in months	1.7	1.8	2.4	2.0
Issuer is incorporated in DE	39%	0%	42%	0%
Issuer is located in CA	36%	0%	34%	0%
Asset growth	3%	-2%	406%	20%
Sales growth	191%	101%	62%	39%

### **E. Withdrawn offerings**

For purposes of the initial analysis we excluded offerings associated with withdrawn filings. Below we analyze 24 offerings associated with withdrawn filings. The majority of the withdrawn offerings were associated with a funding portal that had its FINRA membership terminated and withdrew its SEC registration.<sup>41</sup> Compared to the main sample of initiated

<sup>41</sup> See <http://disciplinaryactions.finra.org/Search/ViewDocument/67004>.

offerings that had not been withdrawn (see Tables 2-3), there was a higher proportion of pre-revenue, zero-asset issuers in withdrawn filings and issuers in withdrawn filings had reported lower assets and cash holdings and were formed more recently (the differences along these dimensions were statistically significant).

In aggregate, withdrawn filings sought \$2.3 million based on the target amount and up to \$19.5 million based on the maximum amount. The average target amount was about \$95,000, with the median of \$100,000, but over 90% accepted oversubscriptions. The average (median) withdrawn offering was seeking to raise up to about \$810,000 (\$1 million). Close to 90% were equity offerings. The offerings solicited investors across the U.S.

**Table 7. Characteristics of offerings and issuers associated with withdrawn filings**

	Mean	Median
Target amount (\$000s)	95	100
Maximum amount (\$000s)	810	1,000
Oversubscriptions accepted	92%	100%
Security type 'equity'	88%	100%
Security type 'debt'	4%	0%
Number of jurisdictions of solicitation	51	51
Employees	3	2
Assets (\$000s)	68.9	0.0
Issuer has no assets	75%	100%
Revenue (\$000s)	42.6	0.0
Issuer is pre-revenue	88%	100%
Net income or loss (\$000s)	-104.2	0.0
Issuer has a positive net income	0%	0%
Cash (\$000s)	8.8	0.0
Debt (\$000s)	165	0.0
Issuer has debt	21%	0%
Long-term debt (\$000s)	139	0.0
Legal status is 'corporation' vs. 'LLC'	96%	100%
Issuer age (months since incorporation)	9.5	2.3
Issuer age is ≤3 months	63%	100%
Offering duration, in months	2.5	2.0
Issuer is incorporated in DE	21%	0%
Issuer is located in CA	17%	0%
Intermediary fee as %	5%	5%
Intermediary has a financial interest in issuer	4%	0%
Intermediary is a funding portal (not BD)	96%	100%

## F. Crowdfunding intermediaries

### 1. Intermediary market

As of December 31, 2016, 21 intermediaries have participated in Regulation Crowdfunding offerings, including 13 funding portals and 8 broker-dealers, based on the information in offering statements on Form C and amendments to them. Based on the information in Form CFPORTAL, a total of 21 funding portals were registered with FINRA<sup>42</sup> and the Commission<sup>43</sup> as of the report date, of which 13 have participated in offerings, having had at least one offering initiated on Form C that was not subsequently withdrawn.

Based on the information in offering statements for offerings that have been initiated, 88% of all offerings involved funding portals (representing 78% of aggregate target amounts), with the remainder using registered broker-dealers (BDs). About 93% of offerings that reported raising at least the target amount on Form C-U so far (97% of aggregate reported proceeds) involved funding portals.

The five largest intermediaries based on the number of offerings accounted for 71% of initiated offerings while the five largest intermediaries based on the aggregate target amounts sought accounted for 64% of the aggregate target amount sought in all initiated offerings. Hence, the majority of offering activity is limited to only a quarter of the active intermediaries in the crowdfunding market: Herfindahl index of market concentration based on the number of offerings (total target amounts sought) equals 0.21 (0.13). If all intermediaries had equal market shares, the index would be 0.05.

The results are more skewed towards the five largest intermediaries when considering only completed offerings; they accounted for more than 90% of the market share. The Herfindahl index of market concentration based on the number of successful offerings (proceeds reported raised) equals 0.28 (0.45). As more proceeds are reported, the market concentration measure may mechanically trend downward. Alternatively, a concentrated market may emerge as a steady state equilibrium due to factors such as economies of scale, network externalities, and intermediary quality differentiation.

Table 8 presents information on intermediary market shares based on the number of initiated offerings and target amounts in initiated offerings, excluding offerings withdrawn as of December 31, 2016. Intermediary market shares are constructed using the intermediary

---

<sup>42</sup> <http://www.finra.org/about/funding-portals-we-regulate>.

<sup>43</sup> <http://www.sec.gov/cgi-bin/srch-edgar?text=form-type%3DCFPORTAL>.

information as reported in Form C or its latest amendment. Funding portals that have withdrawn their registration are excluded.

Table 9 presents information on intermediary market shares based on information as reported in Forms C-U (or its latest amendment) filed through December 31, 2016. Intermediary market shares are constructed based on the number of completed offerings and aggregate amounts reported raised.

**Table 8. Intermediaries in initiated offerings**

Intermediary name	Intermediary % of number of offerings	Intermediary % of aggregate target amount
Wefunder Portal LLC	41.1%	28.5%
StartEngine Capital LLC	17.2%	14.2%
Trucrowd Inc	4.9%	5.7%
Nextseed Us LLC	4.3%	5.8%
Dreamfunded Marketplace LLC	3.7%	8.8%
Opendeal Inc, Db a Republic	3.7%	2.3%
Flashfundors Securities LLC	3.7%	1.6%
First Democracy VC	3.1%	2.2%
Venture.Co Brokerage Services LLC	2.5%	6.4%
SI Portal LLC	2.5%	4.2%
Jumpstart Micro Inc	2.5%	1.4%
Crowdfunderfunded.com	1.8%	3.6%
SI Securities LLC	1.8%	2.2%
Netcapital Funding Portal Inc	1.8%	0.5%
I-Bankers Direct LLC	1.2%	3.3%
North Capital Private Securities Corporation	1.2%	1.9%
Opening Night Capital LLC	0.6%	5.6%
Ksdaq Inc	0.6%	0.6%
Localstake Marketplace LLC	0.6%	0.6%
Manorhaven Capital LLC	0.6%	0.3%
Flashfundors Funding Portal LLC	0.6%	0.3%

**Table 9. Intermediaries in offerings reporting proceeds**

Intermediary name	Intermediary % of number of completed offerings	Intermediary % of aggregate amount reported raised
Wefunder Portal LLC	42.9%	63.5%
Nextseed Us LLC	25.0%	20.5%
Opendeal Inc, Db a Republic	14.3%	4.9%

StartEngine Capital LLC	7.1%	5.7%
SI Securities LLC	3.6%	2.1%
Flashfunders Securities LLC	3.6%	1.1%
SI Portal LLC	3.6%	2.1%

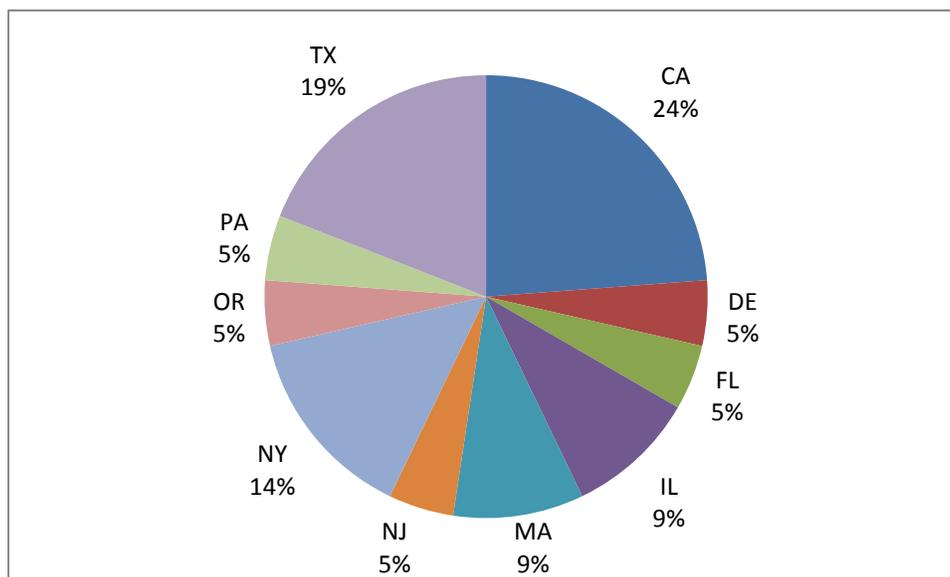
## 2. Funding portal characteristics

Most portals (two-thirds) were organized as LLCs, with the rest organized as corporations. Two-thirds were formed in 2016, but the first portals were formed in 2013.

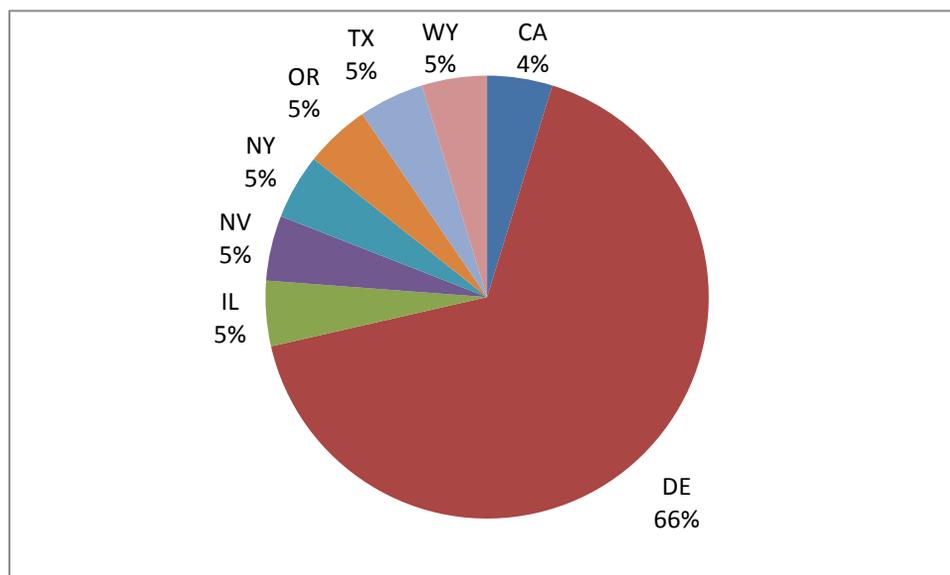
Based on the examination of the information reported on Form CFPORTAL (or latest amendment to it as of the end of our sample period), none of the funding portals had made regulatory, civil, criminal or financial disclosures during the sample period.

Figures 6a-6b show the distribution of portal states of location (identified by the state of the funding portal’s main street address as reported in Form CFPORTAL) and incorporation (identified by the jurisdiction of the funding portal’s incorporation as reported in Form CFPORTAL). Most of the portals are located in California, Texas, New York, and Massachusetts. Although Regulation Crowdfunding allows foreign funding portals to participate in the U.S. market, as of December 31, 2016, no foreign portal participated in crowdfunding deals in the U.S.

**Figure 6a. Geographic distribution of funding portal states of location**



**Figure 6b. Geographic distribution of funding portal jurisdictions of incorporation**



### 3. Intermediary compensation

Table 10 presents statistics on intermediary compensation obtained from offering-level forms for all initiated offerings and for offerings for which at least the target amount was reported raised. The compensation amounts are as reported on Form C and there may be some variation in how issuers report the fees.<sup>44</sup> The average intermediary fee is 5% (6% for completed offerings) while the median fee is 5%. This is lower compared to the average fee of 6.3% charged in Regulation D offerings for comparable amounts raised (up to \$1 million) that involve an intermediary.<sup>45</sup> The average fee for registered broker-dealers is 7.7% compared to 5.1% for funding portals, although the median fees are similar.

<sup>44</sup> There is some variance in whether issuers include financial interest in reported total compensation. We attempted to calculate total compensation, inclusive of financial interest stake, to the extent that information was available. In some cases a financial interest that is reported is not expressed as a percentage of proceeds, in which case it is treated as 1 for purposes of the financial interest indicator but as missing for purposes of the financial interest stake variable and as zero for purposes of inclusion of financial interest in total compensation.

<sup>45</sup> See Bauguess, Gullapalli, and Ivanov (2015).

**Table 10. Intermediary compensation**

	Mean	Median	Obs.
<i>Initiated offerings</i>			
Fee as a % of proceeds	5.4%	5.0%	163
Financial interest indicator	16.6%	0.0%	163
Financial interest as % of proceeds	3.0%	2.0%	25
<i>Completed offerings</i>			
Fee as a % of proceeds	5.9%	5.0%	28
Financial interest indicator	21.4%	0.0%	28
Financial interest as % of proceeds	3.0%	2.0%	6
<i>Offerings using funding portals</i>			
Fee as a % of proceeds	5.1%	5.0%	143
Financial interest indicator	15.4%	0.0%	143
Financial interest as % of proceeds	2.4%	2.0%	20
<i>Offerings using broker-dealers</i>			
Fee as a % of proceeds	7.7%	7.0%	20
Financial interest indicator	25.0%	0.0%	20
Financial interest as % of proceeds	5.2%	5.0%	5

Some portals take a financial interest in the issuer as a part of compensation. We estimate that it applied to approximately 16% of the offerings in the sample, with the average financial interest approaching 3% of proceeds. The incidence of intermediary financial interest is more frequent in deals conducted through registered broker-dealers, but the sample size is too small for meaningful tests. Registered broker-dealers appear to take a larger average financial interest as a percentage of proceeds (5.2%) compared to funding portals (an average of 2.4%).

The percentage fees apply to the level of proceeds and are only paid if the offering has raised at least the target amount. In some offerings intermediaries assess lower fees when the investment was referred by the issuer. We do not consider such discounts. In addition to a percentage of the offering proceeds, some offering statements specify that intermediaries may obtain reimbursement of expenses incurred by the intermediary in connection with the offering, such as escrow fees, while other intermediaries assess a fixed amount per investor or a fixed fee. Given the variation in textual descriptions of these provisions across offerings made through the same intermediary, we do not tabulate these aspects of compensation.

### **G. Other considerations**

We have presented analysis of the data available through the end of the sample period. Certain caveats apply. In order to draw inference about the use of the crowdfunding exemption, it would be relevant to consider an issuer's financing activities over an entire 12-month period. Some issuers in the crowdfunding sample have been formed recently and may pursue additional

funding rounds after the initial crowdfunding offering. Given that only a limited number of offerings have been completed to date, we are limited in our ability to draw systematic inference about repeat issuers. As we rely on filing data to identify offering proceeds, we are only able to evaluate proceeds raised in offerings to the extent that issuers have filed progress updates. We have particularly incomplete information about amounts raised in offerings initiated towards the end of the sample period.

Additionally, we note that small sample inference may be less reliable. The sample of offerings and the time period we have considered need not be representative of the future distribution of issuer and offering characteristics. Given the early-stage nature of the crowdfunding market, the pool of issuers, intermediaries, and service providers may evolve over time. Changes in industry and market conditions may also affect deal flow.

Due to data limitations, several questions are outside the scope of the above analysis, such as long-term issuer outcomes (*e.g.*, with respect to survival, performance, or future listing), informational asymmetries, the attributes of crowdfunding investors and the determinants of their decision making. These factors, as well as future trends in the market for intermediary services, security design, secondary market liquidity (if it emerges), and the incidence of fraud / investor protection concerns are expected to be relevant for the evolution of the crowdfunding market.<sup>46</sup>

### **III. Conclusion**

We have presented initial evidence on the Title III crowdfunding market activity based on information contained in EDGAR filings. In the first 6.5 months since the new exemption became effective on May 16, 2016, the market has seen gradual adoption by issuers and intermediaries. A total of 187 offerings were initiated between May 16, 2016 and December 31, 2016, including 24 withdrawn offerings targeting \$2.3 million (and up to a maximum of \$19.5 million) and 163 other offerings targeting approximately \$18 million (and up to a maximum of \$101 million). Of the offerings that had reached deadlines by year-end, offering success was reported on Form C-U for 33 offerings as of January 15, 2017, with total proceeds of approximately \$10 million. Almost all initiated offerings accepted amounts above the target, and all successful offerings had exceeded the target. The typical issuer was a small, pre-revenue, growth company located in California and incorporated in Delaware, with some debt and limited cash holdings.

We also present evidence on intermediaries that participate in crowdfunding offerings. The market for crowdfunding intermediaries has seen a fair amount of entry, with 21 funding portals registered with the SEC and FINRA as of December 31, 2016. Of those, 13 portals have taken

---

<sup>46</sup> See also Crowdfunding Adopting Release.

part in some offerings. In addition, 8 registered broker-dealers took part in some of the offerings. A typical offering had a 5% intermediary percentage fee, and, anecdotally, some intermediaries also assessed additional fees and reimbursement of expenses.

The small sample limits the inference that can be drawn from statistics on issuer and offering characteristics, fees, and measures of offering activity. Further, as noted above, due to data limitations, several questions relevant for future crowdfunding market development are outside the scope of this analysis.