

IV. *Crowdfunding America's Small Businesses After the JOBS Act of 2012*

A. Introduction

Crowdfunding is a form of microfinance in which numerous small lenders pool their money to loan to a single project.¹ Through crowdfunding, individuals with small amounts of extra cash can invest that money as startup capital for projects in which they are interested.² A small business startup that would not be able to get a large loan from a traditional lender because of the peculiarity or riskiness of its venture can pool money from many of these small investors in order to fund its projects.³

Traditionally, federal financial laws have not directly regulated crowdfunding.⁴ That changed in April 2012, however, when Congress enacted the Jumpstart Our Business Startups (“JOBS”) Act.⁵ The JOBS Act contains several provisions that authorize and regulate crowdfunding.⁶ The goal of these provisions is

¹ Thomas L. Hazen, *Crowdfunding or Fraudfunding? Social Networks and the Securities Laws—Why the Specially Tailored Exemption must be Conditioned on Meaningful Disclosure*, 90 N.C. L. REV. 1735, 1736-37 (2012) (“Crowdfunding is the fundraising analog to crowdsourcing, which refers to mass collaboration efforts through large numbers of people Since crowdfunding is designed to reach a large number of people, limiting the fundraising request to a small amount from each donor can provide meaningful funding.”).

² See Matt Villano, *Small Donations in Large Numbers, With Online Help*, N.Y. TIMES, Mar. 18, 2010, at F31, available at http://www.nytimes.com/2010/03/18/arts/artsspecial/18CROWD.html?_r=0 (explaining that supporters can invest money in creative projects in which they are interested).

³ Chris Manderson, *The JOBS Act, Part 4: Will Crowdfunding Live Up to the Hype?*, PEHUB (Apr. 28, 2012), <http://www.pehub.com/147531/will-crowdfunding-live-up-to-the-hype-part-4-of-a-4-part-series-on-the-jobs-act/>.

⁴ See Chance Barnett, *First S.E.C. Rulings Launch Crowdfunding with Accrediteds*, FORBES (Aug. 30, 2012, 12:11 PM), <http://www.forbes.com/sites/chancebarnett/2012/08/30/first-s-e-c-rulings-launch-crowdfunding-with-accrediteds/> (arguing that the JOBS Act represents Congress’s first attempt bring together small businesses and ordinary investors after crowdfunding became prohibited more than seventy years ago).

⁵ Jumpstart Our Business Startups Act, Pub. L. No. 112-106, 126 Stat. 306 (2012) (to be codified in scattered sections of 12 U.S.C. and 15 U.S.C.).

⁶ See *id.* §§ 301–305, 126 Stat. at 315–23.

to facilitate the growth of business startups through increased access to investment capital.⁷ Congress charged the Securities and Exchange Commission (“SEC”) with explaining and expanding those rules by the beginning of 2013, and the SEC will likely impose “burdensome compliance and disclosure requirements” on crowdfunding participants in order to protect investors.⁸

B. The Crowdfunding Model

Crowdfunding describes a financial practice in which a large group of investors pool their small individual loans to fund a single project, whether it is a startup business or a charitable cause.⁹ Each individual loan is for a small amount, anywhere from \$0.01 up to \$2,000 for most investors (the maximum increases to \$100,000 for extremely wealthy investors, but not to exceed 10% of an individual investor’s net worth).¹⁰ By grouping together numerous small loans, business startups can obtain potentially large sums of capital for their projects.¹¹ Crowdfunding investors are typically private individuals with little experience in investing, but they could also theoretically be companies or investment groups interested in investing a relatively small amount.¹² Most crowdfunding projects are relatively small, raising no more than \$25,000.¹³ Despite the small size of crowdfunding loans and projects, entrepreneurs have raised an

⁷ Glenn R. Pollner, *The Jobs Act: What It Means For Capital Markets Practices And Capital-Raising Strategies*, in RECENT DEVELOPMENTS IN SECURITIES LAW: LEADING LAWYERS ON UNDERSTANDING IMPORTANT LEGISLATION AND COMPLYING WITH SEC RULES AND REGULATIONS 1, 1 (2012).

⁸ Barnett, *supra* note 4 (stating that the SEC must issue its rulings by December 31, 2012); Manderson, *supra* note 3.

⁹ See Hazen, *supra* note 1, at 1736.

¹⁰ Jumpstart Our Business Startups Act § 302(a), 126 Stat. at 315 (to be codified at 15 U.S.C. § 77d).

¹¹ Hazen, *supra* note 1, at 1737.

¹² Jumpstart Our Business Startups Act § 302(a), 126 Stat. at 315 (allowing investors with annual income or net worth of more than \$100,000 to invest up to \$100,000 in a particular project); Hazen, *supra* note 1, at 1766.

¹³ Daniel Satorius & Stu Pollard, *Crowdfunding: What Independent Producers Should Know About the Legal Pitfalls*, 28 ENT. & SPORTS LAW. 15, 15 (2010).

aggregate of several billions of dollars of capital through crowdfunding in a relatively short amount of time.¹⁴

Crowdfunding is a free market form of lending in which ordinary people can choose which projects to fund based not only on the highest anticipated return on an investment but also on the projects they would like to see completed.¹⁵ This type of financing is most useful for unorthodox or obscure business startups that might not typically be strong candidates for a large loan from a bank or investment firm.¹⁶ These projects may appear commercially unviable to large investors, but they can raise a significant amount of capital if they attract enough small investors.¹⁷

There are four basic types of crowdfunding.¹⁸ The first type is the donation model, in which an investor donates money to a charity or startup with no expectation of being repaid.¹⁹ The second type of crowdfunding, the reward model, allows a supporter to invest in an organization or cause in return for a reward such as “recognition, a show ticket, [or] a t-shirt.”²⁰ Startups using a third type of crowd funding, the pre-purchase model, promise that investors will “receive[] the entrepreneur’s product if the startup successfully launches,” but will receive nothing and potentially sacrifice his or her investment if the project fails.²¹ The final type of crowdfunding, the equity model, utilizes a process equivalent to purchasing stock in a company.²²

Crowdfunding takes place primarily on dedicated Internet sites called “portals.”²³ Portals facilitate interactions between startups

¹⁴ C. Steven Bradford, *Crowdfunding and the Federal Securities Laws*, 2012 COLUM. BUS. L. REV. 1, 1 (2012).

¹⁵ See Manderson, *supra* note 3 (stating that crowdfunding started as a tool for projects that could not obtain traditional capital); Villano, *supra* note 2 (reviewing how museum projects are using crowdfunding).

¹⁶ Manderson, *supra* note 3.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Id.*

²² *Id.*

²³ See Jumpstart Our Business Startups Act, Pub. L. No. 112-106, § 302(a), 126 Stat. 306, 315 (2012) (to be codified at 15 U.S.C. § 77d); Hazen, *supra* note 1, at 1759-61 (explaining that social networking sites are common intermediaries).

and investors by bringing both parties to a single, convenient place.²⁴ Entrepreneurs post descriptions of their startups on the portal, and potential investors can browse the thousands of potential startups on these portals and choose which project they would like to help fund.²⁵ Entrepreneurs often also use social networking tools like Facebook and LinkedIn to advertise their startup and reach out to potential investors.²⁶ Perhaps the most popular crowdfunding portal is Kickstarter, which serves as a forum for small investors and startups around the world to engage in crowdfunding while imposing few restrictions on its users.²⁷ On Kickstarter, investors can choose to invest capital in a wide array of startups.²⁸ Kickstarter operates on an “all-or-nothing basis” in which projects have up to ninety days to “meet [their] fund-raising goals” through pledged investors.²⁹ Projects that fail to reach these goals within the ninety-day period do not receive any funding.³⁰ Crowdfunding is also gaining in popularity as a political fundraising tool, with many politicians and

²⁴ See Villano, *supra* note 2 (stating that entrepreneurs use common social networking sites like Facebook to solicit investments).

²⁵ See Natalie Robehmed, *A Startup Takes on the Super PACs*, FORBES (July 6, 2012, 9:23 AM), <http://www.forbes.com/sites/natalierobehmed/2012/07/06/a-startup-takes-on-the-super-pacs/> (highlighting companies such as Kickstarter, “where there are thousands of projects to which supporters donate a small amount of money”).

²⁶ Christine McKillip, *Keeping Current: Crowd Funding Bills Stall In Congress*, BUS. L. TODAY 1, 1 (Feb. 28, 2012), <http://apps.americanbar.org/buslaw/blt/content/2012/02/keepingcurrent-02.shtml>.

²⁷ Bradford, *supra* note 14, at 1, 5, 10; see also Villano, *supra* note 2 (stating that Kickstarter.com is the most popular fundraising site for museums).

²⁸ Villano, *supra* note 2 (“This site, which bills itself as a fund-raising platform for a variety of creative endeavors, was started in April 2009. It enables visitors to support projects with any amount of money they wish. Projects are financed on an all-or-nothing basis; if a project does not meet its fund-raising goal within a maximum of 90 days, it receives nothing.”). Kickstarter requires its projects to use the pre-purchase crowdfunding model. *Terms of Use*, KICKSTARTER (Oct. 2012), <http://www.kickstarter.com/terms-of-use?ref=footer> (last visited Nov. 21, 2012) (“Kickstarter is a platform where certain users (‘Project Creators’) run campaigns to fund creative projects by offering rewards to raise money from other users (‘Backers’).”).

²⁹ Villano, *supra* note 2.

³⁰ *Id.*

advocacy groups relying on crowdfunding portals like ActBlue.com, SocialTeeth.org, and Rally.org to gather a large amount of small donations from supporters in order to fund political campaigns.³¹ The popularity of each of these websites is indicative of the crowdfunding's potential to change the world of investment.

C. The JOBS Act

Because crowdfunding is a relatively new investment system, Congress did not pass any significant legislation addressing it until recent years.³² However, after the Great Recession began in 2008, Congress began to perceive crowdfunding as a way to stimulate business growth, and it included an entire section meant to facilitate crowdfunding in the JOBS Act.³³ President Obama signed the JOBS Act on April 5, 2012, legalizing the equity model of crowdfunding for the first time in the modern financial era.³⁴ Before the JOBS Act, equity model crowdfunding was unavailable to business startups because it involved the sale of securities, which must be registered with the SEC pursuant to the Securities Act of 1933.³⁵ As a result, investors were prohibited from purchasing stock

³¹ See Satorius & Pollard, *supra* note 13, at 16 (explaining that President Obama's presidential campaign raised more than \$1 million a day through crowdfunding in the months leading up to the 2008 election); Amanda Wills, *Politics Transformed: How Crowdfunding is Rewriting the Campaign Finance Playbook*, MASHABLE, (Oct. 2, 2012), <http://mashable.com/2012/10/02/crowdfund-political-campaigns/>; Robehmed, *supra* note 25 ("A new website called Social Teeth aims to combat super PACs by creating a Kickstarter for political ads.").

³² See Barnett, *supra* note 4 (explaining that the equity model of crowdfunding has not been available under securities law for more than seventy years).

³³ Pollner, *supra* note 7, at 1 ("An underlying theory of the JOBS Act legislation is that by facilitating capital formation, . . . companies will be able to grow and expand their businesses, which, in turn, can result in additional job creation and economic growth.").

³⁴ *Id.*; Barnett, *supra* note 4. Although the Securities Act of 1933 indirectly prohibited the equity model, the other three crowdfunding models—donation, pre-purchase, and reward—have always been legal.

³⁵ McKillip, *supra* note 26, at 1 ("[C]rowd funding in exchange for an economic interest in the issuer is currently impermissible under federal and state securities laws. . . . In order to provide greater access to capital available through the crowd funding method, three bills were introduced . . .

in a company through their small investments, which removed a potential source of capital for startups.³⁶ In addition to this problem, entrepreneurs found it difficult to attract large investments in their riskier, more unusual, and more innovative projects due to the ongoing recession.³⁷ In enacting the JOBS Act, Congress hoped to increase the amount of capital available to entrepreneurs.³⁸

The JOBS Act authorizes crowdfunding, specifically the equity model, for businesses by creating a “new exemption from registration” under the SEC for small investors.³⁹ The JOBS Act amends section 4 of the Securities Act to provide an exemption from registration for small startups where, for any twelve-month period, the company sells no more than \$1,000,000 of shares in the aggregate to investors.⁴⁰ In addition, no single investor can purchase more than \$2,000 of shares or 5% of the investor’s annual income or net worth (10% for investors with annual income or net worth exceeding \$100,000).⁴¹ The JOBS act stipulates that all crowdfunding transactions must be conducted through a registered funding portal or a registered broker-dealer, and that stock issuers are required to comply with any future SEC rulings.⁴²

The SEC has not yet issued its requirements, but the JOBS Act provides several minimum compliance and disclosure requirements. These requirements force startups to inform potential investors about investment risks, financial statements, and the amount of capital necessary for a particular project to succeed; to submit periodic progress reports to the SEC throughout the crowdfunding process; and to engage in crowdfunding only through a registered intermediary.⁴³ The JOBS Act authorizes only registered broker-dealers and registered crowdfunding portals, such as

[to expand] the exemptions available to issuers under section 4 of the Securities Act of 1933.”)

³⁶ Satorius & Pollard, *supra* note 13, at 15.

³⁷ See Pollner, *supra* note 7, at 5 (arguing that companies must start reconsidering their post-recession IPOs under the JOBS Act).

³⁸ Karen Blumenthal, *On Crowdfunding and Other Threats*, WALL ST. J., Sept. 22, 2012, at B8, available at <http://online.wsj.com/article/SB10000872396390443890304578006151909918218.html>.

³⁹ Manderson, *supra* note 3.

⁴⁰ Jumpstart Our Business Startups Act, Pub. L. No. 112-106, § 302(a), 126 Stat. 306, 315 (2012) (to be codified at 15 U.S.C. § 77d).

⁴¹ *Id.*

⁴² *Id.* § 302(b), 126 Stat. at 315 (to be codified at 15 U.S.C. §§ 77a, 77d).

⁴³ Manderson, *supra* note 3.

Kickstarter, to act as intermediaries.⁴⁴ Furthermore, the JOBS Act preempts state crowdfunding laws unless a startup “has its principal place of business in [a particular] state” or more than half of the startup’s investors are residents of a particular state.⁴⁵

Congress included crowdfunding legislation in the JOBS Act in an attempt to facilitate capital formation by allowing startup companies to rapidly grow and expand their businesses with a new and innovative tool.⁴⁶ In passing the JOBS Act, Congress specifically aimed to aid “emerging growth companies,” which are companies with annual gross revenues of less than \$1 billion in their most recent fiscal year.⁴⁷ This wide net for emerging growth companies encompasses about 90% or more of all private companies.⁴⁸

The crowdfunding provisions of the JOBS Act apply only to privately held companies.⁴⁹ These provisions enable entrepreneurs who need to raise a large amount of capital, but do not wish to take their companies public, to find investors to fund their projects.⁵⁰ These entrepreneurs can retain the private status of their company while using crowdfunding as long as they do not exceed the cap of 2,000 individual investors who are accredited by the SEC or, alternatively, 500 unaccredited investors.⁵¹ In addition, companies may engage in profit sharing with their employees without having to consider those employees as shareholders, allowing companies to attract the maximum amount of capital through crowdfunding while freeing up even more capital by paying workers in company shares.⁵² These restricted provisions have the potential to help small,

⁴⁴ *Id.* (“Funding portals such as Kickstarter are officially blessed by the JOBS Act and should increase in prominence if crowdfunding takes hold. Crowdfunding can also be conducted through traditional FINRA-registered broker-dealers”).

⁴⁵ Hazen, *supra* note 1, at 1756–57.

⁴⁶ Pollner, *supra* note 7, at 1.

⁴⁷ Jumpstart Our Business Startups Act § 101(a), 126 Stat. at 307 (to be codified at 15 U.S.C. § 77b); Pollner, *supra* note 7, at 1.

⁴⁸ Pollner, *supra* note 7, at 1.

⁴⁹ *Id.* at 6.

⁵⁰ *See id.* at 1 (explaining that the JOBS Act makes it much easier for companies to get outside funding while remaining privately owned).

⁵¹ Hazen, *supra* note 1, at 1743.

⁵² *See* Pollner, *supra* note 7, at 6 (“[U]nder the JOBS Act, employees who receive shares as part of a compensation plan will be excluded from the Section 12(g) shareholder of record count.”).

privately owned startups compete with their larger, publicly owned counterparts.

D. SEC Rulings

The JOBS Act contains a mandate requiring the SEC to create a set of rules to govern the crowdfunding portion of the JOBS Act within 270 days of its enactment (by December 31, 2013).⁵³ At least one financial expert, John Wasik, advises business startups not to rely on crowdfunding for capital before the SEC releases its rulings.⁵⁴ SEC Chair Mary Schapiro has “openly opposed crowdfunding,” warning entrepreneurs against using it as source of capital before Congress enacted the JOBS Act and stating that the Act’s official endorsement of crowdfunding would “walk [investor protection] backwards.”⁵⁵ As a result of these positions, insiders expect the SEC to issue strict compliance and disclosure requirements.⁵⁶ These requirements will likely impose heavy burdens on startups in the name of investor protection, so startups and small

⁵³ Barnett, *supra* note 4 (“When President Obama signed the JOBS Act into law on April 5, he also fired the gun to make business crowdfunding real in 270 days.”).

⁵⁴ John Wasik, *Crowdfunding Rules: Hurry Up and Wait*, FORBES (June 27, 2012, 3:31 PM), <http://www.forbes.com/sites/johnwasik/2012/06/27/crowdfunding-not-kosher-yet/>.

⁵⁵ David Hilzenrath, *JOBS Act Could Remove Investor Protections, SEC Chair Mary Schapiro Warns*, WASH. POST (Mar. 14, 2012), http://www.washingtonpost.com/business/economy/jobs-act-could-open-a-door-to-investment-fraud-sec-chief-says/2012/03/14/gIQA1vx1BS_story.html (“[R]egulators and investor advocates have argued that [the JOBS Act] could expose investors to fraud. SEC Chairman Mary L. Schapiro added her voice to the criticism in a letter sent to leaders of the Senate banking committee ‘Too often, investors are the target of fraudulent schemes disguised as investment opportunities,’ Schapiro wrote. ‘As you know, if the balance is tipped to the point where investors are not confident that there are appropriate protections, investors will lose confidence in our markets, and capital formation will ultimately be made more difficult and expensive.’”); Ben Protes, *Regulator Seeks Feedback on JOBS Act*, N.Y. TIMES (Apr. 11, 2012, 4:16 PM), <http://dealbook.nytimes.com/2012/04/11/regulator-seeks-feedback-on-jobs-act/> (“Mary Schapiro, chairwoman of the S.E.C., warned last month that the law would “weaken investor protection.” She added that “we should not walk backwards here.””).

⁵⁶ Manderson, *supra* note 3.

businesses may want to consider traditional sources of capital before structuring their business models around crowdfunding.⁵⁷

E. Crowdfunding's Future

Because the SEC has not yet issued rulings to govern the crowdfunding sections of the JOBS Act, investors are currently at high risk of fraudulent and exaggerated business proposals.⁵⁸ Startups currently have relatively weak disclosure requirements, potentially allowing entrepreneurs to use investment capital for non-business-related activities.⁵⁹ In addition, there is usually no guarantee that a startup will repay its investors.⁶⁰ Virtually the only incentive for a crowdfunded startup to repay its investors is the threat of legal action.⁶¹ However, most investors will likely be dissuaded from attempting to recover their small loans in court due to the extremely high burden of proof requirements for plaintiffs under anti-fraud securities laws and the “modest potential damages” that an individual plaintiff might be able to recover.⁶² Crowdfunding also poses risks to startups because they can be liable for their brokers’ illegal acts, such as if a broker fails to properly register with the SEC before engaging in crowdfunding.⁶³ Startups may also be subject to legal action if they fail to pay back their investors.⁶⁴

⁵⁷ See *id.* (“Crowdfunding companies will be faced with significantly more disclosure and compliance than private companies, while raising only a modest amount of capital. Cost-benefit analysis simply may not favor crowdfunding.”).

⁵⁸ See Barnett, *supra* note 4; Blumenthal, *supra* note 38; Wasik, *supra* note 54.

⁵⁹ See Manderson, *supra* note 3 (explaining the minimum disclosure requirements for startups engaging in crowdfunding).

⁶⁰ Wasik, *supra* note 54 (describing the numerous hazards associated with crowdfunding).

⁶¹ See Hazen, *supra* note 1, at 1757–59 (explaining a plaintiff must plead with heightened specificity and prove “a causal connection between a material misstatement or omission” made by the defendant in connection with the transaction, that the defendant acted with scienter, and the plaintiff’s damages resulting from the transactional loss).

⁶² *Id.*

⁶³ Wasik, *supra* note 54.

⁶⁴ See Hazen, *supra* note 1, at 1757–59 (explaining how investors can sue entrepreneurs for securities fraud); Satorius & Pollard, *supra* note 13, at 17 (explaining that entrepreneurs using the pre-purchase or reward models can

Increased accessibility to crowdfunding could possibly lead to an increase in fraud and investment scams.⁶⁵ Until the SEC issues its rulings, the lack of disclosure and compliance requirements leaves the door open to scammers attempting to swindle money from unsophisticated investors.⁶⁶ In fact, due to the high risks of failure and fraud involved with crowdfunding and startups, some financial experts, such as *The Wall Street Journal's* Karen Blumenthal, are advising individuals not to invest their money through crowdfunding before the SEC issues its rulings unless those investors can “afford to lose it all.”⁶⁷

According to Chris Manderson, an attorney specializing in corporate and securities law, the SEC’s rulings will have a major impact on crowdfunding’s future because they may severely limit the number of startups to which crowdfunding is available.⁶⁸ In a series of articles about the JOBS Act for the online private equity publication *peHUB*, Manderson argues that the costs of SEC reporting may prevent crowdfunding from being beneficial to many startups and may deter numerous investors.⁶⁹ Although it is unclear how severe the SEC’s rulings will be, the rulings will almost certainly increase compliance and disclosure requirements for startups using crowdfunding.⁷⁰ Manderson argues that many entrepreneurs may see these requirements as too burdensome to attempt to raise a potentially modest amount of money through crowdfunding.⁷¹

Manderson also identifies several obstacles crowdfunding faces beyond its own model. In addition to opening the door for startups to engage in crowdfunding, the JOBS Act makes it easier for

be liable for consumer fraud if they fail to provide a promised item to their investors).

⁶⁵ See Wasik, *supra* note 54 (explaining that scammers may take advantage of small business exemptions under the new crowdfunding laws to engage in fraud); Blumenthal, *supra* note 38.

⁶⁶ See generally Wasik, *supra* note 54; Blumenthal, *supra* note 38.

⁶⁷ Blumenthal, *supra* note 38.

⁶⁸ Manderson, *supra* note 3 (“Crowdfunding companies will be faced with significantly more disclosure and compliance than private companies, while raising only a modest amount of capital. Cost-benefit analysis simply may not favor crowdfunding.”).

⁶⁹ *Id.*

⁷⁰ See *id.* (explaining that the SEC considers crowdfunding dangerous to investors).

⁷¹ *Id.*

those businesses to raise capital through other means.⁷² The JOBS Act makes it legal for small businesses to engage in general solicitation to limited private investors without going public or triggering SEC registration requirements.⁷³ With this new option, entrepreneurs can sell large shares of their companies to wealthy, experienced investors in order to raise capital.⁷⁴ However, competition from the large number of investors who obtain a company's shares during a crowdfunding period may deter large investors from investing in that company.⁷⁵ As a result, Manderson explains, many entrepreneurs may wish to avoid crowdfunding for their startups in favor of seeking out a smaller number of large investors.⁷⁶

F. Conclusion

Crowdfunding has the potential to drastically change the world of small business lending, but the rules surrounding it remain unfinished and its future remains unclear.⁷⁷ While Congress passed the crowdfunding portion of the JOBS Act in the hope that it would spur economic growth, the SEC has hesitated to embrace it as a legitimate lending model.⁷⁸ Still, companies have already raised billions of dollars through crowdfunding, and crowdfunding has

⁷² See *id.* (“Traditional private placements and angel rounds will likely be a better alternative, especially with the JOBS Act changes to allow general solicitation.”).

⁷³ Jumpstart Our Business Startups Act, § 201(a), 126 Stat. 306, 313 (2012); Manderson, *supra* note 3.

⁷⁴ Chris Manderson, *The JOBS Act, Part 3: Private Placement Reform, or How the SEC Learned to Stop Worrying and Love General Solicitation*, PEHUB (Apr. 25, 2012), <http://www.pehub.com/146586/private-placement-reform-or-how-the-sec-learned-to-stop-worrying-and-love-general-solicitation-part-3-of-a-4-part-series-on-the-jobs-act/>.

⁷⁵ Manderson, *supra* note 3 (“Sophisticated [investors] are unlikely to invest in subsequent rounds after a crowdfunding rounds brings in a large number of “retail” shareholders Crowdfunding could therefore be a dead end for a startup looking to grow through multiple rounds of venture financing.”).

⁷⁶ *Id.* (arguing that crowdfunding is mainly useful to small, unusual projects rather than large companies).

⁷⁷ Barnett, *supra* note 4; Bradford, *supra* note 14, at 1.

⁷⁸ See Manderson, *supra* note 3.

helped countless entrepreneurs jumpstart their small businesses.⁷⁹ For now, though, it appears that the future of the crowdfunding model rests upon the forthcoming SEC rulings.

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⁷⁹ Bradford, *supra* note 14, at 1.

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