Fast Facts about State Registered DPOs

How long does it take to get through the regulatory approval process?

It can take anywhere from two weeks to five months and sometimes more to get through the state regulatory process. It varies greatly by state. For example, in some states the regulators are required to respond within days or weeks; while in California, the regulatory review process typically takes three months or more.

What states can I raise money in?

State by state compliance is required. You can raise money from more than one state, but each state you add will increase the cost and compliance burden.

Note however, that some states have state level crowdfunding exemptions which may be able to be used and which will greatly reduce the time and effort needed to comply in that state.

What is the maximum amount I can raise?

Depending on which federal compliance strategy you use and any applicable state regulations, you may be capped at $5 million per twelve-month period. Some state crowdfunding statutes have lower caps.

Do I need audited or reviewed financials?

These are usually not required but states often have discretion to require them. It is possible that you will need to obtain audited or reviewed financials to be able to complete your DPO.

What is the SCOR Form and do I need to use it?

The SCOR Form (also known as Form U-7) is a form that was created by the national organization of state securities regulators. Some states prefer that you use this form instead of a free-written prospectus.

Can I hire anyone to help me sell my securities to the public?

There are limits on who can sell the securities – generally this is limited to officers, directors, and managers of the issuer and licensed brokers. If you have concerns about this, please let us know and we can give you more information on the requirements that apply in the state(s) where you're making your offer.

Can I do other capital raises at the same time as the DPO or while I'm waiting for approval?

In most situations, you will be very limited in how you can raise money from investors outside the DPO for six months before your DPO launches and six months after you complete your DPO. If you have any concerns about this, please let us know so we can strategize about the best way to handle this limitation.

Can I start looking for investments before my DPO is approved by the regulators?

Before your DPO is approved by the regulators, you cannot offer the investment, seek pre-commitments, or discuss details of the planned offering.

Once I get approval, how long do I have to reach my goal?

You will generally get one year to reach your capital raising goal. If you want to keep raising after that, you will have to renew with the regulators.

Can anyone invest any amount or are there caps?

In most states there are no caps.

However, in California, suitability requirements are generally imposed. The most common way this works is that unless an investor meets certain wealth and income requirements, the investor is usually limited to $2,500 maximum investment.

Generally, unless California investors have (1) a minimum net worth of at least $75,000 and a minimum gross income of $50,000 or (2) a minimum net worth of $150,000, they are not permitted to invest more than $2,500.

Also, in California and in a few other states, the investment may not exceed 10 percent of the net worth of the investor.

Net worth is determined exclusive of the investor's home, home furnishings, and automobiles.

Sometimes the California regulators will require an increase in the net worth and/or income standards and may even reduce the $2,500 cap on those who don't meet the requirements.

What are the costs?

Besides what you pay your attorney, each state has filing fees that generally range from $300 to $2,500.

You will also need to cover the costs of your marketing campaign and preparation of financials.

How soon can I start using the money I raise?

In some cases, you will be able to use the money you receive from investors right away. However, sometimes the state regulators will require you to reach a certain minimum amount before you can touch the funds. Until you reach that minimum, the funds must be held in an impound/escrow account. This is usually required when you need to raise a minimum amount to achieve an important milestone in your business that you need to reach in order to meet your obligations to your investors.

An example would be that you are starting a recycling business and you cannot open your business until you can buy a truck that costs $25,000. If this were the case, the state would likely require you to keep funds in escrow until you reach a $25,000 minimum because if you don't raise that amount you won't be able to open your business and your investors will lose their money. In some states, finding an institution to hold the escrow account can be challenging and often involves costs of $2,000 or more.

Is there a maximum number of investors?

Generally no, except that if you have more than 500 unaccredited investors or 2,000 total investors in a single class of equity security AND you have more than $10 million in assets, you will be required to file as a public company, which most businesses do not want to do because of the heavy ongoing compliance burden.