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Wisconsin businesses a fresh source of funding, under a bill being drafted by three Republican lawmakers.

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The crowd-sourcing approach popularized by websites such as Kickstarter could give Wisconsin businesses a fresh source of funding, under a bill being drafted by three Republican lawmakers.

The GOP lawmakers want Wisconsin to join a small number of states rewriting their laws on stock sales to allow small investments through Internet sites similar to those already widely used by groups seeking donations. That would mean making substantial changes to a system that for generations has helped protect investors from the risks built into any business venture.

Attorney and craft beer enthusiast David Dupee, who has started a business to help brewers connect to investors who are passionate about ales and stouts, said the legislation would make investing in the state a “more democratic” endeavor.

Dupee's CraftFund LLC would seek to reach out to investors who might want to become a part owner of a favorite brewery or an exciting new one even if profits are minimal. As one model, Dupee points to Green Bay Packers fans willing to pay to become owners of the NFL franchise even though they don't receive any profits.

Crowd-sourcing could let entrepreneurs leverage public goodwill for their plans in a way that wouldn't be possible through traditional financing such as a bank loan.

“I certainly get excited about the potential for businesses seeking capital,” Dupee said. But also, “there's so many cool, private businesses that are closed off to state investors ... I get excited about unleashing this.”

Websites such as Kickstarter and Indiegogo already allow nonprofits and businesses

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But just as in the political world, more democracy in the financial world can bring a potential for messes along with its many merits. Lawmakers and potential investors will have to consider whether this new Internet model would offer enough basic protection against criminals looking to commit fraud as well as well-meaning but unsophisticated entrepreneurs and backers who get in over their heads.

Tim Keane, an investment professional who serves as director of Golden Angels Investors LLC, said that on balance he thinks the concept is a good idea. But it's important to work out details such as preventing fraud and handling the question of possible future sales of the stock purchased through a crowd-sourced offering, he said.

"What happens if it's a fraudulent transaction? What happens now?" Keane said.

Keane noted that securities laws in the United States date back to the time following the devastating 1929 stock market crash when the nation put measures in place to avoid a similar financial catastrophe.

The legislation by Reps. David Craig (R-Town of Vernon) and Chad Weininger (R-Green Bay), and Sen. Leah Vukmir (R-Wauwatosa) would lift part of the heavy regulation of state stock and securities laws for qualifying crowd-sourced investments.

So far, only two states, Kansas and Georgia, have passed similar legislation, though other state legislatures also are considering their own proposals.

"This bill moves our state away from 'New Deal' era ideas and puts Wisconsin in the very small group of states on the cutting edge of opening up the flow of small business capital," Craig said in a memo to lawmakers seeking more co-sponsors for the measure.

In response to a law passed by Congress and signed by President Barack Obama last

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— Not raise more than \$1 million, or \$2 million if the company issuing stock is willing to be audited and make the audit available to investors.

— Not sell more than \$5,000 in stock to anyone who is not an accredited investor. Accredited investors have to make more than \$100,000 a year, or \$150,000 a year for married couples, or have a net worth of \$750,000 or more.

— Issue the stock through an Internet site registered with the state Department of Financial Institutions and file disclosure statements and a \$50 fee with the agency and then share those disclosure statements with investors.

— Have stock payments held in escrow by a Wisconsin bank.

— Not have offered or sold other stock through this exemption in the past year.

Buying stock in a craft brewer or artisan cheesemaker could bring perks such as lifetime discounts, as well as profits, Dupee said.

But one issue for investors would be whether the stock purchased through a crowd-sourcing site such as CraftFund could be sold later. Dupee said typically investors would have to buy the stock knowing that they couldn't sell it later on.

“Except for some limited exceptions under federal and state law, these would largely be illiquid investments unless some kind of secondary market were created,” Dupee said.

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