Pass the Hat

By Reg P. Wydeven
May 18, 2014

At my 5-year high school reunion, one of my classmates boasted that he would drink a beer that had a slice of summer sausage in it. Not to be outdone, my buddy, Pearl, claimed he would drink a beer with whatever food we wanted to put in it, if everyone threw in $5. Of course, everyone put their $5 bills on the picnic table and commenced putting crumbled Oreos, pickles, cheese and deviled eggs into his beer.

Like Rambo, Pearl can eat things that would make a billy goat puke. After he chugged our concoction, Pearl gathered up his winnings, bowed graciously and walked away to a standing ovation. While almost 20 years have passed, the awesomeness of the story only grows.

Throwing $5 on the table was a simplified version of the concept known as "crowdfunding." The idea of chipping in for a common goal has been around forever, but with the Internet, crowdfunding has expanded from some idiots sitting around a picnic table to a global network of investors.

For example, the website, Kickstarter, allows people to contribute funds toward a certain product or project, typically in exchange for perks pertaining to the investment. Over 90,000 fans of the TV series "Veronica Mars," which aired from 2004 to 2007, contributed $5.7 million to finance the production of a movie based on the show. In exchange for contributing funds, fans got t-shirts, a DVD copy of the movie, tickets to the premier, or, for $10,000, a speaking part in the film.

Rob Thomas, the movie's director and co-writer, turned to Kickstarter after Hollywood studios passed on the movie. Like with "Veronica Mars," when traditional funding sources dried up, entrepreneurs turned to crowdfunding.

In 2011, after the unemployment rate went over 9%, the government was looking for ways to help get small businesses off the ground, which would result in more new jobs. Accordingly, in 2012, Congress passed the Jumpstart Our Business Startups, or JOBS, Act. The measure was designed to allow businesses to raise up to $1 million each year in small increments from average Americans who would not qualify as "accredited investors."

Before JOBS, equity crowdfunding was limited to accredited investors, as defined in the Securities Act of 1933. Passed in response to the stock market crash in 1929, the law was intended to protect Americans from investment scams, many of which contributed to the crash. To invest, individuals must have a net worth of $1 million or more and income of at least $200,000 annually, or $300,000 for a couple.

While JOBS was well intended, the final rules issued by the SEC explaining the law were 585 pages long. Understanding and complying with the rules was difficult and discouraged investors.

To combat this, last fall, Wisconsin passed its own version of JOBS, but restricted it to in-state companies and investors. By having the crowdfunding stay within our borders, investors don't fall under the jurisdiction of the federal SEC rules.

Businesses can now raise up to $2 million from Wisconsin "certified investors" who are residents with a minimum net worth of $750,000 or annual income of $100,000. Certified investors can contribute any amount toward startup businesses. Residents who do not qualify can still invest, but only up to $10,000.

There's no minimum contribution, so as Pearl would say, it makes investing easy to swallow.