

Governance and Success in U.S. Securities-Based Crowdfunding *

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Abstract

We propose three governance mechanisms pertinent to securities-based crowdfunding and campaign success through mitigating pronounced information asymmetries and agency problems. First, unlike IPOs for which the effect of Delaware incorporation has declined or disappeared over time, we propose Delaware incorporation matters a great deal for success in the new setting of securities-based crowdfunding. Second, we propose that security design is a critical tool for securities-based crowdfunding success and even more important than the limited 2-year financial statement disclosure. Third, we propose that platforms as intermediaries between entrepreneurs and investors play an important role in mitigating and sometimes exacerbating information asymmetries and agency problems. The population of securities-based crowdfunding campaigns from market inception in May 2016 to Q2, 2021 in the United States provides strong support for these propositions.

Keywords: Equity Crowdfunding, Governance, Delaware Incorporation, Fintech, COVID-19

JEL Codes: G21, G28, G51

1. Introduction

Entrepreneurship creates jobs, improves productivity, and spurs innovation and economic growth (Audretsch et al., 2006). Thus, we are motivated to analyze the underlying conditions that can enable entrepreneurship to flourish. Governance is particularly important in entrepreneurial finance. Small firms have tremendous growth options. Without proper governance structures, there is massive scope for agency problems whereby the entrepreneur can take actions to enrich herself at the expense of the investors. For example, there are various possible agency costs associated with fixed claim investments in the form of non-convertible debt and preferred equity, including risk-shifting, underinvestment, and asset stripping (Green, 1984; Eisdorfer, 2008).

Among different forms of entrepreneurial finance, the potential costs associated with information asymmetry and agency problems are perhaps the most pronounced in the case of securities-based crowdfunding and more specifically equity crowdfunding (Ahlers et al., 2015; Belleflamme et al., 2014; Buttice and Vismara, 2021; Coakley and Lazos, 2021; Johan and Zhang, 2020, 2021; Kleinert, Mochkabadi, 2021; Vismara, 2016). Further, there are pronounced adverse selection costs with equity crowdfunding such that lower quality entrepreneurs, on average, tend to gravitate to equity crowdfunding (Walthoff-Borm et al., 2018; Blaseg et al., 2021). Equity crowdfunding is akin to an IPO without a prospectus, where investors tend to invest in supporting the entrepreneurial spirit and with a preference for skewness in investment returns in the hopes of picking a home run. Securities-based crowdfunding is a catchall term that describes crowdfunding campaigns where investors receive security instruments such as debt, common equity, preferred equity, SAFEs (simple agreement for future equity), or other instruments in exchange for their capital investment. There are minimal disclosure requirements or other mandated standards of governance in securities-based crowdfunding. The securities sold

are highly illiquid and entrepreneurs offer minority stakes that typically do not exceed 25% in equity crowdfunding (Cumming and Johan, 2019).

The securities-based regulation crowdfunding (CF) market in the United States (U.S) is growing. The market saw \$23 million of capital raised in 2016, and it has grown to \$244 million in 2020.¹ Evidence from other countries shows similar trends. For example, in the United Kingdom, the world's largest equity crowdfunding market with a long history dating back to 2010, equity crowdfunding volumes increased from £272 million in 2016 to £549 million in 2020.² The growing size and importance of crowdfunding markets increase the need to assess the effectiveness of alternative governance mechanisms in facilitating successful fundraising.

The U.S. securities-based crowdfunding market offers a unique setting to study the role of different types of governance mechanisms associated with funding success in three primary ways. First, the U.S offers many different incorporation statutes from which entrepreneurs can select; that is, law is a product, and entrepreneurs select the governance features of different elements of corporate law (Romano, 1985). Historically, Delaware has been the preferred incorporation jurisdiction in the United States for venture capital-backed companies (Waisman, Wang, and Wuebker, 2009), IPOs (Daines, 2001, 2002), and mature publicly traded companies (Romano, 1985; Bebchuk et al., 2002; Bebchuk and Cohen, 2003). But, there is evidence that the importance of a Delaware incorporation for IPOs has declined or disappeared over time (Subramaniam, 2004), partly attributable to many of the other contractual and legal governance mechanisms in the IPO market. However, a crowdfunding campaign differs from an IPO, so we cannot infer from prior

¹ <https://business.fau.edu/equity-crowdfunding-tracker/>

² <https://www.jbs.cam.ac.uk/wp-content/uploads/2021/06/ccaf-2021-06-report-2nd-global-alternative-finance-benchmarking-study-report.pdf>. By comparison, the U.K. venture capital market in 2016 was only £272 million in 2016.

work that Delaware should be irrelevant to securities-based crowdfunding, particularly as there are fewer legal and governance mechanisms that can substitute for the choice of jurisdiction of incorporation in the crowdfunding setting.

Second, signaling in securities-based crowdfunding through financial information can take many forms, and the U.S. setting offers an excellent comparison of the relevance of financial information to a rich array of security choices. Two years of financial statements are disclosed upon the registration of each securities-based crowdfunding offering in the U.S. Also, entrepreneurs pick which security they offer in crowdfunding: common equity, preferred equity, debt, convertibles, and simple agreements for future equity (SAFE). The richness in the setting allows us to run a horserace between disclosure of financial information and security design to mitigate information asymmetries, adverse selection, and agency costs. With limited predictive or forecasting power from two years of financial statement data and massive scope for differential adverse selection and moral hazard problems associated with different securities, we conjecture that security design is much more relevant in crowdfunding than financial information.

Third, we conjecture that securities-based crowdfunding platforms uniquely impact the relationship between entrepreneurs and their investors. Platform commissions are a cost to the capital raised by firms and hence lower the attractiveness of the offerings for capital-constrained entrepreneurs. Commissions on crowdfunding platforms in the U.S. average approximately 6% (unlike 7% for IPOs; Chen and Ritter, 2000), but it is hard to fully capture all the commission features, which are often on a graduated scale. Platforms sometimes take a financial interest in firms in ways that are a conflict of interest in the offerings that the platform promotes. Platforms carry out due diligence and provide value-added advice to entrepreneurs (Cumming et al., 2019; Dushnitsky et al., 2016, 2018; Dushnitsky and Matusik, 2019; Rossi et al., 2018; Zunino et al., 2019), not all of

which is directly observable nevertheless indicative of the importance for fixed-effects at the platform level in our analyses.

We test these three propositions with the population of regulated CF crowdfunding offerings in the U.S. from its inception in May 2016 to June 2021. We make use of very detailed data from the Securities and Exchange Commission (SEC). The data comprise 4,015 offerings and enable rich details in what is known about each offering. The securities-based crowdfunding data from the SEC offer very strong support for each of our three main propositions. First, the data indicate that controlling for other things being equal, Delaware incorporation allows crowdfunders to raise 38% more capital and increases the probability of successful fundraising (achieving the desired capital goal) by 4% on average.³ Second, common and convertible securities increase the probability of a successful offering by 20-25%, while debt reduces the probability of a successful offering by 27%. While preferred equity is not statistically related to the amount raised, common equity increases the amount raised by 39% relative to the average amount raised, while debt reduces the amount raised by 21% relative to the average amount raised. These findings are consistent with the view that there are pronounced agency costs associated with debt for start-ups in this marketplace, including risk shifting, underinvestment, adverse selection, and asset stripping. It is noteworthy that the detailed financial information in the prior two years of the offering has a limited relation with amounts raised and funding success. And third, the data show massive differences across platforms. Underwriter commission is negatively associated with success (a 1% increase in commission reduces chances of success by approximately 0.6%), and the use of

³Equity crowdfunding in the U.S. follows an “all or nothing” rule, where the entrepreneur does not keep the capital raised unless their stated fundraising goal is achieved. The rationale is that it puts the risk on the entrepreneur and takes the risk away from the crowd that an underfunded project is allowed to go ahead (underfunded projects are less likely to develop the business or innovation successfully). See Cumming, Leboeuf, and Schwienbacher, 2020).

platform fixed effects in our regressions show enormous differences across many of the platforms.

Further, as governance variables are ‘choices’ or endogenous, we assess their impact using instrumental variables. In particular, we consider mimicking variables based on the most similar matched campaign in the prior quarter by platform, size, and age. The instrumental variable regression results are extremely robust in terms of the statistical significance and increase the estimated size of the effects. The data examined indicate numerous other notable findings. For example, securities-based crowdfunding success is positively correlated with market conditions but negatively correlated with for regional competition for concurrent offerings.

Our paper contributes to a growing literature in crowdfunding. Prior work, however, has been focused on European (e.g., Vismara, 2017) or Australian (e.g., Ahlers et al., 2015) markets. Earlier research on success in equity crowdfunding outside the U.S. was possible because those markets have had a longer history of operations. Those studies show evidence of the importance of select signals in crowdfunding success, including offering low equity shares to investors, offering voting rights, well-worded text descriptions of campaigns (Cumming and Johan, 2019). In the U.S. context, there is one prior paper (Rossi et al., 2021) that rigorously examines similar data to our analyses here.⁴ Our paper contributes to this literature by examining theory and evidence pertinent to corporate governance in securities-based crowdfunding.

This paper is organized as follows. Section 2 provides information on the U.S. institutional setting and the main hypotheses. Section 3 introduces the data and provides

⁴ That is, we are not aware of other work on the topic. New crowdfunding studies are being released at a remarkable new pace, so we acknowledge we may have overlooked prior work. Please feel free to email us if we have inadvertently overlooked any of this work.

comparison tests for the primary hypotheses. Section 4 presents the multivariate analyses. The last section concludes, as well as discusses limitations and extensions that could be possible in future work.

2. Institutional Setting and Hypotheses

In this section, we explain three aspects of crowdfunding that are pertinent to corporate governance in a U.S. crowdfunding setting: Delaware incorporation, security design, and platform effects. We discuss each in turn in subsections 2.1 to 2.3, respectively.

2.1. Equity Crowdfunding and Delaware Incorporation

Equity crowdfunding poses substantial risks to investors. The shares purchased are extremely illiquid because there is no viable secondary market to sell those shares. In recent years, many platforms have attempted to develop secondary markets; however, the illiquidity has remained due to high information asymmetries among other factors (Lukkarinen & Schwienbacher 2020). Additionally, investors purchase a minority equity stake and may lose all of their capital if the firm fails, if the entrepreneur engaged in fraud with the capital campaign, or if the entrepreneur is incompetent. Given these risks, it is essential to have legal mechanisms that enable efficient investor protection.

In the U.S., firms have the option to self-select an incorporation location that is different from the physical location of the business. The cost, taxation, and corporate laws associated with incorporation vary between states, making some states more advantageous than others. Incorporation in Delaware arguably offers the best possible

solution for equity crowdfunding investors for three primary reasons. First, Delaware incorporation leads to less managerial entrenchment (Jagannathan and Pritchard, 2017). Empirical evidence from Jagannathan and Pritchard shows that Delaware firms are more likely to terminate CEOs, and especially after a poor performance. Delaware firms are also more likely to terminate directors. Despite the termination risks, Delaware firms attract higher-quality CEOs and directors on average.

Second, Delaware law most effectively facilitates mergers and acquisitions (Romano, 1985; Daines, 2002). Delaware does have some anti-takeover provisions that have given rise to debates about the quality of Delaware law in the literature over the last 50 years. Regardless, the empirical evidence shows that clarity, legal certainty, bilateral devices (such as board independence and compensation; see Kahan and Rock, 2002), and anti-takeover laws do not promote managerial entrenchment (Jagannathan and Pritchard, 2017).

Third, Delaware has a specialized judiciary that understands corporate law issues ensuring proper resolution to legal debates (Romano, 1985). As such, a majority of publicly traded companies are incorporated in Delaware. Delaware obtains a significant percentage of its budget from incorporations, which means they are committed to offering the highest quality legal services and efficiency.

For these reasons, there is a large body of empirical evidence that Delaware law improves firm value. For example, when firms reincorporate in Delaware, seminal work shows that their share prices significantly increase (Romano, 1985).

Further, there is some evidence that Delaware firms are worth more at the time of an IPO (Daines, 2002). That is, Daines (2001) analyzed Tobin's Q of firms and found that Delaware firms were more valuable. His analysis of the sample firm data from 1981 to

1996 established better corporate governance as the basis for investor preference for Delaware incorporated firms. Gompers et al. (2003), however, find conflicting results that they acknowledge may be a result of differences in sample, time period, and control variables. After controlling for endogeneity and other factors, they found the Delaware coefficient statistically significant and negative after controlling for their “governance index”, which is a sum of takeover defenses. Bebchuk et al. (2002) also find no correlation between Delaware incorporation and higher Tobin’s Q at the end of 1999. Subramanian (2004) extended the Daines model by differentiating firm size and extending the sample by 6 years to also look at 1997 to 2002. He found that larger firms (more than \$50 million net sales) exhibited no Delaware effect from after 1991 to 2002. More interestingly, he found small firms (less than \$50 million net sales) incorporated in Delaware were valued more than small firms incorporated outside Delaware firms from 1991 to 1996, but not after.

The apparent disappearance of a Delaware effect for IPOs renders the analysis of Delaware law for equity crowdfunding to be quite interesting. Equity crowdfunding is similar to an IPO without the mandated prospectus level disclosure standards. The risks associated with equity crowdfunding are much more pronounced due to the lack of disclosure, illiquidity of shares, and nascent operating history of equity crowdfunding entrepreneurs. If anything, a legal mechanism such as Delaware is of greater importance for an equity crowdfunding offering than it is for an IPO due to the risks involved.

We posit that Delaware incorporation may still provide protections for both crowdfunding firms and investors, thus signaling higher quality. While it is thought that one of the main benefits of crowdfunding is in harnessing the wisdom of the crowd, the crowd may still be detrimental for firms, thus necessitating protective measures. Crowdfunding is not as heavily regulated as IPOs as there are rigid monetary limitations

both for firms and investors. Issuing firms may raise up to \$5 million each year (an SEC declaration on March 26, 2021, recently raised the limit from \$1.07 million). An investor's maximum amount is based on individual income and net worth, set on a sliding scale. Depending on income and net worth, the average investor will only be able to invest from \$2,000 to \$100,000 annually (See 15 U.S.C.A. § 77d(a)(6)(A) and 77d(a)(6)(B)(ii)).

To raise funds, crowdfunding firms must offer their securities through an SEC-regulated funding platform, often referred to as a portal, and comply with numerous other rules that include offering disclosure requirements, including but not limited to information about their business and the securities being offered. Complying with these rules for numerous investors may not be as onerous as IPO listing requirements, but transaction costs can be sufficiently onerous for small companies with little or no revenues. To minimize signaling costs, firms rely on familiarity.

Research finds that Delaware investors face less legal uncertainty with the legal and governance structure of Delaware firms, and the familiarity with Delaware Law means that investors from a diverse set of states and even countries will be on more equal footing and have a more common understanding about the structure and governance of Delaware firms (Romany, 1985; Daines, 2002). Research suggests that angel investors and venture capitalists tend to prefer to invest in companies incorporated in Delaware (Ibrahim, 2008; Waisman, 2009), and investment bankers may also require incorporation in Delaware before going public (Carney et al., 2012). We believe, therefore, that Delaware incorporation is valued as a signal of quality as it is one accepted by arguably more sophisticated investors but is especially relevant when investors consider future liquidity as these are the same secondary markets that the crowdfunding investor is aiming for.

There are, of course, other benefits for crowdfunding firms to choose Delaware incorporation. For example, the Jumpstart Our Businesses (JOBS) Act specifically authorizes civil actions for fraud against issuers, directors, and officers of firms that mislead crowdfunding investors. State and federal government authorities, including the SEC, are also empowered to take action against offenders. Delaware laws, however, permit firms to limit the liability of directors and allow corporations to indemnify directors, officers, and employees and purchase liability insurance (Black, 1999; Cumming et al., 2015; Schwartz, 2020).

Hypothesis 1: *Incorporation in Delaware facilitates securities-based crowdfunding amounts and improves the chances of achieving stated capital goals for a successful offering due to legal certainty, less pronounced managerial entrenchment, and facilitating exit outcomes.*

2.2. Security Design versus Financial Statement Disclosure

How important is financial statement disclosure in securities-based crowdfunding? On one hand, financial statement disclosure is potentially important for securities-based crowdfunding investors. In the case of an IPO, financial statement disclosure allows investors to forecast revenues, costs, and profits for future years, thereby enabling a valuation model. The same logic could apply to IPOs if financial statements could be used in the same way to forecast growth.

On the other hand, financial statement disclosure might not be all that meaningful. Equity crowdfunders have limited operating history and are required to disclose two years of financial statement data. It is very hard to forecast with just two years of data. Entrepreneurs might time their offering after two lucky years in anticipation of negative

events in the future. And with grey areas of revenue recognition, it is possible to overstate financial statements for shorter windows of time. As such, financial statement disclosures for two years may say very little about entrepreneurial growth prospects, potential agency problems, and potential operating inefficiencies within the firm. Empirical evidence using debt crowdfunding data in Germany, for example, shows barely any relation between financial statement information and crowdlending success (Cumming and Hornuf, 2021).

Although securities-based crowdfunding is often referred to as just “equity crowdfunding,” companies in the U.S. may offer any type of traditional security, such as common stock, preferred equity, convertibles, and bonds.⁵ Unlike financial information, security design, by contrast, can say tremendous amounts about agency costs and growth options in start-ups.

Equity crowdfunders use equity because they typically do not have enough collateral to obtain a bank loan or have other operating risks that lead them on average to exhibit adverse selection problems (Walthoff-Borm, et al., 2018; Blaseg et al., 2020). Start-ups are typically characterized by adverse selection associated with uncertainty about risks and not expected returns, such that the risk of financing a ‘nut’ is more pronounced than the risk of financing a ‘lemon’ (Cumming, 2006).

The agency costs of debt with financing a start-up are highly pronounced. They include risk shifting, underinvestment, and asset stripping, among others (Cumming and Johan, 2019, Chapter 2). Risk shifting means that debt-financed entrepreneurs can deviate from their business plan and undertake riskier actions to transfer expected wealth from bondholders to shareholders (themselves). Underinvestment, or debt overhang, is a

⁵ Wroldsen, (2017) shows that voting rights are non-existent or largely irrelevant in equity crowdfunding contracts in the U.S.

pronounced risk as near-bankrupt entrepreneurs are less likely to engage in positive NPV projects if substantial debts need to be covered before the entrepreneur sees any value associated with those actions. Furthermore, entrepreneurs that foresee possible bankruptcy can remove assets from the firm or pay themselves a large dividend before revealing the bankruptcy. Common equity and convertible securities mitigate these risks, while debt finance exacerbates these risks.

Crowdfunding in the U.S. has given rise to new securities to cater to the requirements of entrepreneurs seeking to raise funding from a large number of small investors while ensuring the ability to obtain follow-on funding from angels and venture capitalists. For example, crowdfunding firms may issue, and investors may also invest in SAFEs and membership units in LLCs. It is assumed that the crowdfunding firm structures the offering to obtain and offer legal rights and governance features in a way that maximizes the value of the firm. Prior research on crowdfunding security design suggests that funding portals are providing standard form investment contracts such as the SAFE for crowdfunding firms and investors to minimize transaction costs but also to provide crowdfunding investors with the types of protections that angel investors and venture capitalists seek when investing in nascent firms (Cumming and Johan, 2013; 2018; Wroldsen, 2017). These contracts, however, are rather new and not as prevalent as common stock. Common equity offers terms that investors are familiar with, and hence investors might prefer these terms.

Entrepreneurs seeking equity crowdfunding offer their investors the ability to sell (illiquid) investments through an exit event. Exits or sales are made with other investors,

such as angel investors, venture capitalists, or in rare cases,⁶ directly as an IPO. Successful exit events are more likely when agency problems are mitigated as much as possible, and the new investors can take on the capital structure of the firm in a way that continues to maximize value after the exit. Angel investors in the U.S. typically invest with straight common equity and do not use convertible securities (Wong, 2009), partly because it enables exit to venture capitalists. Therefore, we expect successful securities-based crowdfunding in the U.S. to be facilitated by using common equity securities (and possibly convertibles) and not by debt securities.

Hypothesis 2: *Financial statement information is less relevant to securities-based crowdfunding investors than the type of security that is offered due to limited forecasting ability with two years financial statements, and the importance of growth options and agency costs associated with different securities.*

2.3. Platform effects

Platforms are a product of the emerging financial technology industry of the last two decades. Platforms serve as intermediaries between entrepreneurs and crowdfunding investors. They provide investors with a wide array of campaigns to invest in and detailed information about each start-up campaign, including the management team, business plan, social media, current fundraising totals, and more. Over 80 securities-based crowdfunding platforms have emerged in the U.S. market since 2016. No two of these platforms are exactly alike (Dushnitsky et al., 2016, 2018; Dushnitsky and Matusik, 2019; Rossi et al., 2018; Zunino et al., 2019). Platforms may, to different degrees, carry out due

⁶ For example, ReWalk went public on NASDAQ 18 months after obtaining equity crowdfunding on OurCrowd, a platform based in Israel. See Cumming and Johan (2019) for a discussion of this case, and other successful equity crowdfunding cases.

diligence by doing third-party and other background checks to ensure that the company is viable and should be listed on the platform (Cumming et al., 2019). Also, platforms may offer advice to entrepreneurs to help achieve a successful campaign, including financial, strategic, and marketing advice. Cumming et al. (2019) and Rossi et al. (2018) provide evidence that the more due diligence and advice provided, the better the average performance on the platform. This body of work indicates that platform characteristics should be controlled for; or if they are not observed, then platform fixed effects should be used. In exchange for listing a campaign, platforms charge fees and may obtain ownership stakes in companies. Platform fees impose costs on the crowdfunding companies insofar as they receive less capital after fees. These costs can impair the long-term performance of companies that are capital constrained. If so, we would expect higher fees to discourage crowdfunders.

Similarly, platform ownership stakes in companies discourage crowdfunders due to possible conflicts of interest in listing those companies. Platforms may unduly promote companies that they partly own or list them with fewer due diligence checks. Investors that are concerned about these potential agency costs will be less likely to invest in these companies.

Hypothesis 3a: *Platform ownership in a campaign is an agency problem that investors will recognize, and hence will worsen performance.*

Hypothesis 3b: *Higher platform commissions reduce capital raised by financially constrained start-ups, lower long-term performance, and hence discourage securities-based crowdfunding investors.*

Hypothesis 3c: *Platforms carry out due diligence and provide value-added services to investors, not all of which are observed; as such, it is pertinent to control for platform fixed effects in assessing factors that affect crowdfunding success.*

3. Data and Comparison Tests

In this section, we define the sources of our analysis variables and provide descriptive statistics and insights into how U.S. securities-based crowdfunding activity varies across different states, platforms, security-type, and financial characteristics. We discuss each in turn in subsections 3.1 to 3.4, respectively.

3.1. Description of Data

Our dataset is primarily sourced from the SEC's repository of regulated CF campaigns. We study the regulated CF U.S. securities-based crowdfunding market from its inception on May 16th, 2016, through June 30th, 2021. We provide an up-to-date version of this data online through The Equity Crowdfunding Tracker at Florida Atlantic University, which can be accessed at the following address: <https://business.fau.edu/equity-crowdfunding-tracker/>. The tracker provides interactive graphs on the number of campaigns, amount raised, success rate, security type, firm, and platform characteristics.

Securities-based crowdfunding as an alternative financing process for entrepreneurs, start-ups, and small-business began proliferating in Europe and Australia in the late 2000s and early 2010s (Cumming and Johan, 2019). Securities-based crowdfunding in the United States, however, did not begin until the approval of the JOBS

Act, passed with bipartisan support and signed into law on April 5th, 2012. The JOBS Act was designed to promote small business growth by democratizing start-up financing. The Act contained several provisions implemented in a staged fashion to ease the existing regulatory restrictions. Title III, which took effect in September 2015, expanded securities-based crowdfunding in the United States beyond just accredited investors to all investors and allowed firms to start raising regulated crowdfunding capital as of May 16th, 2016.

Once approved by an SEC-registered financial intermediary platform, firms must submit an offering statement (Form C) to the SEC. As part of the securities-based crowdfunding market regulation, the SEC collects and reports on all U.S. regulation crowdfunding offerings on a quarterly schedule. To create our dataset, we follow the data collection process of Rossi et al. (2021).⁷ From the Electronic Data Gathering Analysis and Retrieval System (EDGAR), we investigate Form C filings and extract information about the firm's financials and characteristics, offering features such as the offering amount and security type, and which platform the campaign decides to list on. We account for campaign offerings that are withdrawn by matching the file number associated with a campaign to any Form C-W (withdrawal-type) that may exist. Any campaign with the associated Form-C-W is removed from our dataset. Further, we also match campaigns to the Form C/A (amendment-type) and C-U (update-type) filings.

A firm will file a Form C/A if they need to make a change to their original campaign offering statement. In light of this, we update the campaign information based on Form C/A. Occasionally, a firm will improperly submit a duplicate Form-C rather than submit a Form C/A. We have identified those cases and consolidated them within our

⁷ The sample used by Rossi et al. (2021) consists of 2,194 equity-only campaigns. Our sample includes those transactions and more recent ones, comprising a total of 4,015 campaigns of all security types.

dataset to count as a single campaign using the most recent submission as truth. Per SEC regulations, each firm is required to file a Form C-U to provide an update on the progress of a campaign within 5-days of the campaign, reaching 50% and 100% of its target amount offered. There should be one last filing when the campaign is closed, whether funding was successful or not.

We compensate for unreported Form C-U's and ambiguous funding amounts of campaigns still open for investment by utilizing secondary sources. Our first secondary source is KingsCrowd, a subscription-based website that provides up-to-date information on regulation CF crowdfunding campaigns. Second, we manually examine fundraising totals from each of the various platform websites. The data used in our analysis is representative of the U.S. population of regulated securities-based crowdfunding as of October 21st, 2021; however, we heed that some campaigns in our dataset are still open to funding; thus, the total amount raised may exceed that which we report within this paper. Our final cross-sectional population contains 4,015 campaigns launched from May 2016 to July 2021.

3.2. *Variables*

In Table 1, we provide a brief description of each variable and the data source used to obtain each variable (and see Appendix Table 1 for the summary statistics). Our first dependent variable *Amount Raised* is the total dollar amount raised measured at the campaign level and amalgamated to the quarter in which the firm filed the originating Form C opening for public investment. While most campaigns raise the majority of their funds in that same quarter, campaigns can and often do remain open for several quarters, sometimes even years. Figure 1 perfectly illustrates the rise of the securities-based

crowdfunding market in the United States. This graph, plots both the number of new campaigns and the aggregate amount raised in each quarter over time. The trend is nearly a monotonic increase for both measures, with the only significant drop-off occurring in the amount raised in Q1 and Q2 of 2021. This is likely because 35% of campaigns in these two quarters remain open as of October 21st, 2021 (as illustrated by the light blue bars). The aggregate total amount raised from Q2, 2016 to Q2, 2021 stands at a little over \$748 million. Figure 2 shows that much of the fundraising totals are driven by campaigns that raised over one million dollars. Specifically, we compare Q2, 2021 to the second quarter of each of the prior five years. Before March 26, 2021, campaigns were only allowed to raise a maximum of \$1,070,000, but a change to SEC regulation effective immediately allowed campaigns that were still open and any new campaigns to raise up to \$5 million. Entrepreneurs appear to be taking advantage of this new policy change as the amount raised in excess of 1 million dollars has increased disproportionately in Q2, 2021 compared to the other quarters. In our dataset, 6 firms have raised the new maximum amount of 5 million, 67 firms have raised greater than \$1,070,000, and 236 firms have raised at least 1 million. The complete distribution is plotted in Figure 3.

[Table 1 and Figures 1-3 About Here]

Following Ahlers et al. (2015), we define campaign funding *Success*, our second dependent variable, as a venture raising or exceeding its target amount of capital (offering amount). A total of 2,322 of 4,015 (57.8%) campaigns in our dataset successfully achieved their fundraising goals. In Figure 4, we plot the average success rate in each quarter, revealing that campaign success has followed a consistently increasing trend from Q2, 2016 to Q2, 2021. In fact, each of the most recent five quarters has had an average campaign success rate above 61%.

[Figure 4 About Here]

3.3. State Comparison

We find evidence that campaigns physically located in highly populated states raise more and tend to be more successful than their peers. This might suggest that investors from populous states are better able to assess real demand for a project's goods or services based on their preferences and the preferences of their peers; therefore, they are more likely to invest. In Table 2, we report fundraising amounts, the number of campaigns, and the success rate of campaigns in each state (physical location) plus Washington D.C. To illustrate some of the findings of the table, we present Figure 5, a heat map of fundraising density in the United States. The top 5 states in terms of total fundraising amount are California, New York, Texas, Florida, and Massachusetts, respectively. In Figure 6, we graph the trend in the number of new campaigns over time for these five states. California has dominated in market share from the outset of the U.S. securities-based crowdfunding market (34% of amount raised). While each of these states experiences an increasing trend in the number of new campaigns, there has been an interesting development since the COVID-19 pandemic, where campaign activity in Florida has risen rapidly and is met by stagnant or slightly decreasing activity in New York. Cumming & Reardon (2021) find evidence that when the housing price index (HPI) increases by 1-standard deviation, comparing before and after COVID-19, the aggregate *Amounts Raised* in a particular state and quarter combination is \$928,565 higher, holding all other variables constant. This effect, in part, likely explains the increasing activity in Florida and other states such as Idaho, Utah, and Arizona who also rank in the top 10 states with the largest HPI increase during COVID-19.

[Figures 5-6 and Table 2 About Here]

Figure 7 illustrates the significance of a firm incorporating in Delaware. 45.4% (1,821 of 4,015) of the campaigns in our sample are incorporated in Delaware. We trend the average success of campaigns in each quarter for Delaware incorporated firms against the average success rate of firms incorporated in any other state. In line with Hypothesis 1, Delaware incorporated firms achieve a higher success rate in 17 of the 21 quarters. Firms incorporated elsewhere were only more successful on average in Q2, 2021, and during the period from Q3, 2018 through Q1, 2019.

[Figure 7 About Here]

3.4. Platform, Security-Type, and Company Characteristic Comparisons

Table 3 examines crowdfunding activity across the various platforms. Since the beginning of regulated securities-based crowdfunding in the United States, the primary lending platforms that have emerged are Wefunder (which has 25.9% of all campaigns), Startengine (19.8%), Republic (9.4%), MainVest (8.2%), SeedInvest (6.6%), Netcapital (5%), Honeycomb Credit (3.7%), truCrowd (2.7%), MicroVentures (2.2%), and NextSeed (2.1%). Other platforms comprise the remaining 14.4% of securities-based crowdfunding activity in the United States. Consistent with Hypothesis 3c, the average success rate varies across platforms. Among the top 10 platforms, Republic is the most successful with an average success rate of 83.7% and an overall 17% market share in terms of the total amount raised. The success of Republic may also be driving investors to the platform, as its' market share in terms of number of new campaigns has increased dramatically from 8% in 2020 to 17% through Q2 in 2021.

[Table 3 About Here]

Crowdfunding campaigns offer a variety of securities. When filing with the SEC companies must select between Common Stock, Preferred Stock, Debt, and Other for their security-type classification. Using the description provided for 'Other' security types, we are able to further parse the data for SAFE, convertible, membership units, Class A and Class B security types. The most common security types are SAFEs (26%), Debt (24%), and Common Stock (20%). Less popular types are Preferred Stock (7%), Convertible (6%), and Membership Units (3%). In table 4, we examine the amount raised, number of campaigns, and success rate across each type of security We find, in line with Hypothesis 2, that SAFE and Common Stock, as well as Class A & Class B, campaigns are on average much more successful than Debt campaigns (SAFE: 64.7%, Common Stock: 61.5%, & Debt: 45.7%).

[Table 4 About Here]

Table 5 shows all firms' campaign characteristics and successful and unsuccessful campaigns separately. We observe a positive correlation between crowdfunding success and the entrepreneurial firm age as well as firms with more employees. Successful firms are on average 256 days older and have 1.8 more employees than unsuccessful firms. These positive correlations for age and size may suggest that operational efficiencies serve to reassure investors or possibly that investors can and do obtain more information about the firm (Correlations in Table A2 in the Appendix additionally verify).

Table 5 further shows that firms with higher revenue, lower-income, higher cash levels, higher short-term debt, higher long-term debt, and higher costs of goods sold are more likely to succeed. Higher offering amounts are less likely to be successful. Last, firms in markets with higher Housing Price Indices (HPI) and stock indices are more likely to succeed.

[Table 5 About Here]

4. Multivariate Tests

In this section, we present logit analyses of successful fundraising and OLS analyses of total funding amounts. We present regressions without instrumental variables and regressions with instrumental variables. We control for selection effects as we carry out our multi-platform analyses. Finally, we offer alternative specifications to show robustness. Other specifications not presented here are available on request. The sample covers 100% of the regulated CF securities-based crowdfunding offerings in the U.S. from inception in May 2016 to 2021 Q2. As of 2021 Q2, there are some offerings that are not closed, and some offerings that the SEC did not confirm whether or not they were closed offerings. We show robustness to including and excluding these two types of offerings in the data due to obvious possible truncation bias.

4.1. Baseline Regressions

The logit and OLS regressions are presented in Table 6-7. The data indicate that Delaware incorporation allows crowdfunders to raise more capital (significant at the 5% or 1% level in the different specifications) and they are more likely to have a successful campaign (significant at the 5% or 10% level). The economic significance of the effect is quite robust, although it does vary somewhat across the different specifications. In the final model specifications with the complete set of control variables and using campaigns that are known to be fully closed, Delaware gives rise to 38.1% more capital raised (approximately \$66,000) relative to the average campaign and an increase in the

probability of successful fundraising (achieving the desired capital goal) by 3.5% on average. Overall, the data provide very strong support for Hypothesis 1.

[Tables 6-7 About Here]

The data further provide strong support for Hypothesis 2. In particular, common equity and convertible securities increase the probability of a successful offering by 20-25% depending on the specification, and these effects are consistently significant at the 1% level in the different specifications.⁸ Conversely, debt reduces the chance of a successful offering by 27%, and this effect is significant at the 1% level. The variable for SAFE offerings is not statistically significant. Membership Units are positive and significant in some but not all specifications.

Unlike the variables for the different securities, the variables for the different financial statement data are, in general, not statistically significant. The only significant evidence shows a negative relationship between net income and success, which is at the 5% level in each of the specifications. The economic significance is such that a one standard deviation increase in net income reduces success chances by 0.3%, so the effect is not very economically large. It is possible that crowdfunding investors look at high levels of net income and wonder why the entrepreneur is in the market for crowdfunding and/or may reflect too low levels of investment in R&D for a high chance of long-run success. But overall, the detailed financial information in the prior two years of the offering hardly relates to amounts raised and funding success; some financial statement variables are statistically related to funding amounts but they are not robust across different specifications.

⁸ We model different classes of stock indicated in the SEC data – Class A and B without combining them into the broad categories where the classes are not known or reported. These classes also show up as positive and significant in these regression results.

The data show mixed support for Hypothesis 3 pertaining to differences across platforms. Specifically, there is some support for Hypothesis 3B. Underwriter commission is negatively associated with success (a 1% increase in commission reduces chances of success by approximately 0.6%), but this effect is not statistically significant in all of the specifications. Higher commissions may also signal increased risk to investors (Barry et al., 1991). There is no evidence in support of Hypothesis 3A for platform ownership in the offering firm. For Hypothesis 3B, we do see in the data (although not explicitly reported in the tables for reasons of conciseness) that the use of platform fixed effects in our regressions is critical. There are enormous differences across many of the platforms. Not using platform fixed effects gives rise to very large changes in many of our regression coefficients.

Many of our control variables are significant in ways that are expected. For example, large entrepreneurial firms as measured by the number of employees, and older firms, tend to raise more capital and are more successful. Firms tend to raise more money when stock markets are rising. We include the HPI to proxy for competition with the number of concurrent offerings.⁹ When HPI increases, success chances for any given offering go down, and amounts raised per offering go down.¹⁰

The data indicate that the March 26, 2021, regulatory change allowing a larger amount of capital raised up to \$5 million (discussed above in section 3) increased capital raised on average by \$119,838 (significant at the 1% level), and improved success probabilities by 6% (significant at the 5% level).

⁹ Because we do not fully know all of the offerings that were closed in the SEC data, we cannot use a variable for the number of concurrent offerings. But in other work, Cumming and Reardon (2021) show that the number of new listings ties very closely to local housing price levels. Housing prices also proxy for investors' demand for offerings.

¹⁰ Cumming and Reardon (2021) nevertheless show that total amounts raised in a region are positively related to HPI levels.

Finally, our data span the post-COVID-19 period for over a year (March 2020 to June 2021). The data indicate that post-COVID-19 securities-based crowdfunding amounts went up. Securities-based crowdfunding has shown few negative effects from COVID-19, unlike other markets such as bank consumer lending in the U.S. (see also Figure 1).

4.2. Instrumental Variables

The instrumental variable regressions are presented in Tables 8 and 9. Our instrumental variables are selected using the “mimicking variable” strategy used in other crowdfunding studies (e.g., Cumming, Meoli, and Vismara, 2019). In particular, we match based on platform, assets, and age crowdfunding firms in the prior quarter. We only match to successful prior offerings, with the view that current offerings will not want to mimic past unsuccessful offerings (although using the full sample of successful and unsuccessful offerings generated very similar results). We take the average amounts from the similar prior offerings, with the view that the current offering will base their decisions on things like a Delaware incorporation, offering amounts, and security offered based on prior decisions of similar firms that listed on the same platform. These mimicking variables satisfy the exclusion restriction because past offerings of other campaigns bear no direct relation to the factors that influence the amounts raised and success of the current offering. We checked robustness using different matching strategies and did not find any material differences in the results.

[Insert Tables 8-9 About Here]

Our instrumental variable analyses focus on three of the more important potentially endogenous variables: amount sought, common equity, and Delaware

incorporation. These variables are choice variables and might be selected with expected success in mind. There are other endogenous variables in the Table 8 and 9 regressions. For example, all of the other security variables are endogenous. We could perform a similar mimicking analysis with each of those other variables, but the number of instruments and controls eventually become somewhat convoluted and correlated. Hence, in the spirit of keeping it simple and to check robustness, we present regressions checking the results of the three main variables pertinent to our analyses. Other specifications are available on request.

Table 8 shows that the mimicking variables are significant instruments. The Delaware mimicking variable predicts future Delaware offerings, and this effect is significant at the 10% level of significance. The economic size of the effect is such that the increase in the likelihood of incorporation in Delaware based on past offerings goes up by 5%. Similarly, past use of common equity gives rise to future mimicking use of common equity, and this effect is significant at the 1% level. The economic significance is that the use of common equity is 35% more likely. And finally, past offering sizes predict future offering sizes. Unexpectedly, we see this effect is negative and significant at the 1% level. It is possible that risk-averse entrepreneurs see past offering amounts of similar campaigns and then scale back their desired goal (by 16% on average in the regression model) to increase their chances of success.

The second stage outcome regressions in Table 9 show the same statistical significance for our main hypotheses. The statistical significance for the variables pertinent to our main hypotheses is at a higher 1% level after using the instruments in Table 9. Moreover, the Delaware variable is still significant at the 10% level when we exclude debt and preferred offerings to focus on equity-only-crowdfunding campaigns. The economic significance of the estimates is also greater than that for Tables 6 and 7. In

the spirit of being conservative and presenting mostly harmless econometrics, we therefore focus our more conservative estimates in Tables 6 and 7 without further discussing further the instrumental variable estimates here.

5. Conclusions

This paper examines key governance characteristics in the development and performance of securities-based crowdfunding campaigns in the United States. The U.S. authorized regulated securities-based crowdfunding in Title III of the Jumpstart Our Business Startups (JOBS) Act of 2012 by exempting crowdfunded offerings from the ordinary registration required under the Securities Act of 1933. The first regulated securities-based crowdfunding offering was initiated in the U.S. in 2016. The adoption of crowdfunding led to significant investment amounts provided to nascent, high-risk startups without having to comply with the arguably onerous and costly rules and regulations governing traditional IPOs.

This paper focuses on three mechanisms for facilitating success in U.S. securities-based crowdfunding pertaining to Delaware incorporation, security design, and crowdfunding platforms. We introduce an SEC dataset covering 100% of the regulated CF securities-based crowdfunding campaigns in the United States since inception in May 2016 to 2021 Q2. The data indicate that, unlike IPOs for which the Delaware effect declined or disappeared over time, Delaware incorporation matters considerably for success in securities-based crowdfunding. Delaware law mitigates entrepreneurial entrenchment, mitigates risks with exit outcomes, and mitigates legal uncertainty, all of which are extremely important in equity and other securities-based crowdfunding. Crowdfunding investors prefer to invest in Delaware incorporated firms due to the

relatively superior operational benefits derived from a legal system that operates smoothly and efficiently, well-established corporate laws, a tendency to fast-track business cases through the experienced Court of Chancery, and of course minority protection. The importance of Delaware to securities-based crowdfunding success does not depend on the time period within our sample years from 2016-2021 and is not affected by the use of standard versus instrumental variable regressions.

We compared the importance of security design with detailed financial statement disclosure over two years before crowdfunding offering. The data indicate that financial statement disclosure, regardless of the details, has little or no predictive power for securities-based crowdfunding success in the United States. By contrast, security design does matter a great deal. Common equity is most closely positively associated with both successful offerings and larger amounts raised. Convertible securities are positively associated with successful offerings but not the total amounts raised. Debt securities are negatively associated with crowdfunding success and amounts raised. These findings are both economically and statistically significant, and robust to instrumental variable estimates.

Third, the data indicate the strong role of platforms, although in ways which we observe as platform fixed effects. We have some evidence that higher platform commissions are negatively associated with fund amounts, but this evidence is not robust. Counter to our expectations, we do not see a negative impact on success resulting from platform ownership in firms that crowdfund on the platform.

The theory and evidence in this paper suggest many new research directions. In this paper, we examined different governance features that affect campaign success in securities-based crowdfunding in the United States. Future work could examine post-crowdfunding success in raising new capital, such as from angels, venture capitalists, and

in IPOs. This work would add to earlier important studies on the topic (Signori and Vismara, 2018; Hornuf et al., 2018). Future work could also compare the value-added provided by crowdfunding to angels and venture capitalists; however, this type of work is sometimes tricky because while we know the complete population of securities-based crowdfunding in the U.S., there is much less complete information and records with angel investors who often prefer to not disclose their deal information, alongside attrition and backfilling bias (Mason, 2016).

Future research could examine other contexts outside of the United States. More directly, there are many different crowdfunding platforms around the world. The screening and governance provided differs a great deal from one platform to the next (Cumming et al., 2019; Dushnitsky et al., 2016, 2018; Dushnitsky and Matusik, 2019; Rossi et al., 2018; Zunino et al., 2019). There are also numerous platform differences in within the United States. Future work on the U.S. market could more closely examine the characteristics of these platforms, why some in the U.S. are more successful, and how they compare to international platforms with a longer history. Equity and other securities-based crowdfunding is still in its infancy, and the richness of data available offers many new angles to explore at the intersection of finance, entrepreneurship, management, and law.

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Table 1. Variable Definitions

Variable	Description	Source
Amount Raised	The total dollar amount raised by a crowdfunding campaign	Multiple Sources
Success	A dummy variable = 1 for a campaign has raised an amount that meets or exceeds its offering amount	Multiple Sources
Offering Amount	The target offering amount of a campaign; the amount raised can exceed the offering amount	SEC.gov
Maximum Offering Amount	The maximum amount that a campaign can raise, as specified by the campaign if oversubscriptions are accepted.	SEC.gov
Common Equity	A dummy variable which indicates a campaign with a 'Common Equity' type of security offered	SEC.gov
Preferred Equity	A dummy variable which indicates a campaign with a 'Preferred Equity' type of security offered	SEC.gov
Debt	A dummy variable which indicates a campaign with a 'Debt' type of security offered	SEC.gov
Convertible	A dummy variable which indicates a campaign with a 'Convertible' type of security offered	SEC.gov
SAFE	A dummy variable which indicates a campaign with a 'SAFE' or simple agreement for future equity type of security offered	SEC.gov
Membership Unit	A dummy variable which indicates a campaign with a 'Membership Unit' type of security offered	SEC.gov
Class A	A dummy variable which indicates a campaign with a 'Class A' type of security offered	SEC.gov
Class B	A dummy variable which indicates a campaign with a 'Class B' type of security offered	SEC.gov
Oversubscription First-Come-First-Serve	A dummy variable which indicates if a campaign allows for oversubscriptions and uses the First-come, first-served basis	SEC.gov
Oversubscription Pro-rata	A dummy variable which indicates if a campaign allows for oversubscriptions and uses the Pro-rata basis	SEC.gov
Underwriter Commission	The percentage compensation to be paid to the intermediary	SEC.gov
Financial Interest	The percentage of other direct or indirect interest held by the intermediary	SEC.gov

Number of Employees	The current number of employees at the firm at the time of filing	SEC.gov
Firm Age on Filing Date	The age of the firm in total number of days at the time of filing	SEC.gov
Total Assets	The total assets of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Cash Equivalent	The cash and cash equivalents of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Accounts Receivable	The accounts receivable of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Short-Term Debt	The short-term debt of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Long-Term Debt	The long-term debt of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Revenue	The revenue/sales of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Cost of Goods Sold	The cost of goods sold of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Tax Paid	The taxes paid by the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Net Income	The net income of the firm at the time of filing for the most recently completed fiscal year	SEC.gov
Delaware Incorporation	A dummy variable = 1 for a campaign that files with jurisdiction of 'Delaware'	SEC.gov
Post COVID-19	A dummy variable = 1 for a campaign after March 15 th , 2020	
State Housing Price Index	The Federal Housing Finance Agency (FHFA) Housing Price Index (HPI) is a weighted, repeat-sales index that measures housing price fluctuations at the state level matched to the quarter of the campaign	FHFA.gov
Stock Index	Closing Price of S&P 500 Index on the campaign filing date or the most recent trading day	S&P 500 (^GSPC)
Post-SEC Regulation Change	A dummy variable = 1 for a campaign after March 26, 2021	

Table 2. State (Physical Location of Firm) Comparison

State	Amount Raised	% of Total	Number of Campaigns	% of Total	Success Rate
California	258.0M	34.6%	1034	25.9%	62.7%
New York	75.0M	10.1%	433	10.8%	60.3%
Texas	70.3M	9.4%	299	7.5%	60.5%
Florida	40.3M	5.4%	262	6.6%	48.5%
Massachusetts	27.3M	3.7%	216	5.4%	55.1%
Colorado	23.7M	3.2%	108	2.7%	68.5%
Utah	14.3M	1.9%	62	1.6%	54.8%
Pennsylvania	14.1M	1.9%	149	3.7%	66.4%
Washington	13.3M	1.8%	84	2.1%	57.1%
Ohio	13.0M	1.7%	90	2.3%	54.4%
Delaware	12.8M	1.7%	62	1.6%	58.1%
New Jersey	12.2M	1.6%	74	1.9%	55.4%
Oregon	12.0M	1.6%	54	1.4%	59.3%
Virginia	11.9M	1.6%	67	1.7%	52.2%
Georgia	11.2M	1.5%	81	2.0%	51.9%
Nevada	11.2M	1.5%	73	1.8%	49.3%
Arizona	9.5M	1.3%	65	1.6%	55.4%
Maryland	9.5M	1.3%	55	1.4%	47.3%
Michigan	9.3M	1.2%	64	1.6%	56.3%
Hawaii	9.0M	1.2%	22	0.6%	50.0%
Tennessee	8.7M	1.2%	47	1.2%	55.3%
Illinois	8.7M	1.2%	99	2.5%	45.5%
Idaho	8.6M	1.2%	27	0.7%	85.2%
Connecticut	7.7M	1.0%	38	1.0%	63.2%
Minnesota	7.6M	1.0%	41	1.0%	58.5%
North Carolina	6.1M	0.8%	62	1.6%	50.0%

State	Amount Raised	% of Total	Number of Campaigns	% of Total	Success Rate
South Carolina	4.8M	0.6%	29	0.7%	55.2%
Indiana	4.8M	0.6%	23	0.6%	43.5%
New Mexico	3.4M	0.5%	19	0.5%	47.4%
Alabama	3.0M	0.4%	22	0.6%	36.4%
New Hampshire	2.7M	0.4%	22	0.6%	59.1%
Wisconsin	2.7M	0.4%	24	0.6%	50.0%
Missouri	2.5M	0.3%	29	0.7%	34.5%
Kentucky	2.3M	0.3%	22	0.6%	72.7%
Washington DC	2.3M	0.3%	25	0.6%	56.0%
Vermont	2.2M	0.3%	9	0.2%	77.8%
Maine	1.8M	0.2%	11	0.3%	36.4%
Rhode Island	1.1M	0.2%	12	0.3%	75.0%
Louisiana	1.1M	0.1%	15	0.4%	46.7%
Kansas	897.9K	0.1%	6	0.2%	66.7%
Montana	665.0K	0.1%	6	0.2%	83.3%
Alaska	637.1K	0.1%	2	0.1%	50.0%
Iowa	635.8K	0.1%	5	0.1%	60.0%
Arkansas	525.3K	0.1%	6	0.2%	33.3%
West Virginia	525.0K	0.1%	4	0.1%	50.0%
Wyoming	474.6K	0.1%	21	0.5%	23.8%
North Dakota	372.7K	0.1%	2	0.1%	50.0%
Mississippi	193.6K	0.0%	5	0.1%	40.0%
Oklahoma	151.2K	0.0%	5	0.1%	60.0%
South Dakota	123.9K	0.0%	1	0.0%	100.0%
Nebraska	61.6K	0.0%	2	0.1%	50.0%

Table 2 reports state-level funding characteristic differences. Column 1 reports the aggregate dollar amount raised by each state as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 2 reports the aggregate dollar amount raised by each state as a percentage of the total overall amount raised. Column 3 reports the number of campaigns by each state as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 4 reports the number of campaigns by each state as a percentage of the total overall number of campaigns. Column 5 reports the average success rate of campaigns in each state.

Table 3. Platform Comparison

Platform	Avg. Offering Amount	Amount Raised	% of Total Amount Raised	Number of Campaigns	% of Total Number of Campaigns	Success Rate	% of DE-Incorporated Campaigns
Wefunder	\$107,832	230.1M	31%	1032	26%	58.2%	49.5%
StartEngine	\$14,648	211.7M	28%	804	20%	69.9%	54.9%
Republic	\$46,746	131.2M	17%	380	9%	83.7%	75.5%
SeedInvest	\$47,729	42.1M	9%	262	7%	42.0%	72.9%
Netcapital	\$15,448	31.3M	4%	201	5%	76.3%	55.2%
NextSeed	\$142,549	18.7M	3%	86	2%	77.9%	58.7%
MicroVentures	\$34,782	13.9M	2%	92	2%	79.3%	26.4%
MainVest	\$55,062	11.4M	2%	333	8%	38.1%	1.2%
Honeycomb	\$32,158	9.7M	1%	148	4%	61.5%	3.3%
truCrowd	\$33,659	9.4M	1%	106	3%	48.1%	26.4%
Other	\$124,324	38.7M	5%	571	14%	29.8%	31.5%

Table 3 reports platform funding characteristic differences. Column 1 reports the average offering amount by campaigns on each platform through Q2, 2021. Column 2 reports the aggregate dollar amount raised on each platform as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 3 reports the aggregate dollar amount raised on each platform as a percentage of the total overall amount raised rounded to the nearest percent. Column 4 reports the number of campaigns on each platform as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 5 reports the number of campaigns on each platform as a percentage of the total overall number of campaigns rounded to the nearest percent. Column 6 reports the average success rate of campaigns on each platform. Column 6 reports the percentage of campaigns on each platform that are incorporated in the state of Delaware (DE).

Table 4. Security Type Comparison

Platform	Amount Raised	% of Total Amount Raised	Number of Campaigns	% of Total Number of Campaigns	Success Rate
SAFE	213.4M	29%	927	26%	64.7%
Common Stock	179.2M	24%	867	20%	61.5%
Preferred Stock	81.6M	11%	283	7%	57.2%
Debt	80.0M	11%	974	24%	45.7%
Convertible	45.5M	6%	254	6%	57.9%
Class B	38.3M	5%	130	3%	73.1%
Membership Unit	22.1M	3%	137	3%	46.7%
Class A	21.8M	3%	57	1%	73.7%
Other	66.3M	9%	386	10%	60.6%

Table 4 reports security type funding characteristic differences. At the time of filing, firms must select the type of security they are offering from a list of ‘Common Stock’, ‘Preferred Stock’, ‘Debt’, or ‘Other’. We further separate ‘Other’ filings into the groups: ‘Convertible’, ‘Membership Unit’, ‘SAFE’, ‘Class A’, and ‘Class B’. The remaining unclassified filings remain in the ‘Other’ group. Column 1, which sorts our security-types, reports the aggregate dollar amount raised by each security type as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 2 reports the aggregate dollar amount raised by each security type as a percentage of the total overall amount raised. Column 3 reports the number of campaigns by each security type as of October 21st, 2021 (pre-Q3, 2021 campaigns only). Column 4 reports the number of campaigns by each security type as a percentage of the total overall number of campaigns. Column 5 reports the average success rate of campaigns for each security type.

Table 5. Descriptive Statistics & Comparison of Successful vs. Unsuccessful Campaigns

	Full Sample		Successful Campaigns		Unsuccessful Campaigns		Mean Difference	p-value
Number of Observations	4,015		2,322		1,693			
<u>Firm Characteristics</u>	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev		
Number of Employees	5.40	9.8	6.15	10.91	4.37	7.98	1.77	0.00***
Age of Firm at time of listing (days)	2.87	1,332	1,156	1,419	901	1,187	255.8	0.00***
Delaware Incorporation	0.45	.498	0.51	0.500	0.37	0.484	0.138	0.00***
<u>Security Type</u>								
Common Stock	0.22	0.412	0.23	0.421	0.20	0.398	0.032	0.00***
Preferred Stock	0.07	0.256	0.07	0.255	0.07	0.258	-0.002	0.677
Debt	0.24	0.429	0.19	0.394	0.31	0.464	-0.121	0.00***
Convertible	0.06	0.243	0.06	0.244	0.06	0.243	-0.000	0.978
SAFE	0.23	0.421	0.26	0.438	0.19	0.395	0.065	0.00***
Membership Unit	0.03	0.182	0.03	0.164	0.04	0.203	-0.016	0.00***
Class A	0.01	0.118	0.02	0.133	0.01	0.094	0.009	0.00***
Class B	0.03	0.177	0.04	0.198	0.02	0.142	0.138	0.00***
<u>Financials</u>								
Revenue	\$361,919	\$1,558,679	\$437,860	\$92,234	\$257,765	\$92,234	\$180,095	0.00***
Net Income	\$(220,071)	\$713,604	\$(284,864)	\$834,144	\$(131,206)	\$489,844	\$(153,657)	0.00***
Total Assets	\$429,892	\$4,997,494	\$533,090	\$92,234	\$288,353	\$92,238	\$244,737	0.125
Cash Equivalents	\$92,120	\$364,095	\$114,918	\$346,476	\$60,853	\$384,871	\$54,064	0.00***
Accounts Receivable	\$23,855	\$173,125	\$25,058	\$102,302	\$22,206	\$238,208	\$5,533	0.606
Short Term Debt	\$184,483	\$1,158,054	\$214,675	\$1,127,788	\$143,073	\$1,197,422	\$71,601	0.053*
Long Term Debt	\$252,980	\$2,714,358	\$338,351	\$3,537,121	\$135,892	\$541,112	\$202,458	0.00***
Cost of Goods Sold	\$166,172	\$972,938	\$209,955	\$1,074,663	\$106,122	\$809,447	\$103,833	0.00***
Tax Paid	\$1,362	\$14,433	\$1,241	\$15,712	\$1,528	\$12,470	\$(287)	0.534

<u>Deal Characteristics</u>									
Amount Raised	\$186,375	\$396,915	\$315,534	\$315,534	\$9,230	\$9,230	\$306,305	0.00***	
Offering Amount	\$67,134	\$137,515	\$47,035	\$47,035	\$94,702	\$94,702	\$(47,667)	0.00***	
Maximum Offering Amount	\$613,372	\$549,870	\$657,860	\$558,446	\$550,818	\$531,481	\$107,042	0.00***	
<u>Macroeconomic Characteristics</u>									
HPI	549	157	560	155	533	158	27	0.00***	
Stock Index	3,089	567	3,140	562	3,018	566	123	0.00***	

Table 5 reports descriptive statistics and a two-tailed t-test for our non-dichotomous regression variables. The t-test is applied to compare the means between successful and unsuccessful campaigns. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 6. Ordinary Least Squares (OLS) Regression Model (Amount Raised)

	(1)		(2)		(3)		(4)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Offering Amount	0.1816	1.66*	0.1730	1.70*	0.1762	1.62	0.4843	2.35**
Security Offered								
Common Equity	118,574.20	8.81***	99,858.86	5.86**	106,868.60	6.18***	66,554.10	3.10***
Preferred Equity			-37,237.6	-1.98**	-27,406.40	-1.43	-37,992.61	-1.51
Debt			-64,655.1	-4.26***	-55,965.93	-3.65***	-36,531.68	-1.65*
Convertible			30,757.82	1.43	31,143.02	1.40	-17,200.72	-0.66
Simple Agreement Future Equity (SAFE)			-28,826	-1.61	-23,289.68	-1.30	-35,466.11	-1.59
Membership Unit			53,957.98	1.05	62,074.80	1.17	37,625.12	0.57
Class A			177,819.5	2.34**	139,486.30	2.06**	61,298.32	0.93
Class B			100,982.8	4.66***	106,226.80	4.82***	38,010.30	1.36
Terms Offered and Role of Platform								
Oversubscription First-Come First-Serve			-95,395.5	-2.89***	-91,241.71	-2.81***	-122,164.80	-2.83***
Oversubscription Pro-rata			-90,051.8	-1.79*	-88,452.15	-1.81*	-37,734.87	-0.54
Underwriter Commission (%)			-7,641.79	-1.01	-7,468.1270	-0.9700	-12,115.34	-1.29
Platform Financial Interest (%)			5,619.536	1.17	6,069.4020	1.3400	6,868.83	1.10
Entrepreneurial Firm Characteristics								
Number of Employees	2,373.30	1.96**	2,387.239	1.92*	2,285.73	1.83*	2,371.32	1.68*
Total Assets (t)	-0.0019	-1.66*	-0.00011	-0.02	-0.0012	-0.24	-0.0068	-0.82
Cash Equivalents (t)	0.1168	1.89*	0.100889	1.57	0.0991	1.51	0.2599	2.40**
Accounts Receivable (t)			-0.00732	-0.2	-0.0039	-0.11	-0.0030	-0.03
Short-Term Debt (t)			0.003355	0.36	0.0050	0.50	0.0173	0.62
Long Term Debt (t)			-0.00574	-0.72	-0.0055	-0.66	-0.0048	-0.37
Revenue (t)	-0.0028	-0.28	0.008409	0.41	0.0169	0.66	0.0346	1.03
Coast of Goods Sold (t)			-0.02115	-0.92	-0.0334	-1.06	-0.0299	-0.87
Tax Paid (t)			-0.38059	-0.68	-0.2133	-0.41	-0.0475	-0.08
Net Income (t)	-0.0016	-0.12	-0.00363	-0.24	-0.0048	-0.30	0.0148	0.67
Asset Growth (t-1 to t)			0.002106	0.32	0.0033	0.48	0.0098	0.92
Cash Growth (t-1 to t)			-0.03347	-0.41	-0.0310	-0.37	-0.1042	-0.86
Accounts Receivable Growth (t-1 to t)			0.443731	2.00**	0.4633	2.08**	0.3710	1.05
Short Term Debt Growth (t-1 to t)			0.052676	1.96**	0.0624	2.21**	0.0329	0.79
Revenue Growth (t-1 to t)	-0.0420	-2.02**	-0.06709	-2.56**	-0.0755	-2.61***	-0.1297	-2.92***
Cost of Goods Sold Growth (t-1 to t)			0.015115	0.31	0.0247	0.49	0.0586	1.01

Tax Growth (t-1 to t)			0.138005	0.2	-0.0771	-0.11	-2.1929	-1.61
Net Income Growth (t-1 to t)			0.069583	1.75	0.0768	1.93*	0.0514	0.99
Debt / Assets	-0.0830	-2.37**	-0.07302	-1.86*	-0.0633	-1.85*	-0.0920	-2.92***
Delaware Incorporation	55,229.07	4.44***	52,046.66	4.30***	54,471.28	4.40**	65,723.47	4.13***
Firm Age on filing date (days)	9.19	2.20**	6.150702	1.46	6.83	1.54	0.71	0.13
Market Conditions								
Post-COVID-19	71,984.83	6.05***	68,987.16	5.20***	65,538.14	4.72***	104,919.00	5.41***
State Housing Price Index	-1,179.64	-4.30***	-1,299.64	-4.70***	-1,388.91	-4.94***	-1,152.36	-3.27***
Stock Index	30.98	1.66*	0.361275	0.02	39.79	2.12**	44.78	1.68*
Post-SEC Regulation Change			119,838.2	3.58***				
State Fixed Effects?	Yes		Yes		Yes		Yes	
Platform Fixed Effects?	Yes		Yes		Yes		Yes	
Only Confirmed Closed Campaigns?	No		No		No		Yes	
Excluding Confirmed Open Campaigns?	No		No		Yes		No	
All Campaigns?	Yes		Yes		No		No	
Number of Observations	4015		4015		3860		2710	
Adjusted or Pseudo R ²	0.3151		0.3368		0.3325		0.3627	

Table 6 reports the results of the robust ordinary least squares with state and platform fixed effects models with *Amount Raised* as the dependent variable. Regression (1) is a condensed model with only the key explanatory variables. Regression (2) is a full sample base model with all explanatory variables. Regression (3) is a full model but uses a subsample excluding campaigns that are still confirmed to be open as of October 21st, 2021. Regression (4) uses a subsample of only campaigns that are confirmed to be closed as of October 21st, 2021. Robust standard errors are used to calculate the t-statistics. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 7. Logit Regression Model (Probability of Success)

	(1)		(2)		(3)		(4)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Offering Amount	-4.63E-06	-6.79***	-5.41E-06	-5.94***	-5.40E-06	-5.76***	-7.23E-06	-6.63***
<u>Security Offered</u>								
Common Equity	1.3316	12.67***	1.181517	7.68***	1.1830	7.57***	0.8842	4.32***
Preferred Equity			-0.21828	-1.18	-0.2212	-1.18	-0.4906	-2.05**
Debt			-1.74463	-11.25***	-1.6835	-10.69***	-1.4819	-7.19***
Convertible			1.32575	6.58***	1.3779	6.68***	0.5718	2.31**
Simple Agreement Future Equity (SAFE)			0.053949	0.38	0.1248	0.86	0.0284	0.15
Membership Unit			0.486619	2.06**	0.5155	2.12**	0.0614	0.20
Class A			2.642997	4.33***	2.6799	4.36***	1.9497	2.56**
Class B			3.011458	7.12***	3.0236	7.11***	2.6430	4.67***
<u>Terms Offered and Role of Platform</u>								
Oversubscription First-Come First-Serve			-0.53283	-2.37**	-0.6009	-2.65***	-0.6152	-1.72*
Oversubscription Pro-rata			0.457658	0.89	0.3172	0.60	0.0591	0.08
Underwriter Commission (%)			-0.05657	-1.40	-0.0684	-1.68*	-0.1501	-2.82***
Platform Financial Interest (%)			-0.03983	-0.73	-0.0525	-0.89	-0.0469	-0.92
<u>Entrepreneurial Firm Characteristics</u>								
Number of Employees	0.0107	2.03**	0.012307	2.07**	0.0118	2.00**	0.0177	1.59
Total Assets (t)	-2.34E-09	-0.37	6.26E-09	0.19	1.60E-08	0.47	3.68E-08	0.35
Cash Equivalents (t)	-1.56E-07	-1.12	-2.75E-07	-1.48	-2.60E-07	-1.39	-9.05E-08	-0.19
Accounts Receivable (t)			-4.95E-07	-1.09	-5.46E-07	-1.16	-9.68E-07	-0.72
Short-Term Debt (t)			-7.71E-08	-0.94	-9.18E-08	-0.97	-1.19E-07	-0.68
Long Term Debt (t)			8.02E-09	0.14	-3.57E-09	-0.06	1.16E-08	0.08
Revenue (t)	-3.03E-09	-0.07	6.48E-08	0.98	4.67E-08	0.58	2.67E-07	1.61
Coast of Goods Sold (t)			-9.66E-08	-1.34	-6.36E-08	-0.64	2.08E-07	0.78
Tax Paid (t)			-5.94E-06	-1.45	-6.06E-06	-1.36	-6.17E-06	-0.84
Net Income (t)	-1.69E-07	-2.36**	-1.80E-07	-2.12**	-1.98E-07	-2.29**	-4.12E-07	-2.00**
Asset Growth (t-1 to t)			-2.07E-09	-0.04	-3.09E-09	-0.06	1.39E-08	0.12
Cash Growth (t-1 to t)			1.39E-07	0.30	1.21E-07	0.27	7.22E-07	0.65
Accounts Receivable Growth (t-1 to t)			1.70E-06	1.19	2.23E-06	1.52	2.00E-07	0.09
Short Term Debt Growth (t-1 to t)			1.94E-07	0.44	1.37E-07	0.32	-1.87E-07	-0.31
Revenue Growth (t-1 to t)	-2.73E-07	-1.75*	-1.70E-07	-0.65	-2.36E-07	-0.87	-5.67E-07	-1.30
Cost of Goods Sold Growth (t-1 to t)			-3.39E-07	-0.57	-3.73E-07	-0.65	8.02E-07	0.65
Tax Growth (t-1 to t)			2.65E-06	0.36	4.24E-06	0.58	-4.47E-06	-0.38
Net Income Growth (t-1 to t)			-2.27E-07	-0.53	-1.66E-07	-0.40	-1.67E-07	-0.22

Debt / Assets	1.78E-06	0.95	1.40E-06	1.24	1.62E-06	1.18	2.59E-06	0.78
Delaware Incorporation	0.1936	2.22**	0.170174	1.76*	0.1732	1.75*	0.3282	2.59***
Firm Age on filing date (days)	0.0001	3.47***	0.000122	3.12***	0.0001	2.81***	0.0001	1.45
Market Conditions								
Post-COVID-19	-0.0391	-0.48	-0.02813	-0.27	-0.1280	-1.21	0.0802	0.60
State Housing Price Index	-0.0049	-2.42**	-0.0072	-3.21***	-0.0074	-3.32***	0.0007	0.24
Stock Index	-0.0002	-0.96	-0.00024	-1.29	-0.0001	-0.64	-0.0003	-1.40
Post-SEC Regulation Change			0.390772	2.21**				
State Fixed Effects?	Yes		Yes		Yes		Yes	
Platform Fixed Effects?	Yes		Yes		Yes		Yes	
Only Confirmed Closed Campaigns?	No		No		No		Yes	
Excluding Confirmed Open Campaigns?	No		No		Yes		No	
All Campaigns?	Yes		Yes		No		No	
Number of Observations	3839		3839		3685		2495	
Adjusted or Pseudo R ²	0.1998		0.3129		0.3114		0.2470	

Table 7 reports the results of the logit with state and platform fixed effects models with probability of *Success* as the dependent variable. Regression (1) is a condensed model with only the key explanatory variables. Regression (2) is a full sample base model with all explanatory variables. Regression (3) is a full model but uses a subsample excluding campaigns that are still confirmed to be open as of October 21st, 2021. Regression (4) uses a subsample of only campaigns that are confirmed to be closed as of October 21st, 2021. Some platform dummies predicted observations perfectly in the regressions, and as such Stata dropped those observations (176 observations, or 4.4% of the total sample). Robust standard errors are used to calculate the t-statistics. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 8. First Stage Regressions

	<u>Delaware</u>		<u>Common Stock</u>		<u>Amount Sought</u>	
	(1)		(2)		(3)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
<u>Instrumental Variables</u>						
Mimicking Amount Sought	0.0000	0.99	0.0000	-2.01**	-0.17752	-3.29***
Mimicking Delaware	0.2673	1.69**	-0.2749	-1.56	-14932.1	-2.01**
Mimicking Common Equity	0.2005	1.09	2.3961	12.04***	3319.768	0.31
Predicted Offering Amount						
<u>Security Offered</u>						
Predicted Common Equity						
<u>Terms Offered and Role of Platform</u>						
Oversubscription First-Come First-Serve	1.18E-01	0.61	-4.47E-01	-2.26**	-3761.43	-1.45
Oversubscription Pro-rata	-2.08E-01	-0.32	-2.15E-01	-0.36	-857.48	-0.42
Underwriter Commission (%)	-0.0797	-2.28***	0.0250	0.6800	-29612.7	-1.28
Platform Financial Interest (%)	0.0538	1.5600	0.0289	0.8700	41773.34	0.91
<u>Entrepreneurial Firm Characteristics</u>						
Number of Employees	2.20E-03	0.41	-1.39E-03	-0.29	-24.3722	-0.11
Total Assets (t)	-1.23E-08	-1.44	-3.97E-08	-1.34	8.54E-08	0.00
Cash Equivalents (t)	1.33E-06	4.36***	2.62E-07	1.87*	0.01016	1.30
Revenue (t)	-1.09E-07	-2.25**	2.43E-09	0.08	0.002847	1.38
Net Income (t)	-4.15E-07	-4.83***	2.92E-08	0.35	0.000081	0.03
Revenue Growth (t-1 to t)	4.34E-07	1.79*	-1.03E-08	-0.07	0.00807	1.09
Debt / Assets	1.54E-06	0.97	-1.06E-06	-0.95	0.029352	1.09
Predicted Delaware Incorporation						
Firm Age on filing date (days)	-3.03E-04	-6.95***	1.39E-05	0.42	-1.30409	-1.16
<u>Market Conditions</u>						
Post-COVID-19	5.07E-01	5.30***	-4.59E-02	-0.45	-9178.37	-1.64
State Housing Price Index	-1.43E-03	-0.70	-3.11E-03	-1.29	-50.8581	-0.52
Stock Index	-4.14E-07	0.00	-1.41E-04	-0.76	2.094038	0.22
Post-SEC Regulation Change					15572.77	1.59
State Fixed Effects?	Yes		Yes		Yes	
Platform Fixed Effects?	Yes		Yes		Yes	
Only Confirmed Closed Campaigns?	No		No		No	
Excluding Confirmed Open Campaigns?	No		No		No	
All Campaigns?	Yes		Yes		Yes	
Number of Observations	3852		3847		3968	

Adjusted or Pseudo R2	0.2373	0.1367	0.2437
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Table 8 reports the first-stage regression results of the robust ordinary least squares and logit with state and platform fixed effects models for the probability of an entrepreneur incorporating in *Delaware*, the probability of using *Common Stock*, and the total *Amount Sought*. with *Amount Raised* and probability of *Success* as dependent variables. The three instruments are mimicking variables of the most similar size and age-matched campaign values of the respective variables from the prior 3 months on the same platform. The full sample is not used due to lagged instrumental variables. Some platform dummies predicted observations perfectly in the regressions, and as such Stata dropped those observations (176 observations, or 4.4% of the total sample). Robust standard errors are used to calculate the t-statistics. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 9. Second Stage Regressions

	<u>Amount Raised</u>				<u>Success</u>			
	(1)		(2)		(3)		(4)	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
<u>Instrumental Variables</u>								
Mimicking Amount Sought								
Mimicking Delaware								
Mimicking Common Equity								
Predicted Offering Amount	0.994314	1.20	0.828166	0.98	-3.3E-05	-6.58***	-3.4E-05	-6.57***
<u>Security Offered</u>								
Predicted Common Equity	52,8716.1	8.62***	532,964.2	8.37***	4.42008	9.01***	4.346383	8.57***
<u>Terms Offered and Role of Platform</u>								
Oversubscription First-Come First-Serve								
Oversubscription Pro-rata								
Underwriter Commission (%)								
Platform Financial Interest (%)								
<u>Entrepreneurial Firm Characteristics</u>								
Number of Employees	1,533.056	1.35	1,561.826	1.35	0.009241	1.94*	0.008479	1.81
Total Assets (t)	-0.00159	-1.17	-0.00175	-1.25	4.86E-09	7.60E-01	5.29E-09	0.81
Cash Equivalents (t)	0.096674	1.34	0.100796	1.39	-1.38E-07	-8.60E-01	-1.14E-07	-0.71
Revenue (t)	0.008605	0.79	0.010386	0.91	1.20E-07	2.89***	1.21E-07	2.94***
Net Income (t)	0.025928	1.36	0.026077	1.32	-2.81E-08	-4.10E-01	-4.29E-08	-0.62
Revenue Growth (t-1 to t)	-0.07394	-3.09***	-0.07012	-2.93***	-1.34E-07	-9.30E-01	-1.31E-07	-0.92
Debt / Assets	-0.12007	-2.27**	-0.10267	-2.01**	1.63E-06	2.44**	1.78E-06	2.49**
Predicted Delaware Incorporation	331,159.2	2.88***	305,802.2	2.61***	2.239817	3.27***	2.197606	3.17***
Firm Age on filing date (days)	16.74193	2.61***	16.0521	2.39**	0.000154	3.03***	0.000147	2.80***
<u>Market Conditions</u>								
Post-COVID-19	53,658.58	3.46***	49,661.47	3.15***	-0.5645	-5.07***	-0.66675	-5.89
State Housing Price Index	-955.89	-3.26***	-1,109.04	-3.71***	-0.002	-0.98	-0.00239	-1.16
Stock Index	8.479266	0.41	15.66405	0.73	-2.5E-05	-0.15	-1.9E-05	-0.11
Post-SEC Regulation Change	115,455.5	3.37***	108,025.2	3.28***	0.458535	2.66***	0.448052	2.56**
State Fixed Effects?	Yes		Yes		Yes		Yes	
Platform Fixed Effects?	Yes		Yes		Yes		Yes	
Only Confirmed Closed Campaigns?	No		No		No		No	
Excluding Confirmed Open Campaigns?	No		Yes		No		Yes	
All Campaigns?	Yes		No		Yes		No	
Number of Observations	3794		3664		3701		3552	

Adjusted or Pseudo R2	0.3255	0.3232	0.1699	0.1691
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Table 9 reports the second-stage regressions results of the robust ordinary least squares and logit with state and platform fixed effects models with *Amount Raised* and probability of *Success* as dependent variables. The three instruments are mimicking variables of the most similar size and age-matched campaign values of the respective variables from the prior 3 months on the same platform. The full sample is not used due to lagged instrumental variables. Some platform dummies predicted observations perfectly in the regressions, and as such Stata dropped those observations (176 observations, or 4.4% of the total sample). Robust standard errors are used to calculate the t-statistics. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Figure 1. Securities-Based Crowdfunding Amount Raised in the U.S.

Figure 1 shows the evolution of the U.S. securities-based crowdfunding market from the second quarter of 2016 to the second quarter of 2021. On the primary y-axis, we report the aggregate quarterly number of new campaigns. Here we also distinguish between how many campaigns are closed (dark blue) and how many remain open (light blue) as of October 21st, 2021. On the secondary y-axis, we report the aggregate quarterly fundraising totals.

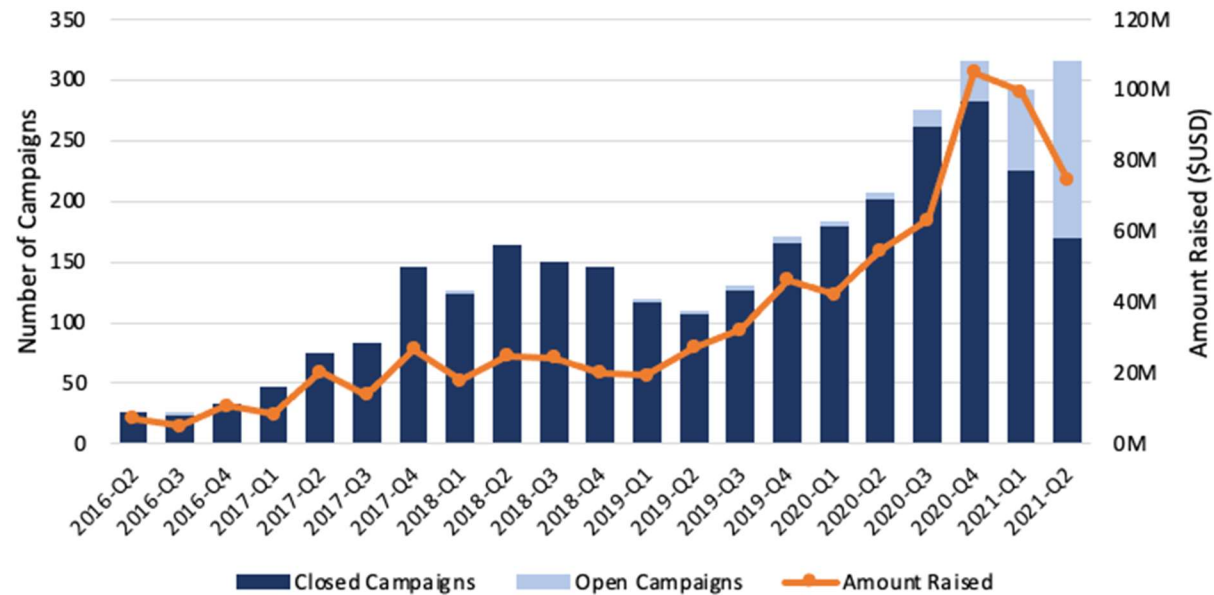


Figure 2. Securities-Based Crowdfunding Amount Raised greater than \$1 Million

Figure 2 plots aggregate quarterly fundraising totals for the second quarter of 2021 versus the aggregate totals in the second quarter for each of the previous 4 years. We further distinguish between campaigns that raised in excess of \$1 million (light green). *note the fundraising totals reported are as of October 21st, 2021, some campaigns (primarily from the second quarter of 2021) remain open for fundraising at the time of data collection.

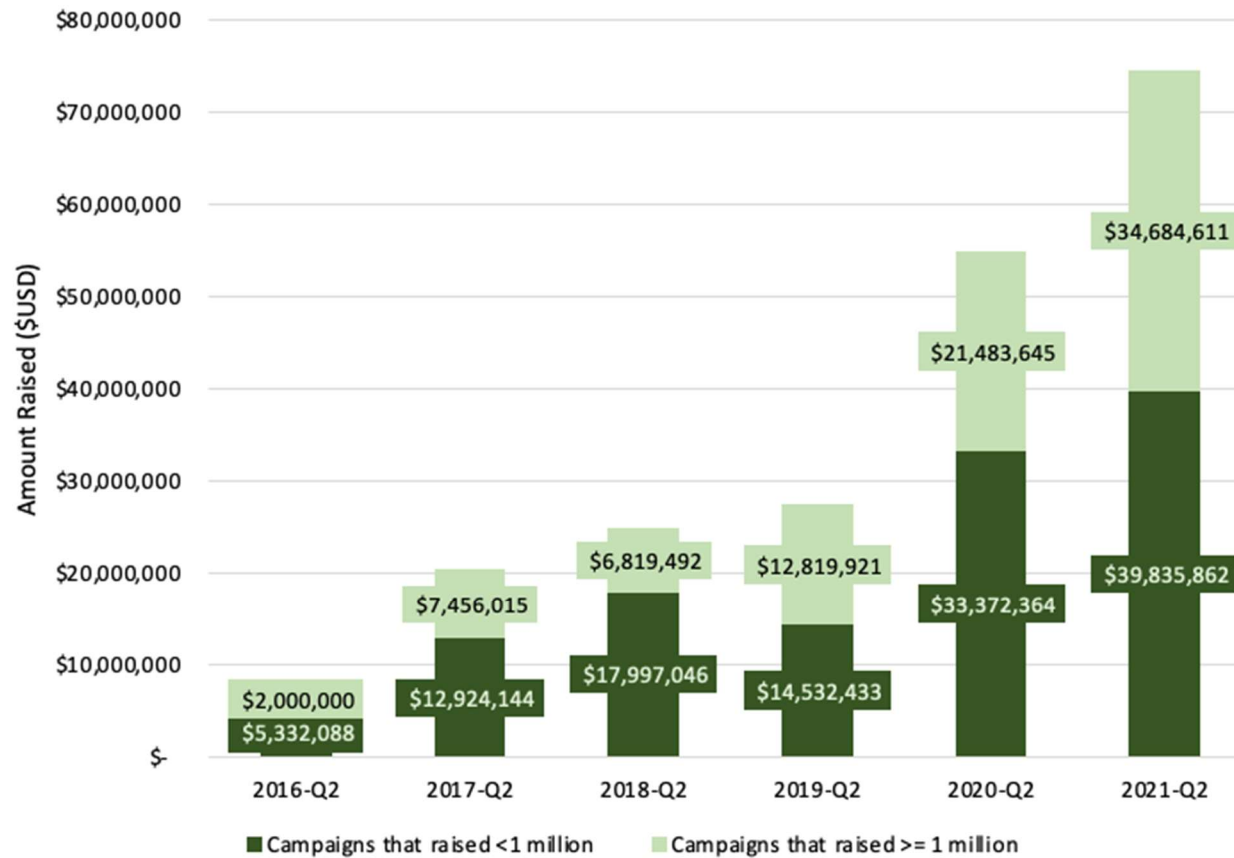


Figure 3. Histogram of Securities-Based Crowdfunding Amounts Raised

Figure 3 plots the histogram of securities-based crowdfunding amounts raised. Before March 26, 2021, there was a cap of \$1,070,000 in a 12-month period. This cap was increased to \$5 million effective March 27, 2021. In our sample, 9.1% of the offerings occurred after March 26, 2021.

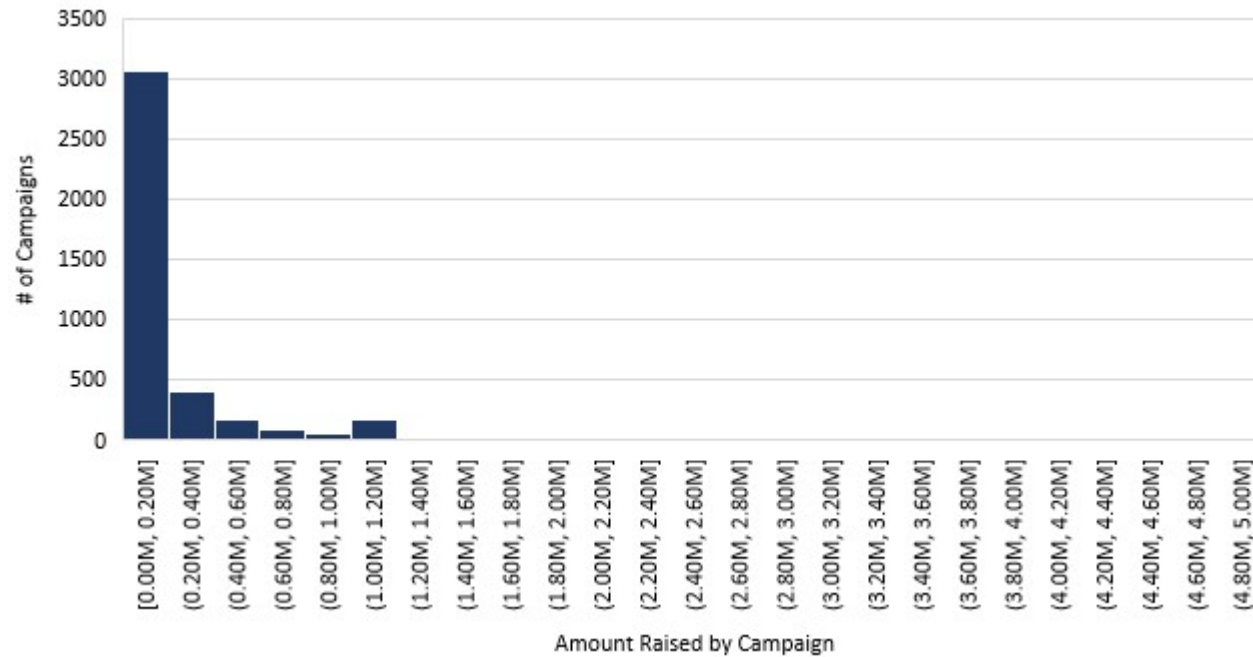


Figure 4. Securities-Based Crowdfunding Trend in Average Success Rate

Figure 4 shows the trend in successful campaigns by plotting the average success rate, measured as the number of successful campaigns divided by the total number of new campaigns within a given quarter from the second quarter of 2016 to the second quarter of 2021.

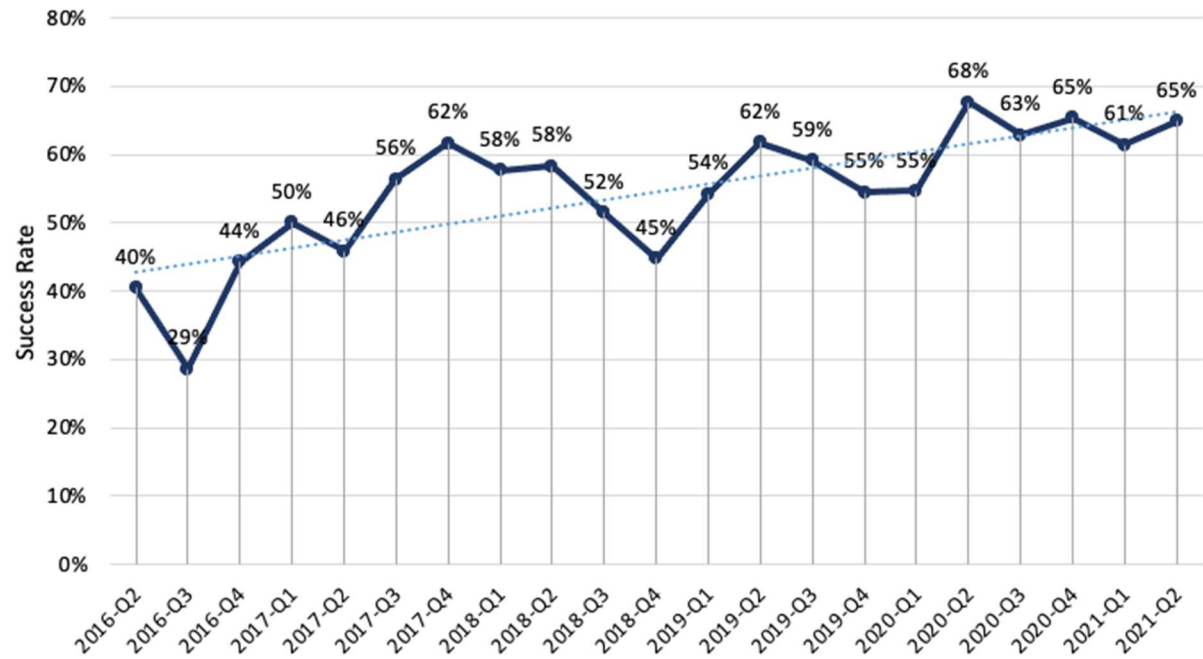


Figure 5. Heat Map of U.S. State Securities-Based Crowdfunding Activity

Figure 5 shows a heat map of the density of all securities-based crowdfunding activity amongst U.S. states. The darker the shade of blue, the greater the amount raised by campaigns in that particular state. For example, the campaigns of all collective firms headquartered in California have raised the largest amount of money of any state from 2016 Q2 to 2021 Q2.

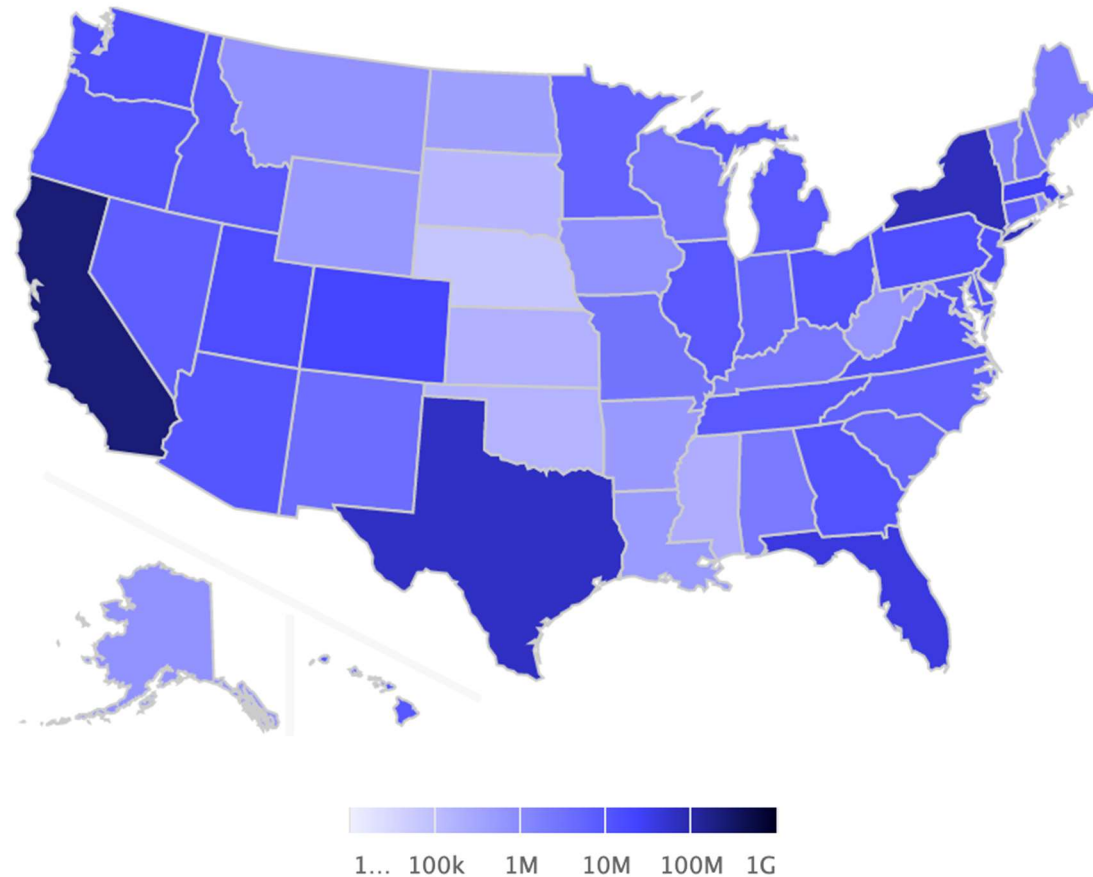


Figure 6. Securities-Based Crowdfunding Trend in Top 5 States by Number of Campaigns

Figure 6 plots the number of new campaigns each quarter from the second quarter of 2016 to the second quarter of 2021 and within a particular state based on the firm's physical address. We specifically plot the five states with the most total number of campaigns over the full period. These states are California (blue), New York (navy blue), Texas (orange), Florida (teal), and Massachusetts (red).

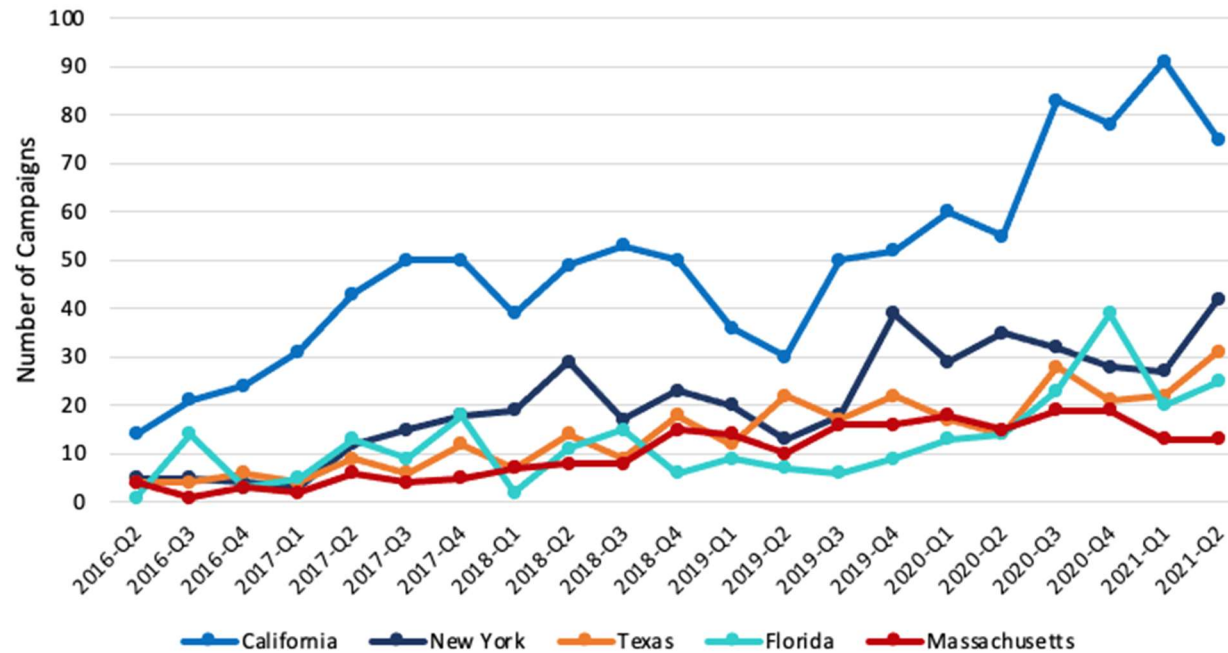
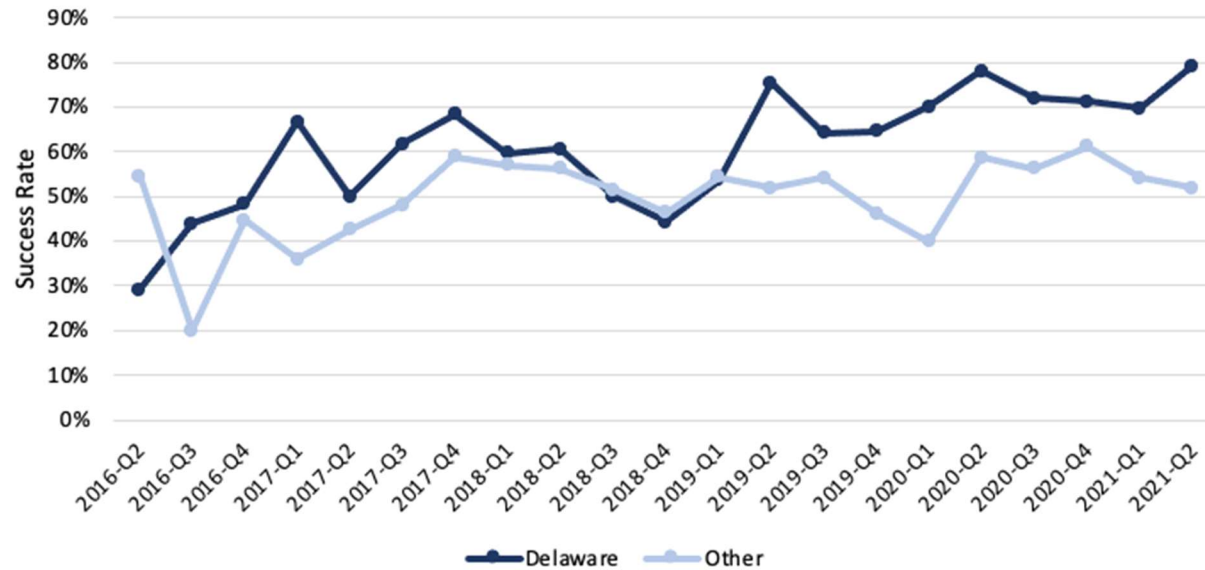


Figure 7. Securities-Based Crowdfunding Trend in Average Success Rate for Delaware Jurisdiction

Figure 7 plots the trend in the average success rate of firms incorporated in Delaware (dark blue) against firms incorporated in all other states (light blue), measured as the number of successful campaigns divided by the total number of new campaigns within a given quarter from the second quarter of 2016 to the second quarter of 2021.



Appendix

Table A1. Descriptive Statistics

	N	Mean	Median	Std. Deviation	Variance	Minimum	Maximum
Amount Raised	4015	186,375	43,348	396,915	1.57541E+11	0	5,001,541
Success	4015	0.58	1	0.494	0.244	0	1
Offering Amount	4015	67,134	25,000	137,515	18,910,292,428	0.01	5,000,000
Maximum Offering Amount	4015	613,372	500,000	549,870	3.02357E+11	1	5,000,000
Common Stock	4015	0.22	0	0.412	0.169	0	1
Preferred Stock	4015	0.07	0	0.256	0.066	0	1
Debt	4015	0.24	0	0.429	0.184	0	1
Convertible	4015	0.06	0	0.243	0.059	0	1
SAFE	4015	0.23	0	0.421	0.178	0	1
Membership Unit	4015	0.03	0	0.182	0.033	0	1
Class A	4015	0.01	0	0.118	0.014	0	1
Class B	4015	0.03	0	0.177	0.031	0	1
Oversubscription First-Come-First-Serve	4015	0.39	0	0.488	0.238	0	1
Oversubscription Pro-rata	4015	0.02	0	0.129	0.017	0	1
Underwriter Commission	4015	6.03	6	1.65	2.713	0	12
Financial Interest (%)	4015	0.85	0	1.71	2.92	0	50
Number of Employees	4015	5.4	3	9.82	96.40	0	225
Firm Age on filing date (days)	4015	1,049	648	1,332	1,772,971	1	19,354
Total Assets	4015	429,891	32021	92,234	2.49749E+13	-5905	298,476,885
Cash Equivalents	4015	92,120	4674	364,095	1.32565E+11	-62208	11,173,426
Accounts Receivable	4015	23,855	0	173,125	29972141379	-57924	7,617,403
Short-Term Debt	4015	184,482	582	1,158,054	1.34109E+12	-206525	44,867,224
Long-Term Debt	4015	252,980	0	2,714,358	7.36774E+12	-199560	165,528,557
Revenue	4015	361,919	0	92,234	2.42948E+12	0	46,942,397

Cost of Goods Sold	4015	166,172	0	972,938	9.46609E+11	-1,5916,000	29,094,755
Taxes Paid	4015	1,362	0	14,433	208,314,722	-454,200	252,728
Net Income	4015	-220,071	-13,061	713,604	5.09231E+11	-18868601	4,852,987
Delaware Incorporation	4015	0.45	0	0.498	0.248	0	1
Post-COVID-19	4015	0.41	0	0.493	0.243	0	1
HPI	4015	549	557.65	156.65	24,453,922	219.23	993.85

Table A2. Correlation Matrix

Panel A.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)						
(1) Amount Raised	1													
(2) Success	.381 ***	1												
(3) Offering Amount	0.03	-.171 ***	1											
(4) Oversubscription First-Come-First-Serve	-.181 ***	-.165 ***	-.053 ***	1										
(5) Oversubscription Pro-rata	-.052 ***	-.095 ***	.058 ***	-.105 ***	1									
(6) Underwriter Commission	.032 **	.032 **	-.042 ***	.078 ***	-.015	1								
(7) Financial Interest	-.008	-.223 ***	.013	.173 ***	-.023	.093 ***	1							
(8) Current Number of Employees	.153 ***	.089 ***	.014	-.079 ***	-.026	.003	-.004	1						
(9) Firm Age on filing date	.088 ***	.095 ***	-.019	-.082 ***	-.026	-.005	-.007	.244 ***	1					
(10) Revenue	.158 ***	.057 **	.062 ***	-.072 ***	-.027	-.016	.025	.527 ***		1				
(11) Net Income	-.157 ***	-.106 ***	.004	.094 ***	.034 **	.002	-.058 ***	-.296 ***			1			
(12) Total Assets	.042 ***	.024	.019	-.032 **	-0.01	-.003	-.008	.261 ***				1		
(13) Cash Equivalents	.246 ***	.073 ***	.052 ***	-.067 ***	-.028	-.031 **	.069 ***	.382 ***					1	
(14) Short-Term Debt	.081 ***	.031	.015	-.056 ***	-.018	.007	0.03	.272 ***						1
(15) Long-Term Debt	.038 **	.037 **	.020	-.036 **	-.011	-.017	-.001	.278 ***						

(16)	Cost of Goods Sold	.115	***	.053	***	.033	**	-.067	***	-.020		-.008	.008	.364	***
(17)	Tax Paid	.009		-.010		-.004		-.029		.000		-.010	-.002	.150	***
(18)	Delaware Incorporation	.171	***	.137	***	-.054	***	-.204	***	-.054	***	-.028	.173	.040	**
(19)	COVID-19	.124	***	.110	***	.006		-.003		-.067	***	.134	***	-.072	***
(20)	HPI	.074	***	.085	***	-.021		-.070	***	-.076	***	-.008	.068	.005	
(21)	Stock Index	.119	***	.107	***	.004		-.017		-.042	***	.157	***	-.049	***
(22)	Accounts Receivable	.058	***	.008		.018		-.055	***	-.014		.009	.016	.182	***
(23)	Common Stock	.027		.039	**	-.059	***	.020		-.003		-.032	**	-.170	**
(24)	Preferred Stock	.071	***	-.003		.082	***	.042	***	-.021		.028	.141	.017	
(25)	Debt	-.149	***	-.139	***	-.011		.517	***	-.038	**	.151	***	.113	***
(26)	Convertible	-.005		.000		.017		-.169	***	-.034	**	.043	***	-.072	***
(27)	SAFE	.060	***	.076	***	.035*	**	-.288	***	-.058	***	-.075	***	.067	***
(28)	Membership Unit	-.012		-.042	***	.044	***	.018		-.014		-.063	***	-.039	**
(29)	Class A	.059	***	.039	**	-.026		-.057	***	-.016		.019		-.039	**
(30)	Class B	.050	***	.056	***	-.046	***	-.132	***	-.024		.031	**	-.004	

** $p < 0.05$, *** $p < 0.01$

Panel B.

Variables	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(9) Firm Age on filing date	1							
(10) Revenue	.297 ***	1						
(11) Net Income	-.142 ***	-.199 ***	1					
(12) Total Assets	.202 ***	.358 ***	-.169 ***	1				
(13) Cash Equivalents	.156 ***	.505 ***	-.313 ***	.288 ***	1			
(14) Short-Term Debt	.225 ***	.381 ***	-.308 ***	.701 ***	.269 ***	1		
(15) Long-Term Debt	.206 ***	.342 ***	-.237 ***	.929 ***	.237 ***	.626 ***	1	
(16) Cost of Goods Sold	.182 ***	.811 ***	-.236 ***	.086 ***	.359 ***	.201 ***	.083 ***	1
(17) Tax Paid	.004	.123 ***	.013	.010	.038 **	.015	.000	0.03
(18) Delaware Incorporation	-.068 ***	.019	-.170 ***	.002	.137 ***	.051 ***	.010	.031
(19) COVID-19	.028	.027	-.054 ***	-.002	.033 **	.028	-.007	.034 **
(20) HPI	.043 ***	.034 **	-.076 ***	.016	.072 ***	.053 ***	.022	.037 **
(21) Stock Index	.029	.034 **	-.027	.007	.048 ***	.036 **	.004	.037 **
(22) Accounts Receivable	.180 ***	.334 ***	-.020	.168 ***	.102 ***	.211 ***	.044 ***	.243 ***
(23) Common Stock	.026	.028	-.018	.015	.003	.019	.000	.021

(24)	Preferred Stock	-0.004	.054	***	-0.065	***	.005	.056	***	.027	.008	.035	**	
(25)	Debt	-0.022	-0.048	***	.109	***	.004	-0.074	***	-0.036	**	.005	-0.047	***
(26)	Convertible	.033	**	-0.007	-0.056	***	-0.002	.006		.017	.005	-0.005		
(27)	SAFE	-0.011		-0.005	-0.030		-0.013	.040	**	.001	-0.006	.001		
(28)	Membership Unit	-0.002		-0.024	.037	**	-0.01	-0.036	**	-0.020	-0.008	-0.018		
(29)	Class A	.032	**	.017	-0.096	***	.007	.040	**	.037	**	.006	.012	
(30)	Class B	.027		.028	-0.019		.000	.000		.017	.000	.031		

** $p < 0.05$, *** $p < 0.01$

Panel C.

Variables	(17)	(18)	(19)	(20)	(21)	(22)
(17) Tax Paid	1					
(18) Delaware Incorporation	-.045 ***	1				
(19) COVID-19	.019	.015	1			
(20) HPI	-.029	.221 ***	.164 ***	1		
(21) Stock Index	.012	.006	.760 ***	.195 ***	1	
(22) Accounts Receivable	.029	.018	.037 **	.023	.024	1
(23) Common Stock	-.002	.047 ***	-.094 ***	-.058 ***	-.116 ***	.026
(24) Preferred Stock	.019	.046 ***	.009	.011	.005	.029
(25) Debt	-.003	-.292 ***	.056 ***	-.029	.048 ***	-.025
(26) Convertible	-.022	.041 ***	.057 ***	.018	.051 ***	-.013
(27) SAFE	.000	.236 ***	.066 ***	.099 ***	.062 ***	-.015
(28) Membership Unit	.000	-.108 ***	-.019	-.043 ***	-.011	-.015
(29) Class A	-.007	.030	.014	.009	.004	.013
(30) Class B	.000	.030 **	-.020	.011	.004	.034 **

** $p < 0.05$, *** $p < 0.01$