






If you need more information on how small businesses can raise capital in Pennsylvania, contact us:

Contact our Office of Corporation Finance: **717.787.8059**  
Call **1.800.PA.BANKS** for questions about financial transactions or products or to file a complaint. Email us at **informed@pa.gov**

The PA Department of Banking and Securities is Pennsylvania's financial services regulator. We oversee state-chartered banks, credit unions, consumer lenders, investment professionals, and other financial services firms. We provide free and confidential help to anyone with a question or complaint about financial services, transactions, or products.

Market Square Plaza | 17 N. Second Street, Suite 1300 | Harrisburg, PA 17101  
1.800.PA.BANKS | 1.800.600.0007 | [dobs.pa.gov](http://dobs.pa.gov) |     



# How small businesses can Raise Capital

by issuing securities

## LEARN MORE ABOUT...

- Sale of Securities
- Registration
- Exemption from Registration
- Pennsylvania Exemptions
- Federal Exemptions







Whether you want to start a business or expand your business, there are several options to find the money to achieve your goals, including raising money by selling shares of your business to investors through the offering of securities.

## Sale of Securities

All securities offered for sale in Pennsylvania must either be registered or granted exemptions. Prior to offering securities for sale in Pennsylvania, you can contact the Corporation Finance Office at the Department of Banking and Securities at **717.787.8059**. You should also seek legal counsel from an attorney experienced in this area.

## Registration

Registration is the process by which a business files with the Department of Banking and Securities all documents that will help investors make informed decisions about the proposed securities offering. Under the Pennsylvania Securities Act of 1972, all securities sold in Pennsylvania must be registered with the Department of Banking and Securities -- unless exempt. The department's Corporation Finance Office and Chief Accountant's Office will conduct a review of the offering prior to its sale.



## Exemption from Registration

Because the registration process can be complex, Pennsylvania law contains a series of exemptions, which cover situations where the nature of the securities or the character of the transaction does not demand full registration.

## Pennsylvania Exemptions



There are several exemptions from registration for which issuers may qualify. Listed below are brief summaries of the most relied-upon exemptions. Complete details of Pennsylvania's exemptions, including qualification criteria, can be found in the Pennsylvania Securities Act of 1972 and Title 10 of the PA Code. ([www.pacode.com](http://www.pacode.com)).

Pennsylvania provides a one-time exemption allowing newly formed companies to sell securities to no more than five persons within six months of the date of incorporation or formation.

Pennsylvania provides one-time exemptions allowing Pennsylvania companies to sell securities to no more than 10 persons from the date of the formation of the business. To use this exemption, however, no one affiliated or associated with the issuer may have a history of securities law violations.

Pennsylvania companies may sell securities to no more than two Pennsylvania investors in a 12-month period without registration or filing with the department. Companies relying on this exemption must not have any officer, director, or promoter with a history of securities law violations. Those companies not located or organized in Pennsylvania may rely on this exemption if they are selling to no more than two "accredited investors" in Pennsylvania.

Companies may sell unlimited amounts of securities to "principals," which includes officers and directors, controlling shareholders, key management personnel, and the immediate families of principals.

Companies with existing equity stockholders may offer those stockholders the opportunity to purchase more shares. The offer must be given on a pro-rata basis. For example: a 10 percent shareholder should be offered the opportunity to purchase 10 percent of the total number of new shares to be sold.

Limited offering exemption: a company may offer securities to no more than 50 persons and may sell securities to no more than 25 persons in Pennsylvania. This exemption requires an issuer, prior to offering any securities, to file the Pennsylvania Form E and all disclosure materials that are to be provided to prospective investors, and **have the exemption granted by the department**. The disclosure materials should be prepared using the department's Prospectus Guidelines available on [dobs.pa.gov](http://dobs.pa.gov).

## Federal Exemptions



Rule 506(b) of SEC Regulation D provides an exemption from federal and state registration for sales of unlimited amounts of securities to "accredited investors" and no more than 35 non-accredited, but sophisticated investors (investors with substantial experience investing in securities offerings).

Rule 506(c) allows for sales to only "accredited investors." By limiting sales to "accredited investors," the issuer can utilize general solicitation to promote the offering.

To use a Rule 506 exemption, the company is required to file SEC Form D with the federal Securities and Exchange Commission within 15 days of the first sale to any purchaser. The company is also required to file the SEC Form D with the department within 15 days of the first sale in Pennsylvania.

## Accredited Investor

An accredited investor is an individual that has a net worth of at least \$1 million or annual income of \$200,000, excluding one's primary residence.

## Crowdfunding

Crowdfunding is a new way investors can buy ownership interests in businesses over the internet. Under federal law, businesses can raise up to \$1 million in a 12-month period from individual investors. An individual's maximum investment by law is determined by their net worth and income level, but no investor may invest more than \$100,000 over a 12-month period through crowdfunding.

## Worth Knowing...