Investor Education

Know Before You Invest

A brief guide to investment crowdfunding for investors

silicon prairie

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INVESTING OVERVIEW

Silicon Prairie Online offers a variety of investment opportunities including both debt and equity issues. Our portal serves businesses looking to raise capital and investors who are looking for investment opportunities.

We support:

- Debt based offerings including fixed interest rates as well as a "Dutch Auction" style that can drive the cost of capital down
- Equity
- Convertibles including Simple Agreements for Future Equity or (SAFE)

First Things First

Before You Consider Investing

Investing in the companies that will be offered on our portal is very different than investing in the public stock market. The companies listed are likely to be small, with limited or no track records and little profits, if any.

The first thing for you to consider, before you go further, is whether it is appropriate for you to invest in any of these companies based on your own personal circumstances. Among the questions you should ask yourself are:

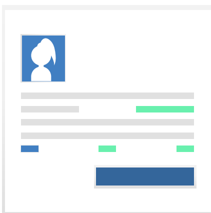
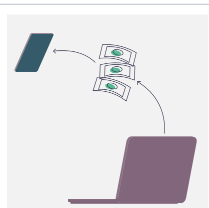
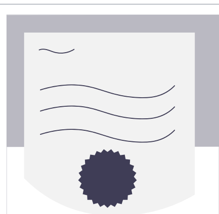
- Can I afford to lose all the money I invest?
- If I lose all or part of my money, will I be okay psychologically?
- Do I understand the company I am thinking about investing in?
  - Do I understand its product or service?
  - Am I personally familiar with that market?
- Do I understand the business the company is conducting?
  - Do I understand how the company can make money?
- Do I understand the Security I'm buying?
- Do I trust the owners and managers of the company?
- Do I understand the documents I'm being asked to sign?
- Have I asked my advisors for help evaluating the investment?

Only if you can truthfully answer "Yes" to all those questions, should you invest.

How to Invest

From Interest to Investor

The following steps apply if you are planning to invest in a specific campaign, or simply found an interesting opportunity on our portal.

	1. Create an Account • Navigate to the Portal - http://sppx.io • View Offerings (Investments) • Enter your account details • Complete your Investor Profile • Acknowledge risks • Verify your account email
	2. Make a Pledge • View the details page of the selected Offering • Click the button labeled "Invest Now" • Pledge a dollar amount (state your intention)
	3. Connect your Bank • Enroll to use ACH transfer (electronic checking) • Click the button labeled "Add Bank" • Receive two micro-deposits into your Bank Account • Click the link "Verify" to enter the two numbers
	4. Fund the Pledge • Navigate to the "Investor Dashboard" • Select the pledge to fund • Click "Funding" button • Click the button labeled "Fund via ACH" and confirm NOTE: pause here until the Campaign reaches min goal
	5. Subscribe to Offering • Click the link "Subscribe" • Click link labeled "Click Here to Review Agreement" • Type your name to electronically "sign" • Receive your securities

Crowdfunding: Risks & Rewards

Why Invest in Startups?

People invest for a variety of reasons. In crowdfunding an issuer is converting their “social” capital into “financial” capital. The “early money” in startups may come from friends, family and fans. Making an investment in a friends business can put stress on the relationship but can also strengthen the connection individually as well as build your community. Many crowdfunding campaigns are for local businesses with brick and mortar operations; real places you can visit and feel a sense of pride in ownership. Often times an issuer will offer compelling “perks” for your investment. Who doesn’t like the idea of free beer for life by investing in a local brewery?

Is a Crowdfunding Investment Right for Me?

If you can’t afford to lose every dollar you invest in a crowdfunding campaign, the short answer is “no.” If you can’t afford to wait indefinitely for a potential return, the answer is also “no.”

The reality is that this portal’s offerings are generally illiquid, which means it will be hard or even impossible to get out of an investment. There is no guarantee that a secondary market will ever materialize. Entrepreneurs and small business owners are by their very nature “optimists” and their business plans are going to reflect that. As an investor, you must think of your needs first!

You need to consider whether the underlying security being offered is appropriate for you. Are you comfortable with holding “common stock” or do you prefer lending money through a debt instrument?

Some offerings, namely a “Simple Agreement for Future Equity” or “SAFE” do not typically offer the investor any voting rights until it converts into common stock, if ever.

We strongly encourage all investors to talk about the risks and rewards of this asset class with a qualified investment advisor professional.

Types of Crowdfunding: Equity, Debt, and Everything in Between

Crowdfunding campaigns come in all flavors and depend on the issuer's need for capital. Let's take look at the most common types of campaigns you will encounter on our portal:

EQUITY

In an equity offering the issuing company is offering the investor some form of stock or membership unit, depending on the corporate formation.

Your investment buys you a percentage of company ownership.

There are also different types of equity depending on what stage the company is in development. There are **preferred** and **common** shares, as well as potentially different classes of stock such as "Series A", "Series B" that may have different rights and liquidation preferences that can make an investment more or less attractive.

Equity investments involve significant risks, including share value declines and possible loss of principal invested.

DEBT

A debt based offering are most commonly term loans. They can pay any amount of interest (including none!) and have different repayment schedules. From monthly interest only payments to simple balloon repayment at the term, **debt** based offerings may be more appropriate for investors who desire cash flow potential from their investments.

As with any debt based crowdfunding offering, interest payments and loan repayments are not guaranteed, however **debt** based deals typically will include a liquidation preference that obligates the debtor to repay note holders first before equity holders.

Equity, Debt, and Everything in Between [CONTINUED]

CONVERTIBLE NOTES

As the name implies, a **convertible note** is a hybrid that typically beings life as a **debt** based instrument and then converts into an **equity** position at some future date or event.

Convertible notes will often offer the investor the right but not the obligation to become equity investors if a qualifying event should occur.

It is important to note that there is no guarantee that a future qualifying event may ever occur. This means there is a chance they will never convert to equity, nor is repayment assured.

SAFE NOTES

A Simple Agreements for Future Equity or "SAFE" note is a convertible security that, like an option or warrant, allows the investor to buy shares in a future priced round.

Unlike convertible notes, they are not debt and therefore do not accrue interest and rarely if ever offer voting rights. SAFE notes are not an official debt instrument, which means there is a chance they will never convert to equity, nor is repayment required.

Just How Risky are Startups?

When it comes to launching a new business, the statistics are not favorable. Common wisdom points to nearly 90% of all new businesses failing in their first year and another 90% of those that make into year two failing. This means for every 100 businesses launched today, only about 2-3 will survive to see their third birthday.

The potential for success may center on the team and their experience in this area. There is a huge difference between someone who has years of experience in the same or related industry and someone who just has a good idea.

An investor is encouraged to check references and ask the issuer questions through the portal. "Do you have a plan b?" is a telling question and any entrepreneur should not be afraid to answer it. Having a company "pivot" in the first year is not unheard of and can often indicate that the management has a maturity and presence of mind to listen to what customers actually want.

Diversification

Generally speaking, by avoiding making single large "all in" investments you may have a better opportunity to weather failures in a single company or industry. We encourage all investors to carefully read through the "Risk Factors" section of any offering document in addition to the business plan.

- Does the business have a supply chain?
- Does it depend on the availability of high quality agricultural inputs that could become scarce or subject to competition?
- Is the business in a regulated area where the potential for additional government oversight could render an otherwise profitable product or service less attractive?

If a company is losing a little money on each sale but thinks it can make it up in volume they might just be bad at math.

Savvy investors primarily invest in things they know and understand. If you do not readily grasp why and how a company is going to generate income in excess of costs its likely not right for you. There is nothing wrong with trusting your instincts. Better a little loss of opportunity than a great loss of wealth.

However, a well diversified portfolio in no way assures a profit or any guarantee against investment loss.

Can I easily re-sell my investment? If so how?

It is safest to assume you cannot resell your investment to another investor.

> **First**, you will generally be required to hold your investment for an indefinite period of time. For example under Regulation Crowdfunding (REG-CF) the laws specifically prohibits resale of securities for one year, except to the issuer, an accredited investor, a family member or their trust.
>
> **Second**, there is not yet a liquid secondary market like the New York Stock Exchange for private companies.
>
> **Third** many issuers will prohibit the resell or require a "right of first refusal" to buy the interest back, as private companies carefully guard the number of shareholders on their "cap table".

Will my Percentage of Ownership be Diluted?

Very likely "yes". An equity investment will almost certainly be diluted over time and should be anticipated.

Successful startups may host multiple rounds of financings. For each financing, the startup issues additional stock to the new investors. As long as the value of the company increases with each funding round, this is normal and should be expected.

> For example, the first investor in Facebook, Peter Thiel, originally purchased about 10% of the company for $500,000. By 2011, that stake had been diluted down to under 3% due to additional rounds of investment to fuel the companies growth. That 3% was estimated to be worth nearly $2 billion.

Sometimes, when things are not going well, the startup is given the option of going bankrupt or raising more money in a "down round", which means the value of the company decreased since the last financing. This is very bad for the founders and past investors alike; the dilution happens much more rapidly. But it's preferable to the startup going bankrupt and the investors losing everything.

Will my Investment have Voting Rights?

It's rare for an investment in an equity crowdfunding campaign to offer voting rights directly to smaller investors because founders fear it can make raising money in the future challenging, due to the hassle of collecting thousands of signatures.

Debt based crowdfunding campaigns almost never offer voting rights. You should assume your investment does not include voting rights unless specified otherwise. Your stake will almost certainly be diluted when companies raise follow-on funding.

Investing: How, Where & When

What is a Crowdfunding Portal and How do I Access it?

Before issuers can begin raising funds on a Regulation Crowdfunding portal, they must prepare and file SEC Form C. Then Form C and all other issuer offering documents must be made publically available on the portal. The portal may also provide publically viewable communication channels where investors can communicate with each other and with representatives of the issuers listed on the portal.

Which Crowdfunding Campaigns Should I Invest in?

Our portal is designed to be a platform connecting investors with startup founders. We do not recommend you invest in any particular startup.

In an effort to reduce fraud, we conduct a bad actor check on the issuer and its officers, directors and general partner (as applicable), and we may also look at the issuer's financials. However, our efforts may not reduce fraud, and they certainly don't provide any guarantee against the loss of your entire investment.

The information regarding companies on our portal is provided by the issuer companies. We may assist a company in presenting this information, but we do not verify its accuracy nor endorse the company in any way.

How Should I Perform Due Diligence?

You are responsible for conducting your own due diligence. Crowdfunding attracts a group of prospective investors who can work together to discover issues with a campaign.

When companies are fundraising, investors are highly encouraged to review the business plans, risk factors and financial statements provided. Investors are also encouraged to ask detailed questions. If a founder or representative of the company does not give you a simple direct answer to your question or comes off as arrogant or aggressive, then you should not invest!

Due Diligence [CONTINUED]

Our portal offers both Frequently Asked/Answered Questions curated by the issuers as well as an Open Investor Forum where any registered user can post questions to the issuers or responses to other investors.

How much can I Invest?

For Regulation Crowdfunding (REG-CF) offerings, our portal calculates your annual investment limit based on the net worth and income provided upon account opening from values that you supply. Investment limits are calculated on a rolling 12 month interval. Each investment in a Regulation Crowdfunding offering on any portal counts towards the annual limit.
The portal will not let you invest greater than this amount.

The current SEC rules are based on a “min/max” of your annual income -vs- your net worth, subject to a percentage depending on how much you earn:

- Everyone can invest at least $2,500
- If either your net worth or income are below $124k, you may legally invest a maximum of 5% of the lesser number.
- If both your net worth and income are above $124k, you may legally invest a maximum of 10% of the lesser number.

No one may invest more than $124,000. Accredited investors are subject to the same investment limitations as everyone else.

Can a Non-U.S. Citizen Invest?

Yes, unless the laws of your country prevent you from investing.

Do my Funds go in an Escrow/FBO Account?

Yes. Your investment is placed in an escrow account hosted at a partner bank. For Regulation Crowdfunding (REG-CF) offerings, funds are transferred to the campaign company only after fundraising minimum raise has been met in escrow and as individual investors sign subscription agreements.

How does the Escrow/FBO Account work?

Known by several names: escrow, FBO (for the benefit of), brokered deposits, estate accounts — these are all fiduciary accounts. They are deposit accounts where the entity or person setting up the account does so for the benefit of another party. This other party is the owner or principal of the account. The deposit is not owned by person or entity that establishes the account. Banks release funds on the request of the portal operator who must uphold financial compliance standards.

FBO or escrow accounts are used by the SPPX portal to hold funds on behalf of the companies raising money (issuers) on the platform until certain rules and timings are met. As an example, funds are not released to issuers until after an investor signs a subscription agreement. Another example: REG-CF investors have the right to rescind their funded commitment within 48 hours of the close of the offering. At a minimum, funds are not be released in a REG-CF campaign until after this 48-hour window, or possibly longer. The SPPX method exceeds stated standards for providing compliant "escrow" services for issuers, while protecting potential investors funds.

What Happens When a Campaign Has More Investors Than Needed?

Sometimes, more money is committed than an issuer can accept. In this case, priority for who becomes an investor is generally ordered by largest investment to smallest investment in order to minimize the size of a "cap table".
Often times issuers will be "strategic" about their approving investment pledges, preferring individuals who can help further the business mission.

How are Securities Delivered to Me?

After an investment is successfuly executed by pledging support, funding your investment and ultimately e-signing a subscription agreement, you will be able to login to your investor profile to find your executed agreements.

How Is Your Portal Compensated?

For Regulation Crowdfunding, we charge the issuer company up to 7% of the total funding volume.

Cancellation & Close

Can I Cancel my Investment Commitment and Get a Refund?

Investors may cancel an investment commitment until 48 hours prior to the deadline identified in the issuer's offering materials. If investors do not cancel their funded investment commitment before the 48-hour period prior to the offering deadline, the funds will be released to the issuer upon closing of the offering and investors will receive securities in exchange for their investment.
If your pledge is unfunded within 48 hours of the issuers' closing it may be automatically canceled.

Once a campaign has reached it's stated minimum raise you will be invited to sign subscription agreements. Once signed, your investment funds are released from the escrow account to the issuer and no cancellation is permitted by the portal. If you find yourself in this situation, you are encouraged to contact the issuing company to see if something can be worked out.
If there is a change to the terms of the offering or to the information provided by the issuer, Silicon Prairie Online will send investors notice of the material change. This notice will also alert investors to the fact that their investment commitment will be cancelled unless they reconfirm it within five business days of receipt of the notice.

Can the Company Reject or Cancel my Investment?

The short answer is "yes".

Your investment pledge may be rejected or canceled for a variety of reasons. For example, it's rare but a company may discover that an investor works for a competitor and could refund the investment. Issuing companies will establish minimum investment amounts but will always favor larger investors for the simple reason of managing their shareholder registry known as a "cap table."

Once a campaign has reached it's stated minimum goal and an investor has signed a subscription agreement and the funds have been released from escrow neither party may cancel.

What Happens if a Company Changes the Terms of their Offering?

Any material changes to an offering by an issuer must be filed with the SEC and provided to both Silicon Prairie Online and investors. Investors with investment commitments will be notified of the change and will be required to re-confirm their investment commitment within five business days of reciept of the notice or their investment commitment will be cancelled and any escrowed funds will be returned.

When will the Fundraising Round Close?

A fundraising round will close at its published deadline which may be up to a year after the offering was made effective.

However, an issuer may close its round earlier after its funding target has been met. In this case, you will receive notice of the new offering deadline at least 5 business days prior to the new deadline.

Under Regulation Crowdfunding (REG-CF) there is a minimum 21 day period that a campaign MUST be open.

What Happens if the Fundraising Fails?

The reality is that many crowdfunding campaigns will fail to reach their stated minimum goals. It should be expected as not all great ideas make for great investments.

If a campaign has failed to reach its minimum goal within 90-100 days we encourage the issuing company to withdraw and regroup.

You'll be notified via e-mail and receive a full refund of your investment if it was funded by ACH or check. If you funded your investment via wire-transfer you will receive a refund minus any bank fees.

How Long Will it Take to Receive my Refund?

It depends on the method by which you used to fund your pledge. We'll initiate a refund as fast as possible but it can take up to 14 days.

Investor Relations:
Before, During & After

What Updates Should I Expect After Investing?

We encourage all of our issuing campaign companies to make regular announcements. Many have social media pages and email lists that you should discover and monitor.

Our portal also contains both curated Frequently Asked/Answered Questions from investors. We also maintain an open forum with threads for each of our campaign companies where investors and issuers can dialogue.

All employees or individuals who have been hired by issuing companies must disclose their relationship in any posts made on our forum.

We will monitor our communication channels for abuse, but do not generally moderate the content.

Can I Contact the Founder(s) Directly?

The short answer is “no” but there are exceptions.
We will not disclose any email or phone numbers we obtain as part of our issuer on-boarding, however most business plans contain contact information for investor relations.

Our portal provides a way for investors to submit questions for any offering curated by the founders in their “Frequently Asked/Answered Questions” as well as engage founders via our forum. **For Regulation Crowdfunding (“REG-CF”) all communications must occur via the portal during the raise.**

Also, do not expect founders to accept social media requests on FaceBook, Twitter, or LinkedIn, etc.

How Can I Help the Companies I Invest in?

Campaign companies are first and foremost looking for “brand champions.” **You** are their best source of fandom. Follow them on social media, share news about your investment with your network, and evangelize their product or service. Enthusiasm can be infectious. If you’re really excited about what your campaign company is doing let your friends know. “Pride in Ownership” is still alive and well and you have every right to benefit from any upside of your investments.

Will I Receive an Annual Report?

The company is required to post an annual report along with financial statements certified by one of its principal executive officers to its website. This report may not be filed with the SEC no later than 120 days after the end of fiscal year covered by the report. A company is not obligated to file annual reports, or post annual reports to its website, if it:

- has filed at least one annual report and has fewer than 300 shareholders of record;
- has filed at least three annual reports and has total assets no greater than $10 million;
- or someone else buys all of the securities issued in the Title III offering;
- registers its securities and is required to file reports under the Securities Exchange Act of 1934; or
- is dissolved under state law.

If a company stops reporting, you may not have current financial information about its condition or prospects.

Will the Issuing Company Always Use Your Portal in the Future?

After fundraising, our portal remains available to our issuing companies to continue handling their Investor Relations as a Service. However, there is no guarantee the issuing company will continue to use our services, as it may discontinue its relationship with us following the completion of its offering. They may also decide to raise their next round of financing on a different funding portal.

'You've Got Stock! Now what?'

How Might I Earn a Return?

People invest for a variety of reasons usually with an expectation of a return on investment ("ROI").

Most startups will need to re-invest any profits back into the company. Investors holding shares of stock in startups should realize that dividend payments are not assured. Shareholders may hope that the company gets acquired or goes public, but these events may never happen.

Some companies are offering Convertible Notes including the Simple Agreement for Future Equity ("SAFE"). The note or SAFE can convert to stock if the company raises a "priced round" from professional investors. If the company is successful, the value of the stock may increase with any subsequent round of financing.

In a Debt based offering, often connected to real estate, the investor is primarily investing to earn interest on their principle invested. Payments can made monthly, quarterly or semi-annually and can be interest only payments or principle plus interest. Interest Payments and principal repayment are **not** guaranteed even though liquidation preferences may be in place.

In a stock based offering, neither capital appreciation on the original investment nor any dividend income is guaranteed. Also, your original investment is entirely at risk for partial or complete loss.

In a Simple Agreement for Future Equity ("SAFE") offering there are typically no voting rights and there is no guarantee that the issuing company will ever convert the SAFE units to common stock.

Of course, when investing in something as risky as a startup, there may be no return at all.

How is the Valuation Determined?

There's an old adage that goes:

> "The worth of a thing is the price it will bring."

Market demand often determines the valuation of an asset. Professional investors are much more likely to understand the current market value of startups. This valuation shifts with time, depending on the amount of capital chasing companies in that market segment.

How Long Until I See a Return?

It could be a very long time and possibly never. The mortality rate for new ventures can be quite high depending on the industry and the founders' previous experience.

> For example, it took the early investors in Harmonix (creators of Guitar Hero) over 10 years to earn a return.

You are hoping that the company goes public or is acquired through a merger or acquisition, but these events may never happen.

Notices & Legal

An electronic version of this content appears on http://sppx.io

Notice:

Nothing in this booklet represents legal advice – please engage a securities attorney.

silicon prairie