



CROWDFUNDING & LOCAL INVESTING

A Guide for Investors in Michigan

AUTHORED BY
MICHIGAN COMMUNITY RESOURCES
CROWDFUNDING LEGAL TEAM

MADE POSSIBLE BY THE GENEROUS SUPPORT OF
THE MICHIGAN STATE BAR FOUNDATION
SEPTEMBER 2015



DISCLAIMER

THIS GUIDE PROVIDES BASIC INFORMATION ABOUT FEDERAL AND MICHIGAN LAWS AND TOPICS RELATED TO CROWDFUNDING FOR PROSPECTIVE INVESTORS AND THOSE INTERESTED IN LOCAL INVESTING. THIS GUIDE IS A BRIEF PRIMER ON THE TOPIC AND SHOULD BE USED FOR INFORMATIONAL PURPOSES ONLY.

THIS GUIDE IS NOT LEGAL OR FINANCIAL ADVICE. WE ENCOURAGE YOU TO DO YOUR OWN RESEARCH AND MEET WITH THE FINANCIAL AND LEGAL PROFESSIONAL OF YOUR CHOOSING PRIOR TO ENGAGING IN ANY INVESTMENT.

IF YOUR NONPROFIT ORGANIZATION HAS A SPECIFIC QUESTION OR LEGAL NEED, PLEASE CONTACT MICHIGAN COMMUNITY RESOURCES OR CONSULT WITH YOUR ATTORNEY.

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TO FIND MORE RESOURCES THAT CAN HELP BUILD STRONG ORGANIZATIONS, VISIT





CROWDFUNDING & LOCAL INVESTING

A GUIDE FOR INVESTORS
IN MICHIGAN

Acknowledgements

This project was made possible through the generous support of the **Michigan State Bar Foundation**. The Michigan State Bar Foundation's funding of this project does not constitute an endorsement of any content or opinion expressed in it.

Michigan Community Resources wishes to thank the members of the Crowdfunding Legal Team and their law firms for volunteering their time and expertise to the preparation of this guide.



About The Michigan State Bar Foundation

The Michigan State Bar Foundation provides leadership and grants to improve access for all to the justice system, including support for civil legal aid to the poor, law-related education, and conflict resolution. The Michigan State Bar Foundation was established in 1947 by lawyers and judges to help the legal profession meet its responsibilities to the public. Since then, the Foundation has made more than 1,817 grants totaling over \$180 million to educate the public about the importance of the rule of law, train young people in peaceful conflict resolution and assist those in need with critical civil legal services.

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About Michigan Community Resources



The mission of Michigan Community Resources is to support and empower nonprofit community-based organizations working in low-income communities, with an emphasis on community and economic development, by providing pro bono legal services and technical assistance. Originally known as Community Legal Resources, we grew from a legal service provider for nonprofits to a comprehensive support organization for low-income communities in Michigan. We provide the legal, community organizing, and urban planning skills and resources that community-based organizations and low-income communities need to revitalize and thrive.

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PREFACE

THANK YOU
FOR READING
“CROWDFUNDING &
LOCAL INVESTING”

We are glad for your interest and hope this guide assists you in deciding whether local investing is right for you. Before you read, please be aware of the following comments and limits on the scope of this resource.

This guide was developed in conjunction with several other resources including “Crowdfunding for the Entrepreneur” and “Crowdfunding for Nonprofits.” This guide is intended to provide information about different types of crowdfunding and local investing available in Michigan. Crowdfunding and local investing methods are rapidly changing. There are new resources, tools, laws, and regulations every day. No matter how recently you are reading this guide after it is published, we encourage you to do your own research and meet with the crowdfunding, financial, and legal professionals of your choosing.

THE BASICS: LOCAL INVESTING AND CROWDFUNDING

WHAT DOES IT MEAN TO INVEST LOCALLY?

Investing locally is, simply put, using one of the varieties of investment available to invest in local businesses in your community or region. In other words, your investment dollar is put to use in very close proximity to where you live and work. This can be on a statewide level or even on a micro level within a community.

WHY DO INVESTORS CHOOSE TO INVEST LOCALLY?

Generally there are three main reasons to invest locally.

1

INVESTING A
DOLLAR IN YOUR
LOCAL ECONOMY
CAN HAVE A
SIGNIFICANT
IMPACT.

A single dollar has a multiplier effect in the local economy when spent at a local business. This ripple effect arises from the development of local markets for goods and services and the employment opportunities created within the community as a result. This multiplier effect allows an investor to strengthen the financial health of their community in broad ways by investing even small amounts. These investments help to grow and sustain strong communities which create stronger cities with healthy neighborhoods, good schools, and resilient infrastructure.

2

INVESTING
LOCALLY HELPS TO
CREATE JOBS IN A
LOCAL ECONOMY.

By investing locally an investor can help keep businesses up and running and assist new business to get started that will employ local residents. This economic activity can attract new residents and encourage younger residents to remain in the area, thus contributing to a stronger overall future for the community.

3

LOCAL INVESTORS
HAVE SUPERIOR
ACCESS TO
INFORMATION
ABOUT THE
BUSINESS AND
HEALTH OF THE
INVESTMENT.

Access to and proximity to the investment means that you may be able to do much more personal **due diligence** on the business. The investor can often speak directly to those who operate the business. Not only can the investor own an equity or debt share of the business, they can actually visit the business up close and get to know those operating and building the business. Local investors are also more likely to be patrons of the business and introduce new potential patrons and investors the business.

/GLOSSARY TERM/

Due Diligence: Research performed on a business entity to evaluate its potential as an investment; “due diligence” includes reviewing financial statements, pending litigation, and discussions with management to assess the long-term viability of the business and risk.

WHAT IS CROWDFUNDING?

Crowdfunding is a capital-raising and fundraising tool that allows a group of people (the "crowd") to gather small, individual contributions to build a larger pool of funds to support a cause, project, or business. **Crowdfunding can also be a type of local investing.**

How Crowdfunding Works

The main advantage of crowdfunding is that it lets businesses and organizations reach an unlimited number of potential investors or donors through the internet, social media, or other forms of marketing.

Crowdfunding is often conducted through an **online portal**. The portal helps by:

- Making it easier for potential investors or donors to find businesses or organizations looking to raise capital;
- Giving businesses and organizations a platform to provide information to many investors or donors at once; and
- Processing the investments or donations that a business or organization receives.

There are several types of crowdfunding and many other financial tools available to those that want to put their money to work locally.

DONATION CROWDFUNDING

Donation crowdfunding involves soliciting outright donations from the public for a cause, project, or business. The sponsoring organization may provide nothing in return but the fulfillment of donating to a worthy cause. Donation crowdfunding has been available as a fundraising tool for many years.

For donation crowdfunding, the donor has no expectation of financial return. It is not an "investment." Donation crowdfunding can fund almost any project. But it tends to work best for projects with modest capital raising needs. Donation crowdfunding does not require compliance with state and federal securities laws.

REWARD/SALES CROWDFUNDING

The most widely used form of crowdfunding is the rewards or presales model. Reward-based crowdfunding is a type of donation crowdfunding where people contribute online to an organization or business in exchange for a token reward or "prize," often a sample product. In effect you give someone money in the expectation of a good in return, not an expectation of a financial investment return.

For instance this might be a company that sells watches agreeing to, in exchange for \$125, give you one of their watches. This is what is seen on Kickstarter, IndieGoGo and many other sites, and it has been wildly popular with entrepreneurs and contributors. That said, there has been some fraud under this type of crowdfunding, so it is very important to scan deals carefully. But you can search for local projects on these sites and contribute directly to local entrepreneurs.

INVESTMENT CROWDFUNDING

Investment crowdfunding is very different than donation crowdfunding. In investment crowdfunding, people give money to a business in the hope of a financial return. A business offers either to sell an **ownership stake** in the company or **borrow money from investors that will be repaid with interest**. There are three possible ways to invest through investment crowdfunding.

Each of these methods of investment crowdfunding have their own restrictions on who can use them. This is discussed in more detail below.

WHAT IS INVESTMENT CROWDFUNDING?

Investment crowdfunding allows businesses to raise capital from the public by either:

1. Selling an **ownership stake ("equity")** in the business to investors; or
2. **Borrowing money ("debt")** from investors that must be repaid either with a fixed rate of interest or as a percentage of revenue received by the business.

Capital refers to the funds and financial resources that are critical to starting and running any business. Before you start any capital raising effort, you should consult with a knowledgeable attorney. Investment crowdfunding requires compliance with state and federal securities laws. Investment crowdfunding has not been available to raise capital until recently.

Investment crowdfunding tends to work best for businesses seeking long-term investors to launch a new business or expand an established business. Typically in these circumstances, the capital needs are greater and other forms of capital raising through banks, friends, and family are no longer sufficient to provide the needed funds. For example, small businesses located in communities that do not traditionally attract private development may be able to fund projects by directly soliciting investment from local businesses, residents, and organizations by using an online investment crowdfunding portal.

/GLOSSARY TERMS/

Debt Interest: The right to repayment after a sum has been loaned, usually with a fixed or variable rate of interest.

Equity/Ownership Stake: The portion of a business owned by an investor which is accompanied by certain economic and legal rights.

Capital: Funds contributed by an individual, particularly by an investor, for the purpose of maintaining or expanding a business enterprise.

WHAT ARE THE OPTIONS FOR INVESTMENT CROWDFUNDING IN MICHIGAN?

There are three ways to raise capital in Michigan through investment crowdfunding.



The first two ways, **Michigan crowdfunding** and **federal crowdfunding**, are forms of investment crowdfunding in which any investor may participate. The third is **accredited investor** crowdfunding, which is the most flexible form but only accredited investors may participate.

WHAT IS NEW ABOUT INVESTMENT CROWDFUNDING?

Before 2013, a business that wanted to raise capital through the sale of its equity or debt could not use the internet or social media to find investors. Most “capital raises” funding businesses were limited to accredited investors. **Non-accredited investors** had limited opportunity to participate in such capital raises. And most alternative ways to raise capital involved expensive and complicated registration with state and federal government agencies.

Starting in 2013, the **Jumpstart our Business Startups Act (“JOBS Act”)** permitted the use of general solicitation of investors through crowdfunding internet portals and social media. The JOBS Act allows non-accredited investors to participate in many crowdfunding offerings. This change was intended to open up greater opportunities for nontraditional (e.g., non-accredited) investors to invest in small businesses.

Title IV of the JOBS Act, also known as **Regulation A+** in the securities world, is an expansion of an exemption under securities law called Regulation A. Under Regulation A+ a company could raise up to \$50,000,000 through a mini-public offering. These offerings are now pre-empted from state law review, and will allow companies to list on a public exchange very quickly. This is a costly type of offering because there are significant regulatory burdens for the issuer, but it is open to any investor, including those that are non-accredited.

The JOBS Act also expanded the exemption known as **Regulation D** to allow for general solicitation of certain offerings. **General solicitation** means that, if the correct forms are filed and procedures followed, an entrepreneur can advertise very broadly that they are raising capital. In the past entrepreneurs had to have a relationship with their investors under Regulation D, but now they can advertise to the public. These offerings are only open to accredited investors, and therefore are not open to most of the United States population.

INVESTMENT CROWDFUNDING

/GLOSSARY TERMS/

Accredited Investors include each of the following:

- Individuals with a net worth of \$1 million, excluding his or her residence
- Officers and directors of the company or organization seeking investment and certain entities with more than \$5 million in assets
- Individuals with an income of \$200,000 a year (or \$300,000 for married couples)

Non-Accredited Investor: An investor who does not meet the financial or asset criteria to make investments as an Accredited Investor.

Intermediary: An electronic medium or person which provides information on projects seeking funding and which collects and transfers investor funds to these projects.

MICHIGAN CROWDFUNDING

Through the Michigan Invests Locally Exemption Act (**MILE Act**), a business can raise capital through investment crowdfunding if it meets the following criteria.



Any Michigan resident can invest through Michigan crowdfunding, but there are limits on how much money an individual investor can invest. There also are limits on the amount of money a business or organization can raise in any 12-month period. In addition, the business must make filings with the State of Michigan and provide certain information ("**disclosures**") to investors about the business. To ensure the investment opportunity is offered only to Michigan residents, most Michigan crowdfunding offerings are done through an internet portal able to confirm that interested investors are Michigan residents.

FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)

Federal crowdfunding, unlike Michigan crowdfunding, will allow solicitation of non-accredited investors across state lines. That means that businesses can attract investors online outside of Michigan. The rules and limitations for federal crowdfunding have been proposed, but not yet approved, so federal crowdfunding is not yet available to raise capital. It is currently expected that federal crowdfunding will be approved by federal regulators in late 2015.

Anyone can invest through federal crowdfunding, but there are limits on the amount of money an individual investor can invest. There are also limits on the amount of money that a business may raise in any twelve-month period. Under the current proposed rules, federal crowdfunding must be conducted through an **intermediary:** either a **registered broker-dealer** or a **registered online funding portal**. The business must also make certain filings with federal regulators and provide certain disclosures to investors.

ACCREDITED INVESTOR CROWDFUNDING

Accredited investor crowdfunding requires all investors to qualify as "accredited investors." The business raising the capital must take reasonable steps to verify that all investors are accredited. Accredited investor crowdfunding offers the same ability to reach investors through the internet or social media as Michigan or federal investment crowdfunding and has fewer overall limitations.

So long as all investors are accredited, the business can advertise the capital raise on the internet, social media or in any other manner. There are no limits on the amount of money an individual investor can invest and no limits on the amount of money a business may raise.

COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	MICHIGAN CROWDFUNDING	FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)	ACCREDITED INVESTOR CROWDFUNDING
WHAT IS THE LIMIT ON AMOUNT OF CAPITAL RAISED?	<ul style="list-style-type: none"> \$2 million every 12 months with audited or reviewed financial statements. \$1 million every 12 months without audited or reviewed financial statements. 	<ul style="list-style-type: none"> \$1 million per 12 months with audited financial statements. \$500,000 with reviewed financial statements. \$100,000 if neither audited nor reviewed financial statements are provided. 	No limit.
WHAT IS THE LIMIT ON THE NUMBER OF INVESTORS?	No limit.	No limit.	No limit.
WHAT IS THE LIMIT ON INVESTOR TYPE?	Michigan resident only.	Any investor.	Accredited investor only.
WHAT IS THE LIMIT ON THE TYPE OF ISSUER (SPONSORING COMPANY/ ORGANIZATION)?	Private Michigan entity.	Private US entity.	Any company.
IS THERE AN INVESTMENT LIMIT?	<ul style="list-style-type: none"> Yes. Investment limit of \$10K for non-accredited investor. No limit on investment by an accredited investor. 	<ul style="list-style-type: none"> Yes. If investor's income/net worth is below \$100K, investment limit is the greater of \$2,000 or 5% of annual income/net worth. If investor's income/net worth is above \$100K, 10% of income/net worth up to \$100K. 	No limit.

COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	MICHIGAN CROWDFUNDING	FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)	ACCREDITED INVESTOR CROWDFUNDING
WHAT IS THE INFORMATION REQUIREMENT?	Disclosure Statement with specific requirements filed with Michigan’s Department of Licensing and Regulatory Affairs (“LARA”) 10 days before offering.	<ul style="list-style-type: none"> Offering Circular with specific requirements (including audited financials if greater than \$500K). Form C filed with SEC before commencement of offering and 21 days before first sale and provided to intermediary and investors; periodic updates required. 	Form D notice of offering filed with SEC after first sale. Some disclosure to investors may be necessary to address market or liability concerns.
IS STATE LAW COMPLIANCE REQUIRED?	Yes. Filing with LARA is required as described above.	No.	No.
IS ONGOING REPORTING REQUIRED?	Yes. A quarterly report to investors including disclosure of directors’ and officers’ compensation, discussion of business operations and financial condition of issuer. Michigan resident only.	Yes. File Form C-AR annual report with SEC, including financials meeting requirements in last offering circular.	No.
ARE THERE RESALE RESTRICTIONS?	Investor cannot resell an investment to non-Michigan resident within 9 months after initial investment.	Yes. Resale is limited during the first year.	Yes. There is a 1-year restriction for resale by non-affiliates but no restriction for affiliates.
ARE THERE RESTRICTIONS ON SOLICITATIONS?	General solicitation and advertising is permitted, but only to Michigan residents. Filings with LARA are required if offered via website, and ongoing conditions must be met.	Yes. The company cannot advertise the terms of the offering but may advertise the offering itself and direct investors to the intermediary.	General solicitation and advertising permitted if issuer reasonably verifies each investor is accredited or reasonably believes each investor is accredited.
IS AN INTERMEDIARY REQUIRED?	None required, but an internet platform often used.	Yes. The offering must be conducted through a single intermediary.	None required, but an internet platform is often used.

In addition to the traditional donation and investment crowdfunding options, there are many other varieties of local investing tools. This area is rapidly changing, and new methods are emerging. Here are just few examples.

PEER-TO-PEER LENDING

Peer-to-peer lending is a method where investors pool small amounts of money together to make loans. These loans can be made from a fund. Investors may also select specific loans in which to contribute. This is a fast growing segment, often lumped in with crowdfunding, for both businesses and personal loans. Companies like Lending-Club and Prosper are in this business, and they are generally registered securities at both the state and federal level. Another term often used is 'marketplace lending' and some of the peer-to-peer lending sites are working very closely with banks.

In addition, there are some non-profit and community development financial Institution programs offering **microloans**. These aren't always true peer-to-peer loans, but are generally more socially and community focused. Examples include sites like Kiva.org (mostly international) and Accion (in the US) and non-profits like Calvert Funds. These are debt securities. Even though they are typically very easy to understand, there are still risks associated with them. So be careful to read all terms and conditions associated with these programs and, if given the choice, select loans that suit your risk profile.

ZERO INTEREST LOANS FOR SMALL AND LOCAL BUSINESS

Another emerging trend is the presence of **zero-interest loans**. Unlike microloans and peer-to-peer loans these loans are paid back without interest. The companies administering the loans take their fees from the money contributed, and there is no prospect for financial return to the investor. The real return is a social good of seeing a local business flourish. This model has been hit-or-miss in the markets where it has been tried. Often times these are misunderstood as charitable offerings, when in fact the companies behind them are very much hoping to be for-profit.

BUSINESS REVENUE SHARING

Revenue share models are where investors give up capital in exchange for a share of the revenues of the company being funded. These can include royalty models, debt models and pure revenue shares, and are treated as securities because they come with risks and with the prospect of financial gain. There has been some litigation against companies using this model, but there have also been a number of successful programs. Revenue sharing allows you to support a business you enjoy as a patron, while the business benefits from having investors that help them grow through word-of-mouth.

BUSINESS DEVELOPMENT CORPORATIONS

Although not new, there has been a growing movement to utilize **Business Development Corporations** (BDCs), both public and private, to invest at the local level. Some non-profit models exist, but there are also a growing number of for-profit BDCs appearing across the country. These are registered securities, open to a large pool of investors, and often pay dividends and returns on a consistent basis. The models of BDCs currently being used can focus on seed capital for startup companies in exchange for debt or equity securities, or using a pool of capital to buy out later stage companies that are ready to be sold for a variety of reasons, such as the owner being ready to retire. As a registered security BDCs are regulated and come with an additional level of protection.

OTHER TOOLS FOR LOCAL INVESTING AND COMMUNITY CROWDFUNDING

The ABCs of Due Diligence

Whenever you are investing, you should perform what is known as “due diligence” first. Due diligence is the process by which potential investors are able to examine all the information necessary to make an informed investment decision. It is your investigation into the business to decide if it is a good investment or not.

Investors are responsible for “conducting” due diligence. But it’s the company’s responsibility to make all the important information readily available to prospective investors. Often, potential investors “don’t know what they don’t know”, so it’s the company’s responsibility to identify all issues and risks that could be relevant to the investment, including things the investors wouldn’t know to ask about.

There are many ways to go about performing due diligence. But here are three steps you can keep in mind as a starting point.

STEP 1: GATHER DOCUMENTATION.

There are a number of lists online that give you a sense of what documents you might want to ask the business to provide. Remember that if a business hesitates to hand over basic documents, it may be a sign that the fit is not right for you either.

STEP 2: USE THE SOCRATIC METHOD.

Think critically. Don’t be afraid to keep asking questions until you get the answers you need. When you are reviewing documents, interviewing the owners, and touring facilities (you should be doing all of these things), you should ask open-ended questions without preconceived bias or fear of seeming uninformed. You just keep drilling down with open-ended questions until you run out of questions that come to mind. It’s your money after all.

STEP 3: ORGANIZE WHAT YOU LEARN ALONG THE CSE FRAMEWORK.

Information about companies can be organized into three simple categories:

Culture, Strategy, and Execution.

Some people will also refer to these categories as the Why, What, and How. After you have gathered all of your information, thoughts, and evidence, draft a document for yourself where you lay it all out in these categories. Use this document to carefully weigh the pros and cons of what you learned and to assess the risks involved. This document will also serve as a great reference point for you later as you review your investments.

/DUE DILIGENCE POINTERS/

- Request all information about the company’s ownership and management.
- Request all information about the company’s existing operations, if any.
- Ask for a detailed description of the company’s plan for raising money and spending the money it’s going to raise.
- Ask for a description of all the risk factors affecting the investment, both as a result of the company’s business risks as well as risks associated with the type of investment being offered.
- Ask whether there is any litigation pending or threatened against the company.

RED FLAGS FOR INVESTMENT

Good due diligence is key to smart investing. When you are asking questions, you may want to keep in mind some of the following warning signs that the investment may not be sound.

- 1. Guaranteed Returns** – No security can, or should, claim guaranteed returns or a lack of risk. Check carefully that risk factors are listed and comprehensive, and know those risks. Even if the security is a debt or revenue sharing model there should be clear language that returns are not guaranteed.
- 2. Shortage of Shares Left/Your Friends Are In** – Watch out for sales pitches suggesting a shortage of shares remaining, that a number of experts are already invested, or that your neighbors or friends have invested. An honest issuer will have no problem with you double checking claims or asking follow-up questions.
- 3. High Pressure Sales** – If the issuer, broker or portal is pressuring you that should always be a red flag for any security. You should be given ample time to ask questions, review documents and decide whether to invest. Know the time limit to make an investment, if there is one, and do not invest before you are comfortable.
- 4. Not Sold Through a Portal** – Some crowdfunding shares will be sold directly by an issuer without a portal. While many portals will do some level of due diligence that will not be the case when the security comes directly from the issuer. Always do due diligence, but make sure to dig in and ask for help to determine if the issuer is telling the truth. Many will, but some will not.
- 5. Issuer Claims ‘Credentials’** – If the issuer, broker or portal claims to have a set of credentials, always prove that independently to the extent you can. If someone really has a credential they will have no problem with you asking them to show proof. Broker dealers can be checked on FINRA’s Broker Check and portals register with the state securities division.
- 6. Flowery Language in Documents** – Watch for language that is overly positive or too salesy. There are risks in investments, and you are looking for facts, not bold statements about what could be. Certainly there will be ‘forward-looking’ statements. Look for hard facts and well prepared information for forward-looking statements like pro forma financials prepared by a CPA.
- 7. Vague Language in Documents** – If the language in the investment documents is vague ask as many clarifying questions as you need to in order to feel comfortable. The issuer should have no problem answering them. And if they do have a problem, that is a red flag. For instance, know what the issuer is planning to do with the money. It doesn’t have to be overly specific, but you should have measurable outcomes to look for.
- 8. Lack of Information in Documents** – If the documents lack information you should feel free to ask questions to fill gaps. But remember that if it isn’t in the documents, it probably isn’t deemed a part of the decision to invest. An issuer raising a large sum of money should be very willing to provide appropriate information.
- 9. Gut Feeling** – At the end of the day, if you have a bad feeling you should trust yourself. If you know the issuer and they have a track record of dishonesty, or you simply get a bad feeling, you are free to not invest. The choice is yours, and many investors who have been burned didn’t respond to bad gut feelings.

Remember to ask questions and always seek the help of a professional to assist you if you need them.

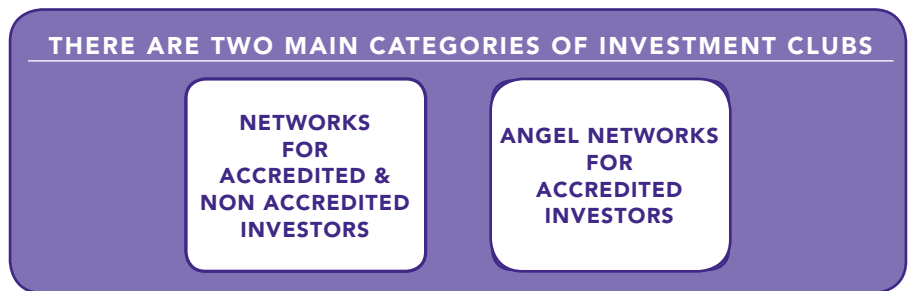
HOW TO FIND OUT ABOUT LOCAL OFFERINGS

Generally, there are three ways to find out about local offerings:

- Join a group of like-minded investors (an investment club, an angel club, or some other investor network)
- Periodically review offerings online on local investment platforms
- Word of mouth through your community network of friends, family, and acquaintances

JOIN AN INVESTOR NETWORK

There are two main categories of investment clubs:



Investor networks for both accredited and non-accredited investors

These are just beginning to form in Michigan, but are proliferating across the United States.

Examples of national networks include Slow Money (www.slowmoney.org) and LION (Local Investment Opportunities Network, www.lioninvesting.com). Michigan currently has an investor network that recently organized in Traverse City and an informal Slow Money chapter in the Michiana region (Southwest Michigan). A great place to look for local investment clubs that are organizing in your area is at www.meetup.com.

Angel networks that are for accredited investors only

In 1996 there were 10 angel networks; by 2014 there were 330, showing rapid growth. Angel networks are for high net worth investors only (over \$1 million in investable assets or over \$200k in annual income).

There are a number of groups that have operated in Michigan for many years, such as the Grand Angels in West Michigan (www.grandangels.org), the Ann Arbor Angels (www.annarborangels.org), and the Bluewater Angels in Midland (www.bluewaterangels.org). Angel networks are now emerging that target specific demographics of investors or entrepreneurs, such as the Michigan Women's Foundation (www.miwf.org). A great way to find an angel network near you is to visit the Michigan Venture Capital Association website (www.mvca.com) or the Angel Capital Association website (www.angelcapitalassociation.org).

Within these two primary types of investor networks, there is another level of variety, which pertains to how you actually invest and how investment decisions are made. Investment clubs and angel networks could be 'pooled funds' or 'non-pooled funds' investments.

In a pooled fund, everyone invests a specific amount of money each year and the group may vote on which companies to invest in, or a managing partner may make investment decisions on behalf of the group. In non-pooled networks, each investor makes their own decisions about who they invest in and how much they invest. Be sure to ask how these decisions are made before joining an investor network.

REVIEW OFFERINGS ONLINE

There are currently a handful of investment 'platforms' operating in the State of Michigan. These are sometimes referred to as 'portals'. They are online marketplaces that require you to sign up as an investor (free) to verify your residency status in order to see current and pending offerings. In most cases, you will need to indicate your interest in a particular offering before you'll be able to see the full documents related to that offering. This process allows the business to control and approve who sees their sensitive business documents, which addresses their concerns about revealing information to competitors.

Some platforms are available only to accredited investors at this time (such as www.fundrise.com) and some are open to all investors (such as www.localstake.com). Most investors sign up to all of the platforms available to them so they receive emails when new offerings go live.

Each platform has a process for reviewing documents, indicating interest, pledging funds, signing required documents, and transferring money to the entrepreneur. Always call or email the platform if you have questions about the process before you begin.

WORD OF MOUTH

The final way to learn about offerings is to 'keep your ear to the ground' in your community. In smaller communities, word usually spreads quickly when a local business is getting ready to raise capital. You can also bring the topic up to your favorite business owners ("Hey, I noticed you're really busy these days... are you thinking of expanding?"). You might be surprised at how many of your favorite business owners would like to raise capital, but they're unsure of how to do it or whether they would be supported by the community. With what you've learned in this guide, you could very well be the one to point them in the right direction!

Talk to Your Financial Advisor About Investing Locally

If you have a financial advisor, you should talk to him/her about your plans before moving forward. Don't be surprised if your advisor reacts negatively to the idea, however. Investment in non-market securities is a bit outside traditional investment plans. And because it is not widely used, the risks are more unknown.

That being said, an increasing number of advisors are actually curious about investing locally and are wondering how this may fit clients' needs. You may find an engaging and educational conversation when you bring the topic to your advisor.

/QUESTIONS TO ASK YOUR INVESTMENT ADVISOR/

- What percentage of my portfolio do you think would be appropriate for allocating toward local investments?
- Based on my current asset allocation plan, do you think I should lean toward equity or debt, or both, with these transactions?
- Would you recommend using retirement dollars or non-retirement dollars?
- Would you be willing to give me a second opinion on an investment I'm thinking of making?
- Do you know of any educational resources that may be helpful for me?
- Do you have a framework for performing due diligence that you use that could be helpful?
- What is the process for having a check issued out of my account when I'm ready?
- What will it cost me to withdraw funds when I'm ready?

CROWDFUNDING RESOURCES AND LINKS

**Listing of these sites does not constitute an endorsement of any of the content included within.*

National Crowdfunding Platforms

Patronicity	https://www.patronicity.com/
RocketHub	https://www.rockethub.com/
CauseVox	http://www.causevox.com/
Razoo	https://www.razoo.com/
Kickstarter	https://www.kickstarter.com/
Indiegogo	https://www.indiegogo.com/
IOBY	https://www.ioby.org/

Michigan-based Crowdfunding Platforms

LocalStake	https://localstake.com/
Michigan Funder	http://michiganfunders.com/
Fundrise	https://fundrise.com/

Michigan Resources for Local Investing

Local Investing.com	https://www.local-investing.com
Locavesting.com	https://www.locavesting.com
Revalue Investing	https://www.revalueinvesting.com
Crowdfunding Michigan	https://www.crowdfundingMI.com
Sidewalk Ventures	http://www.sidewalk-ventures.com
Public Spaces, Community Places	https://www.patronicity.com/puremichigan

Due Diligence Checklist & Request Template

Go 4 Funding Due Diligence Checklist

<http://www.go4funding.com/Articles/Angel-Investors/Due-Diligence-Checklist.aspx>

The Venture Alley Due Diligence Request Template

<http://www.theventurealley.com/files/2013/08/Form-of-Due-Diligence-Request-short-form.pdf>

National Investor Networks

Slow Money

<https://www.slowmoney.org/>

Angel Investor Networks for Accredited Investors Only

Grand Angels (West Michigan)

<http://www.grandangels.org>

Ann Arbor Angels

<https://www.annarborangels.org>

Bluewater Angels (Midland)

<https://www.bluewaterangels.org>

Michigan Women's Foundation

<https://www.miwf.org>

Resource Links to Find Investor Groups

Michigan Venture Capital Association

<http://www.michiganvca.org/>

Angel Capital Association

<http://www.angelcapitalassociation.org/>

State of Michigan Resources (LARA)

Issuing and Investing In Securities through Crowdfunding: Frequently Asked Questions

http://www.michigan.gov/lara/0,4601,7-154-61343_32915_59944-289603--,00.html

LARA Tips on Intrastate Equity Crowdfunding

<http://www.michigan.gov/lara/0,4601,7-154--352390--,00.html>

LARA Crowdfunding - Things to Keep In Mind

<http://www.michigan.gov/lara/0,4601,7-154--352390--,00.html>

Michigan Invest Locally Exemption (MILE) Resources

Registered Crowdfunding Portals

http://www.michigan.gov/lara/0,4601,7-154-61343_32915_59944-319233--,00.html

Checking on a Company/Business Entity Search

http://www.dleg.state.mi.us/bcs_corp/sr_corp.asp

CROWDFUNDING RESOURCES AND LINKS

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CROWDFUNDING GLOSSARY

Accredited Investor: A director, executive officer, or general partner of the company selling the securities (and seeking investment); or a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person; or a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

Capital: Funds contributed by an individual, particularly an investor, for the purpose of maintaining or expanding a business enterprise.

Crowdfunding Platform: Online system which provides information about projects seeking funding and possesses the ability to aggregate funds for investment into these projects.

Debt Interest: The right to repayment after a sum has been loaned, usually with a fixed or variable rate of interest.

Disclosure: Providing pertinent information, used for investment decision making, by a company to investors.

Due Diligence: Research performed on a business entity to evaluate its potential as an investment; "due diligence" includes reviewing financial statements, pending litigation, and discussions with management to assess the long-term viability of the business.

Equity Interest: A stock or any other security representing an ownership interest.

Federal Crowdfunding: Raising capital, typically small amounts from a large group of contributors, through either a registered broker-dealer or a registered funding portal, with corresponding limits on both the amount any individual investor can contribute and the amount a company can raise.

Form D Notice Offering: An SEC filing form to be used to file a notice of an exempt offering of securities under Regulation D of the U.S. Securities and Exchange Commission; Form D requires information about the issuer and offering.

Intermediary: An electronic medium or individual which provides information on projects seeking funding and has the capability to collect and transfer investor funds to these projects; these intermediaries are registered broker-dealers or registered funding portals.

Investment: Funds allocated for a particular business purpose, particularly growth or expansion, with the expectation or hope that the funds will increase in value.

CROWDFUNDING GLOSSARY

Michigan Crowdfunding: Raising capital via the MILE Act from Michigan based investors for investment in a Michigan based company; the business must make filings and disclosures with the State of Michigan and there are limits on the amount of money a business or organization can raise in any 12-month period.

MILE Act: The Michigan Invests Locally Act or MILE is legislation that allows companies to raise capital if they meet certain criteria including: the business is incorporated in Michigan to sell securities in its business to Michigan investors, individuals who have a principal residence or business organizations with a principal office in Michigan, without having to register its securities. A business may accept up to \$10,000 from a single investor, unless the investor is an accredited investor and if so, the business may accept more than \$10,000 from the accredited investor and is able to raise up to \$1 million in 12 months without providing audited financial statements or reviewed financial statements to a prospective investor for the business's most recently completed fiscal year, prepared by a certified public accountant. A business may raise up to \$2 million in 12 months if it provides a prospective investor audited financial statements or reviewed financial statements for the business's most recently completed fiscal year prepared by a certified public accountant.

Non Accredited Investor: An investor who does not meet the requirements of an Accredited Investor.

Ownership Stake: The proportion of a business owned by an investor which is usually accompanied by economic and other legal rights.

Registered Broker Dealer: A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.

Registered Online Portal: An online medium for the purpose of crowdfunding registered with the appropriate state or federal authorities.

Risk: The possibility of economic loss attached to owning a security; "risk" also generally encompasses the pitfalls and challenges associated with running a business operation.

Security: A financial instrument that represents some type of financial value. Securities are typically divided into debt securities and equities. A debt security is a type of security that represents money that is borrowed that must be repaid. Equities represent ownership interest held by shareholders in a corporation.

Shares: Ownership interest by an investor in a business entity.

USA JOBS Act: Legislation passed in 2012 by the US Congress that permits the general solicitation of investment opportunities through crowdfunding internet portals and subsequently provides greater opportunities for non-accredited investors to participate in investment opportunities.