

INVESTinNC Investor FAQs

What is crowdfunding?

Crowdfunding is a way for businesses to raise money from a large number of people. Crowdfunding usually happens on the internet. There are three kinds of crowdfunding: Donation-based, Rewards-based and Investment-based.

With donation-based crowdfunding, donors give money and expect nothing in return. With reward-based crowdfunding, donors give money and get some kind of reward, like a t-shirt. Kickstarter, Indiegogo and GoFundMe are examples of websites used for donation-based and reward-based crowdfunding. With investment-based crowdfunding, investors expect to share in the business' profits. They make the investment by buying a "security."

The term "investment crowdfunding", also known as "community capital", generally refers to using the "community" to raise capital to start, grow, or expand one's business by receiving smaller amounts of money from many people. Investment crowdfunding was made possible in the United States by the JOBS Act of 2012 and North Carolina adopted its own law, the NC PACES Act, in 2017.

Investment crowdfunding is a legitimate and legal way for companies to raise capital. It is not a scam even though you may have learned about it through social media. Investment crowdfunding is a great way to support companies with a mission you love, or people you love, or a market or product you love, all while giving you the opportunity to receive a financial return.

Who is INVESTinNC?

INVESTinNC is a program dedicated to educating North Carolina small business owners and investors about the investment crowdfunding opportunity in North Carolina.

Is investment crowdfunding legitimate or is it a scam?

Investment crowdfunding is a legitimate and legal way for companies to raise capital. It is not a scam even though you may have learned about it through social media – Facebook or Instagram or Twitter. Social media is one way that the law allows companies raising money to let people know about their offering.

Is investment crowdfunding risky? As with any investment, there are risks. Investment crowdfunding securities are securities that have been exempt from registration. That means no regulatory or government entity has "approved" them. The offering has been reviewed by the North Carolina Secretary of State's office and has been given the green light as an exempt security offering, but all investments have risk. One specific risk is that there is no secondary market for the securities that you might purchase. This just means they are not liquid, and it may not be easy for you to sell them later should you want to do that. But investment crowdfunding is a great way to support companies with a mission that you love, or people that you love, or a market or product that you love, all while giving you the opportunity to receive a financial return.

What is an “issuer”?

The term “issuer” is used to describe a company that is offering the public an opportunity to invest in the business by either funding a loan – the terms of which are defined by the issuer (debt); or by buying shares at a price per share determined by the company (equity).

Are all investment crowdfunding offerings the same?

There are several different types of offers that may be appropriate for issuers as well as for different classes of investors. Some businesses sell equity in their company (ownership) while others issue debt. You should carefully read each business’s disclosure documents before making any investment.

What is the difference between selling equity and issuing debt?

Buying equity in a business means you are buying ownership. That ownership is usually in the form of shares of stock. Debt means a company gives investors a promissory note in exchange for funding. The promissory note may include interest to the investor, the option to convert the note to stock at some point in the future (convertible note), or other terms and conditions. The most common form of debt is a Revenue Sharing Agreement or RSA. With an RSA, a company pledges a certain percentage of their revenue to pay back investors until an investor receives some multiple of their investment. For instance, a company may pledge 10% of revenue until an investor receives 1.5 times their investment amount back. You should carefully read each business’s disclosure documents before making any investment.

Why would a company use investment crowdfunding to raise capital?

Businesses need capital to start, grow, or expand their businesses. Banks have stringent lending guidelines, and angel investors and venture capitalists either say “no” more often than “yes” or they desire unreasonable terms or control over the businesses that have been built. There are also other benefits to investment crowdfunding including creating a large database of brand ambassadors or potential customers.

Is investment crowdfunding in North Carolina different than investment crowdfunding in other states?

The NC PACES Act is specific to North Carolina. For a company to raise capital under the NC PACES Act the company must be a North Carolina company, and investors must be North Carolina residents.

Where do I find detailed information about the NC PACES Act and the associated rules and regulations?

For more information on the NC PACES Act visit the North Carolina Department of the Secretary of State’s website at <https://www.sosnc.gov/> or the North Carolina General Assembly’s website at <https://www.ncleg.net/>

How much money can a company raise?

The NC PACES Act allows any company to raise up to \$1,000,000. If the company using investment crowdfunding has 12 months of reviewed or audited financials, then that company can raise up to \$2,000,000.

Does an issuer reveal what they are going to do with the money?

A business must disclose to investors how it will use the money it raises using the NC PACES Act exemption. That information is found in the Disclosure Document. The Disclosure Document can be found on the funding portal website.

What is a “funding portal website”?

The NC PACES Act requires that a company use a broker/dealer or a registered funding portal to execute an investment crowdfunding raise. The FundingStack™ is currently the only registered funding portal in North Carolina. The FundingStack™ portal is where an investor can read all about the offering and make an investment.

Does the FundingStack™ charge a fee to investors?

No. There is no fee for an investor to invest in an investment crowdfunding offering.

If I want to invest, what’s next?

Once you have reviewed the information about the company you want to invest in, you must register as an investor on the FundingStack™ portal.

Is it complicated? How long does it take and what type of information do I need to register?

Registering on the FundingStack™ is not complicated and it doesn’t take long. Basic information such as name, address, email, social security number and proof of residency is all that is required to register.

How do I prove my residency?

The most common way of proving residency is by uploading a copy of your valid North Carolina driver’s license; however, the NC PACES Act does allow you to use other ways like:

- A recently dated utility bill,
- A recent paystub, or
- Information in your state or federal tax returns.

When you decide it’s time to invest in an offering, it’s a good idea to have one of these acceptable forms of proof of residency handy in electronic format.

Should I have any privacy concerns about providing my personal information into the FundingStack™ portal?

The FundingStack™ portal is a product of LogicBay Corporation. LogicBay is a technology company that's been in business since 2003 and maintains a high level of security in its platform.

What is an accredited investor?

An accredited investor is defined as someone who meets very specific criteria outlined by the SEC and by federal law. Generally, an accredited investor is someone with a net worth of at least \$1,000,000, not including their primary residence, or an annual income of at least \$200,000. You can read the definition at <https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-accredited-investors>.

Can I invest if I am not accredited?

Investment crowdfunding offerings do not require you to be accredited to invest. The NC PACES Act allows any resident of North Carolina to invest up to \$5,000 per offering every 12 months.

How much can I invest if I meet the definition of an accredited investor?

If you meet the definition of an accredited investor, you can invest any amount and are not limited to the \$5,000 maximum per offering every 12 months.

If I decide to invest, how do I do it?

Once you decide to invest and have registered as an investor, you will need to sign the appropriate documents. These documents include the security agreement and the escrow agreement. These documents are provided electronically, and you sign them electronically as well ensuring an easy process. If you invest under \$5,000, you can either wire the money to the escrow agent or you can send the escrow agent a check. If you invest more than \$5,000, you must complete your investment through a wire transfer. Detailed instructions are provided for either option.

What is an escrow agent?

When you invest in a company through an investment crowdfunding campaign, the money doesn't go directly to the company right away. It first goes to an escrow agent. The escrow agent holds the funds until the company has raised at least its minimum offering amount as defined in the Disclosure Document you can review before deciding to invest. Once the minimum offering amount has been reached, the escrow agent is authorized to send the money to the company.

Can I cancel my investment?

You can cancel your investment at any time prior to the company reaching its minimum offering amount. Once the minimum offering amount has been reached and the escrow agent has released the funds to the company, then your investment is final.

What do you mean by “minimum offering”?

The company using investment crowdfunding will indicate a target offering amount and a minimum offering amount. The target offering amount represents the amount of money they are trying to raise, and the minimum offering amount represents the minimum amount that they need to make the investment crowdfunding raise successful. The minimum offering amount also represents the amount of money raised that allows the escrow agent to release the funds to the company. Once the minimum is reached, the company can continue to raise funds until they reach their target or up to 12 months from when their offering began.

What happens to my investment if the company doesn't reach its minimum offering amount?

If a company fails to reach its minimum offering within 12 months of the start of its campaign, then all investments held by the escrow agent will be returned to the investors.

Will I get my money back and how do I get it back?

An investor's potential return is described and defined in the Disclosure Document. If the security being offered is equity, the investor owns a stake in the company and may realize a return if the company pays a dividend or the company has an exit event, such as selling the company. If the security is debt, then an investor's return comes in the form of a debt payment, similar to making payments to a bank or other financial institution. Typically, these debt payments are made quarterly beginning once the company has concluded its investment crowdfunding campaign.

How long will it take to get my money back?

It depends on the type of security being offered. Payback for an equity investment depends on if and when the company decides to pay a dividend or sell the company. A debt security depends on how often and how much a company repays its debt holders. If the debt is in the form of a Revenue Sharing Agreement, the payback time depends on the amount of revenue the company generates, the percentage of revenue allocated and the payback multiple. All of these details are described and defined in the Disclosure Document and it should be reviewed carefully prior to making an investment.

What's a perk?

A perk is something that the company offers to investors in addition to their security. It may include discounts on purchases, special membership privileges, or other items.

How can I keep up with what a company I invested in is doing?

The NC PACES Act requires a company to report to its investors quarterly until there are no securities outstanding. There are certain requirements that a company must meet in filing these reports, including an analysis of the company's business operations and financial condition.

Can I encourage other people to invest in offerings I like?

There is nothing illegal about casually discussing a business or stock you like or are interested in; however, you should refrain from giving investment advice to others, because you could violate certain laws regulating securities and investment advice.

Why would I invest in a business using investment crowdfunding?

Investment crowdfunding allows everyone to now legally invest in companies that you otherwise could not do. For years, only the wealthiest Americans were allowed to invest in “private” securities. Investment crowdfunding allows you to invest in companies whose mission you love, in people you love, in a market you love and receiving valuable perks all while supporting local entrepreneurs with the potential of receiving a financial return.

Where can I find the information that I need to make an informed decision?

The issuer is required to provide you a legal document called a Disclosure Document and it must contain all relevant information that you need to make an informed decision. This document is a part of the exemption filing that is submitted to the State. All of that information is located on the FundingStack™ portal. The FundingStack™ also includes a communications channel where you can interact directly with the company. You will be able to share information with other people interested in investing or who have already invested.

Is there anything else I should know prior to investing in an NC PACES Act securities offering?

You are required to do your own due diligence. No one is going to do it for you. No regulator confirms the truth of any statements in the Disclosure Document. If you have any questions regarding the offering you should use the communication channel on the FundingStack™ portal to ask those questions. The company is required to monitor the communications channel and respond to any questions that you might have. All investments have risks. You should carefully review the offering documents prior to making any investment decision.

The information contained in this FAQ document is not intended to be all-inclusive and a full description and details of the offering are contained in the Disclosure Document. Final authority of all rules and regulations regarding the NC PACES Act can be found on the North Carolina Department of the Secretary of State’s website at <https://www.sosnc.gov>. or the North Carolina General Assembly’s website at <https://www.ncleg.net>.