

The 7 Reg-CF Red Flags

The purpose of this call...

The purpose of this *investor education training* is to help you make higher quality investment decisions in the emerging **“Crowdfunding Capital Markets.”**

On this call, we’ll limit the discussion to any and all investment opportunities using the *Regulation Crowdfunding* (Reg-CF) exemption as outlined within the JOBS Act of 2012, to raise capital.

In this effort, this workbook is designed as a step-by-step, “fill in the blank” form you should use to perform basic due diligence on any opportunity you’re considering.

Who is this training for?

It doesn’t matter if you’re a Wall Street Insider or you’re brand new to investing, this training is for you.

Regardless of your prior investing experience, we’ll assume you are brand new to the **Crowdfunding Capital Markets**.

The **Crowdfunding Capital Markets** operate by a different set of rules than the **Public Capital Markets**.

With this in mind, the process you’re about to learn will help you invest in alignment with the current rules and regulations set by the Securities and Exchange Commission (SEC).

As always, all investing activity carries some sort of risk. **“Early Stage Companies”** and **“Emerging Growth Companies”** should be considered high risk and speculative in nature. Please do not invest with funds you cannot afford to lose.

What will I learn how to do?	<p>You will learn about the common types of deals you're likely to see on Regulation Crowdfunding platforms...</p> <p>As well as a simple method for quickly spotting any "Red Flags" that might cause you to disqualify the investment opportunity from consideration.</p> <p>The Red Flags we will cover on this call are...</p> <ul style="list-style-type: none">● "Cheap" Shares● Ridiculous Valuations● Lack of Clear Business Plan (or confusing use of proceeds)● Non-Investor Friendly Deal Terms● Messy Cap Table● Absurd Ownership Structure● Minimal Work Hours by Founders
What kind of results should I expect?	<p>By federal law, we cannot legally promise (or otherwise guarantee) that you will make any money using this workbook. Nor can we guarantee you will avoid poorly-performing investments.</p> <p>That being said, if you don't currently have a well-defined due diligence process like the one described in this call, you'll almost certainly benefit by implementing what you learn today.</p>
Additional Resources	<ul style="list-style-type: none">● Equifund Basic Due Diligence Tool

Disclaimers

Before we begin...

Nothing in this training should be considered as professional advice or individualized advice. Please consult your financial professionals before making any investment.

All investments carry some sort of risk. Regulation Crowdfunding should be considered a risky asset class with a high rate of failure.

Please don't risk any capital you need immediate access to, or otherwise cannot afford to lose.

Key Concepts, Terms, and Definitions

**What is
Regulation
Crowdfunding?**

The Jumpstart Our Business Startups Act (the “JOBS Act”), enacted on April 5, 2012, establishes a regulatory structure for startups and small businesses to raise capital through securities offerings using the Internet through crowdfunding.

The crowdfunding provisions of the JOBS Act were intended to help provide startups and small businesses with capital by making relatively low dollar offerings of securities, featuring relatively low dollar investments by the “crowd,” less costly.

Congress included a number of provisions intended to protect investors who engage in these transactions, including investment limits, required disclosures by issuers and a requirement to use regulated intermediaries.

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Regulation Crowdfunding enables eligible companies to offer and sell securities through crowdfunding. The rules:

- require all transactions under Regulation Crowdfunding to take place online through an SEC-registered intermediary, either a broker-dealer or a funding portal
- permit a company to raise a maximum aggregate amount of \$1,070,000 through crowdfunding offerings in a 12-month period
- limit the amount individual investors can invest across all crowdfunding offerings in a 12-month period and

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| | <ul style="list-style-type: none">• require disclosure of information in filings with the Commission and to investors and the intermediary facilitating the offering |
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What are the investment limits?

Investors Subject to Limits

Individual investors are limited in the amounts they are allowed to invest in all Regulation Crowdfunding offerings over the course of a 12-month period:

- If either of an investor's annual income or net worth is less than \$107,000, then the investor's investment limit is the greater of:
 - \$2,200 or
 - 5 percent of the lesser of the investor's annual income or net worth.
 - If both annual income and net worth are equal to or more than \$107,000, then the investor's limit is 10 percent of the lesser of their annual income or net worth.
 - During the 12-month period, the aggregate amount of securities sold to an investor through all Regulation Crowdfunding offerings may not exceed \$107,000, regardless of the investor's annual income or net worth.

Spouses are allowed to calculate their net worth and annual income jointly. This chart illustrates a few examples of the investment limits:



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Investor Annual Income	Investor Net Worth	Calculation	Investment Limit ^[4]
\$30,000	\$105,000	Greater of \$2,200 or 5% of \$30,000 (\$1,500)	\$2,200
\$150,000	\$80,000	Greater of \$2,200 or 5% of \$80,000 (\$4,000)	\$4,000
\$150,000	\$107,000	10% of \$107,000 (\$10,700)	\$10,700
\$200,000	\$900,000	10% of \$200,000 (\$20,000)	\$20,000
\$1,200,000	\$2,000,000	10% of \$1,200,000 (\$120,000), subject to \$107,000 cap	\$107,000

[Note: this is being updated to be the greater of either annual income or net worth, not the lesser]

What is an intermediary?

Crowdfunding Platforms.

One of the key investor protections of Title III of the JOBS Act is the requirement that Regulation Crowdfunding transactions take place through an SECregistered intermediary, either a broker-dealer or a funding portal.

Under Regulation Crowdfunding, offerings must be conducted exclusively through a platform operated by a registered broker or a funding portal, which is a new type of SEC registrant. The rules require these intermediaries to:

- Provide investors with educational materials ;
- Take measures to reduce the risk of fraud;
- Make available information about the issuer and the offering;
- Provide communication channels to permit discussions about offerings on the platform; and
- Facilitate the offer and sale of crowdfunded securities.

The rules prohibit funding portals from:

- Offering investment advice or making recommendations;
- Soliciting purchases, sales or offers to buy securities offered or displayed on its platform;

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| | <ul style="list-style-type: none">● Compensating promoters and others for solicitations or based on the sale of securities; and● Holding, possessing, or handling investor funds or securities.● The rules provide a safe harbor under which funding portals can engage in certain activities consistent with these restrictions |
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Who CANNOT use Regulation Crowdfunding?

Certain companies are not eligible to use the Regulation Crowdfunding exemption. Ineligible companies include...

- non-U.S. companies,
- companies that already are [Exchange Act reporting companies](#) (i.e. public companies)
- certain investment companies,
- companies that are disqualified under Regulation Crowdfunding's disqualification rules,
- companies that have failed to comply with the annual reporting requirements under Regulation Crowdfunding during the two years immediately preceding the filing of the offering statement, and
- companies that have no specific business plan or have indicated their business plan is to engage in a merger or acquisition with an unidentified company or companies.
 - No SPACs or "Blank Check" companies

What are “bad actor” disqualifications?

Rule 503 of Regulation Crowdfunding includes “bad actor” disqualification provisions that disqualify offerings if the issuer or other “covered persons” have experienced a disqualifying event, such as being convicted of, or subject to court or administrative sanctions for, securities fraud or other violations of specified laws.

a. Covered Persons

Understanding the categories of persons that are covered by Rule 503 is important because issuers are required to conduct a factual inquiry to determine whether any covered person has had a disqualifying event, and the existence of such an event will generally disqualify the offering from reliance on Regulation Crowdfunding.

“Covered persons” include:

- the issuer, including its predecessors and affiliated issuers;
- directors, officers, general partners or managing members of the issuer;
- beneficial owners of 20% or more of the issuer’s outstanding voting equity securities, calculated on the basis of voting power;
- promoters connected with the issuer in any capacity at time of sale; and
- persons compensated for soliciting investors, including the general partners, directors, officers or managing members of any such solicitor.

b. Disqualifying Events

Under the final rule, disqualifying events include:

- Certain criminal convictions;
- Certain court injunctions and restraining orders;
- Certain final orders of certain state and federal regulators;
- Certain SEC disciplinary orders;
- Certain SEC cease-and-desist orders;
- Suspension or expulsion from membership in a self-regulatory organization (SRO), such as FINRA, or being barred from association with an SRO member;
- SEC stop orders and orders suspending the Regulation A exemption; and
- U.S. Postal Service false representation orders.

Many disqualifying events include a look-back period (for example, a court injunction that was issued within the last five years or a regulatory order that was issued within the last ten years).

The look-back period is measured from the date of the disqualifying event – for example, the issuance of the injunction or regulatory order and not the date of the underlying conduct that led to the

disqualifying event – to the date of the filing of an offering statement.

Disqualification will not arise as a result of disqualifying events relating to any conviction, order, judgment, decree, suspension, expulsion or bar that occurred before May 16, 2016, the effective date of Regulation Crowdfunding.

Matters that existed before the effective date of Regulation Crowdfunding, are still within the relevant look-back period, and would otherwise be disqualifying are, however, required to be disclosed in the issuer's offering statement.

What are “restrictions on resale?”	<p>Securities purchased in a crowdfunding transaction generally cannot be resold for a period of one year, unless the securities are transferred:</p> <ul style="list-style-type: none">• (1) to the issuer of the securities;• (2) to an “accredited investor”;• (3) as part of an offering registered with the Commission; or• (4) to a member of the family of the purchaser or the equivalent, to a trust controlled by the purchaser, to a trust created for the benefit of a member of the family of the purchaser or the equivalent, or in connection with the death or divorce of the purchaser or other similar circumstance.

<p>Do anti-fraud provisions apply?</p>	<p>All securities transactions, even exempt transactions, are subject to the antifraud provisions of the federal securities laws.</p> <p><i>This means that you and your company will be responsible for false or misleading statements that you or others on your behalf make regarding your company, the securities offered, or the offering.</i></p> <p>You and your company are responsible for any such statements, whether made by your company or on behalf of the company, and regardless of whether they are made orally or in writing.</p> <p>The government enforces the federal securities laws through criminal, civil and administrative proceedings. Private parties also can bring actions under certain securities laws.</p> <p>Also, if all conditions of the exemptions are not met, purchasers may be able to return their securities and obtain a refund of their purchase price.</p>
<p>Do state law requirements apply?</p>	<p>While the SEC regulates and enforces the federal securities laws, each state has its own securities regulator who enforces what are known as “blue sky” laws.</p> <p>If a company is selling securities, it must comply with both federal regulations and state securities laws and regulations in the states where securities are offered and sold (typically, the states where offerees and investors are based).</p> <p><i>Regulation Crowdfunding (Reg-CF) offerings are not subject to state registration or qualification.</i></p>

What about advertising laws?

c. Transactions Conducted Through an Intermediary

Each Regulation Crowdfunding offering must be exclusively conducted through one online platform. The intermediary operating the platform must be a broker-dealer or a funding portal that is registered with the SEC and FINRA.

Issuers may rely on the efforts of the intermediary to determine that the aggregate amount of securities purchased by an investor does not cause the investor to exceed the investment limits, so long as the issuer does not have knowledge that the investor would exceed the investment limits as a result of purchasing securities in the issuer's offering.

4. Limits on Advertising and Promoters

An issuer may not advertise the terms of a Regulation Crowdfunding offering except in a notice that directs investors to the intermediary's platform and includes no more than the following information:

- (a) a statement that the issuer is conducting an offering pursuant to Section 4(a)(6) of the Securities Act, the name of the intermediary through which the offering is being conducted, and a link directing the potential investor to the intermediary's platform;
- (b) the terms of the offering, which means the amount of securities offered, the nature of the securities, the price of the securities, and the closing date of the offering period; and

- (c) factual information about the legal identity and business location of the issuer, limited to the name of the issuer of the security, the address, phone number, and website of the issuer, the e-mail address of a representative of the issuer, and a brief description of the business of the issuer.

Although advertising the terms of the offering off of the intermediary's platform is limited to a brief notice, **an issuer may communicate with investors and potential investors about the terms of the offering through communication channels provided on the intermediary's platform.** An issuer must identify itself as the issuer and persons acting on behalf of the issuer must identify their affiliation with the issuer in all communications on the intermediary's platform.

An issuer is allowed to compensate others to promote its crowdfunding offerings through communication channels provided by an intermediary, but only if the issuer takes reasonable steps to ensure that the promoter clearly discloses the compensation with each communication.

What do issuers have to disclose?

a. Form C

Any issuer conducting a Regulation Crowdfunding offering must electronically file its offering statement on Form C through the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system and with the intermediary facilitating the crowdfunding offering.

A Form C cover page will be generated when the issuer provides information in XML-based fillable text boxes on the EDGAR system.

Other required disclosure that is not requested in the XML text boxes must be filed as attachments to Form C. There is not a specific presentation format required for the attachments to Form C; however, the form does include an optional "Question and Answer" format that issuers may use to provide the disclosures that are required but not included in the XML portion.

b. Offering Statement Disclosure

The instructions to Form C indicate the information that an issuer must disclose, including:

- information about officers, directors, and owners of 20 percent or more of the issuer;
- a description of the issuer's business and the use of proceeds from the offering;
- the price to the public of the securities or the method for determining the price,

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| | <ul style="list-style-type: none">● the target offering amount and the deadline to reach the target offering amount,● whether the issuer will accept investments in excess of the target offering amount;● certain related-party transactions; and● a discussion of the issuer's financial condition and financial statements. |
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What are financial statements?

The financial statements requirements are based on the amount offered and sold in reliance on Regulation Crowdfunding within the preceding 12-month period:

- **For issuers offering \$107,000 or less:** Financial statements of the issuer and certain information from the issuer's federal income tax returns, both certified by the principal executive officer.

If, however, financial statements of the issuer are available that have either been reviewed or audited by a public accountant that is independent of the issuer, the issuer must provide those financial statements instead and will not need to include the information reported on the federal income tax returns or the certification of the principal executive officer.

- **Issuers offering more than \$107,000 but not more than \$535,000:** Financial statements reviewed by a public accountant that is independent of the issuer. If, however, financial statements of the issuer are available that have been audited by a public accountant that is independent of the issuer, the issuer must provide those financial statements instead and will not need to include the reviewed financial statements.
- **Issuers offering more than \$535,000:**
 - ***For first-time Regulation Crowdfunding issuers:*** Financial statements reviewed by a public accountant that is independent of the issuer, unless financial statements of the issuer are available that have been

audited by an independent auditor.

- ***For issuers that have previously sold securities in reliance on Regulation Crowdfunding:*** Financial statements audited by a public accountant that is independent of the issuer.

What's the difference between reviewed and audited financial statements?

[Difference Between Audit and Reviewed Financials](#)

BASIS FOR COMPARISON	AUDIT	REVIEW
Meaning	An audit refers to the systematic and intelligent examination of the books of accounts of an entity to check whether they present true and fair view or not.	A review refers to an evaluation of the financial books, conducted by the auditor, to determine if there are any chances of modifications or not.
Assurance level	Reasonable level of assurance	Moderate level of assurance
Report provided	Positive Assurance Assertion	Negative Assurance Assertion
Cost	High	Comparatively low

Definition of Audit

The audit is defined as an unbiased and objective examination of the financial statements, records, physical inventory, operations, performances etc. of an organization, irrespective of its size, nature and legal structure, with the aim of expressing the opinion on the financial statements through an audit report.

The auditor analyses whether the reports prepared by the entity conforms to the financial reporting framework, i.e. GAAP or IFRS.

The two basic objectives of an auditor are primary objective and secondary objective, wherein the **primary objective is to determine whether the financial statement represents true and fair view and the secondary objective is to detect if there are any errors or frauds, in the financial accounts of the client.**

	<p>Definition of Review</p> <p>The review is defined as an evaluation of financial data, in which limited assurance is given by the auditor.</p> <p>In a review of the financial statement, the auditor is required to undertake the process that is important to give a proper base for obtaining moderate assurance, in essence, no relevant changes are necessary to be made in the financial statements of the company to conform to the financial reporting framework.</p> <p>In finer terms, it states that the financial statements are free from material misstatement, which is expressed as negative assurance.</p> <p>To conduct a review, the auditor is not required to have a complete knowledge of the internal control system of the company and also know about the audit procedures. Further, review engagement relies on the analytical procedure and inquiries carried out by the auditor.</p>
<p>What about “stated financials?”</p>	<p><u>Temporary Amendments to Regulation Crowdfunding</u></p> <p>The temporary rules are intended to expedite the offering process for smaller, previously established companies directly or indirectly affected by COVID-19 that are seeking to meet their funding needs through the offer and sale of securities pursuant to Regulation Crowdfunding.</p> <p>The temporary rules provide flexibility for issuers that meet certain eligibility criteria to assess interest in a Regulation Crowdfunding offering prior to preparation of full offering materials, and then once</p>

launched, to close such an offering and have access to funds sooner than would be possible in the absence of the temporary relief.

The temporary rules also provide an exemption from certain financial statement review requirements for issuers offering more than \$107,000 but not more than \$250,000 in securities in reliance on Regulation Crowdfunding within a 12-month period.

Requirement	Existing Regulation Crowdfunding	Temporary Amendment
Financial statements required when issuer is offering more than \$107,000 and not more than \$250,000 in a 12-month period	Financial statements of the issuer reviewed by a public accountant that is independent of the issuer	Financial statements of the issuer and certain information from the issuer's Federal income tax returns, both certified by the principal executive officer

What are the ongoing reporting requirements?

d. Progress Updates

An issuer must provide an update on its progress toward meeting the target offering amount within 5 business days after reaching 50% and 100% of its target offering amount. These updates will be filed on Form C-U. If the issuer will accept proceeds over the target offering amount, it also must file a final Form C-U reflecting the total amount of securities sold in the offering.

If, however, the intermediary provides frequent updates on its platform regarding the progress of the issuer in meeting the target offering amount, then the issuer will need to file only a final Form C-U to disclose the total amount of securities sold in the offering.

e. Annual Reports

An issuer that sold securities in a Regulation Crowdfunding offering is required to provide an annual report on Form C-AR no later than 120 days after the end of its fiscal year. The report must be filed on EDGAR and posted on the issuer's website.

The annual report requires information similar to what is required in the offering statement, although neither an audit nor a review of the financial statements is required. Issuers must comply with the annual reporting requirement until one of the following occurs:

- (1) the issuer is required to file reports under Exchange Act Sections 13(a) or 15(d);
- (2) the issuer has filed at least one annual report and has fewer than 300 holders of record;
- (3) the issuer has filed at least three annual reports and has total assets that do not exceed \$10 million;
- (4) the issuer or another party purchases or repurchases all of the securities issued pursuant to Regulation Crowdfunding, including any payment in full of debt securities or any complete redemption of redeemable securities; or

- (5) the issuer liquidates or dissolves in accordance with state law.
- Any issuer terminating its annual reporting obligations is required to file notice on Form C-TR reporting that it will no longer provide annual reports pursuant to the requirements of Regulation Crowdfunding.

You can find all of this stuff on the [Edgar website](#) (as well as any other documentation the issuer is required to file with the SEC)

Types of Securities Sold

Equity

- **Common stock** – Investing in common stock gives you an ownership stake in the company, but not necessarily voting rights or a right to claim a dividend in the event of the company making a profit. Therefore, it is imperative to read the offering documents before making an investment.
 - Investors in common stock may lose some or all of their investment if the company is unsuccessful so you should not invest any amount that you cannot afford to lose. In the event of bankruptcy, debt and other financial obligations are paid before equity holders so there might not be enough assets to recover any part of your investment.

The company may issue preferred securities or other securities with rights greater than the rights of common stock holders, including dividend rights, liquidation preferences, greater voting rights or representation on

the board of directors.

Minority shareholders will have very little ability to influence the direction of the company when it comes to voting.

The valuation of the company may have been arbitrarily determined. Future rounds of financing may occur at a lower valuation (called a “down round”) which will result in the decrease value of your investment.

If the company issues additional securities, which you should anticipate in new ventures, then your percentage ownership of the company will decrease (also called “dilution”).

- **Preferred stock** – Preferred stock is an equity security issued by the company that holds certain preferred rights attached to it.

Preferred stock owners are given a higher stake claim over the common stock owners in regards to liquidity events, dividend distribution or debt repayments. They are traditionally accompanied by special voting rights etc.

Debt

- **Debt** – You can invest in a debt/loan based offering, where the issuer commits to paying you a predetermined interest rate along with the full return of the principal amount.

These interest and principal payments, traditionally

amortized, are dispersed according to a payment schedule found in the offering documents. **The offering can be secured (backed by assets in case the company cannot repay) or unsecured (supported only by the issuer's creditworthiness – no collateral).**

- Investors are subject to several risk, including
 - (i) the company is unable to make several or all loan payments resulting in the complete loss of your investment (default risk),
 - (ii) a secondary market for you to trade your loan may never develop so you will have to hold the loan until its term ends (liquidity risk),
 - (iii) a change in interest rates may affect the value of your loan (interest rate risks),
 - (iv) you do not have any voting rights in the company and therefore cannot participate in major decisions affecting the company, and
 - (vii) for secured loans, the value of the collateral may decrease or be insufficient to cover the loan amount in the event of default.

Hybrid

- **Convertible Notes** – this investing instrument is a short-term debt security (see above) that converts into equity upon a specific event, typically when the company completes a

financing round.

Investors should pay careful attention to the terms of the conversion; such as valuation caps and discount rates or any other events that trigger the conversion.

- Convertible Notes typically will convert upon the occurrence of a specific event such as the capital closing a new round of private financing or an initial public offering.

The amount of equity that the note will convert into typically depends on the valuation of the company at the next round of financing but may include a valuation cap.

Investors should carefully review the note to understand the terms, structure and what if any limitations exist. There is no guarantee that the events which trigger conversion of the convertible note into equity will ever occur or will occur on favorable terms. The company may be unable to make any principal or interest payments. You may lose your entire investment.

Exotics

- SAFE – Simple Agreement for Future Equity (SAFE) – is a cash investment in a company with the right to receive equity in the company at a future date upon certain terms and conditions.

	<ul style="list-style-type: none"> ○ A SAFE is not common stock and does not represent a current equity stake in a company. Instead, the terms of a SAFE have to be met for you to receive your equity stake. A SAFE may only convert to equity if certain triggering events occur, and depending on its terms, a SAFE may not be triggered at all.
<p>What's a "Cap Table?"</p>	<p>What Is a Capitalization Table?</p> <p>A capitalization table, also known as a cap table, is a spreadsheet or table that shows the equity capitalization for a company.</p> <p>A capitalization table is most commonly utilized for startups and early-stage businesses but all types of companies may use it as well.</p> <p>In general, the capitalization table is an intricate breakdown of a company's shareholders' equity.</p> <p><i>Cap tables often include all of a company's equity ownership capital, such as common equity shares, preferred equity shares, warrants, and convertible equity.</i></p>
<p>What does Pre-IPO mean?</p>	<p>In its most literal sense, you are investing before a company files for an IPO.</p> <p>It should be noted that this does not mean the company will go public.</p>

The 7 Reg-CF Red Flags

Red Flag 1

“Cheap” Shares

- Just because the shares are priced low, doesn't mean it's a “good deal.”
 - This is why understanding valuation metrics – which is total shares outstanding X price – should be the method you use to determine valuation
- If promoters use a “cheap” share price as an indication of suitability, it's a red flag.

Red Flag 2

Ridiculous Valuations

- How is the valuation of this offering being determined? Has it been disclosed?
- Can you “get there” based on the financial statements provided by the issuer?

Valuation Basis

[redacted] pre-money valuation is \$4,500,000. [redacted] has determined that this is a reasonable valuation given the current state of the company and the current state of the equity market in general. The basis for [redacted] value comes from consideration of the following:

1. [redacted] **Intellectual Property:** including our domestic and international Trademarks in North America, Europe, and Asia.
2. [redacted] **track record** of actual sales and revenue to date. Combined revenue since launching a new product into a new market in mid 2012 is \$1.6M



equifund
Investor Education Series

As of December 31,	2019	2018
(USD \$ in Dollars)		
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 3,738	\$ 15,428
Inventories	49,764	36,394
Total current assets	53,502	51,822
Property and equipment, net	-	-
Total assets	\$ 53,502	\$ 51,822
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Other current liabilities	\$ 8,689	\$ 8,334
Total current liabilities	8,689	8,334
Total liabilities	8,689	8,334
MEMBERS' EQUITY		
Members Equity	56,036	60,536
Retained earnings/(Accumulated Deficit)	(11,224)	(17,048)
Total members' equity	44,813	43,488
Total liabilities and members' equity	\$ 53,502	\$ 51,822



Investor Education Series

For Fiscal Year Ended December 31,	2019	2018
(USD \$ in Dollars)		
Net revenue	\$ 157,709	\$ 194,439
Cost of goods sold	137,385	114,924
Gross profit	20,324	79,516
Operating expenses		
General and administrative	23,215	79,377
Research and development	447	399
Sales and marketing	4,207	8,330
Total operating expenses	27,869	88,106
Operating income/(loss)	(7,545)	(8,590)
Interest expense	-	-
Other Loss/(Income)	(0)	(1)
Income/(Loss) before provision for income taxes	(7,545)	(8,589)
Provision/(Benefit) for income taxes	-	-
Net income/(Net Loss)	\$ (7,545)	\$ (8,589)

For Fiscal Year Ended December 31, 2019 and 2018

(in thousands, \$US)	Members' Equity	Accumulated Deficit	Total Members' Equity
Balance—December 31, 2017	\$ 62,336	\$ (8,459)	\$ 53,877
Net income/(loss)	-	(8,589)	(8,589)
Distribution	(1,800)	-	(1,800)
Balance—December 31, 2018	\$ 60,536	\$ (17,048)	\$ 43,488
Distribution	(4,500)	-	(4,500)
Inventory Adjustment	-	13,370	13,370
Net income/(loss)	-	(7,545)	(7,545)
Balance—December 31, 2019	\$ 56,036	\$ (11,224)	\$ 44,813

	For Fiscal Year Ended December 31,	2019	2018
	(USD \$ in Dollars)		
	CASH FLOW FROM OPERATING ACTIVITIES		
	Net income/(loss)	\$ (7,545)	\$ (8,589)
	<i>Adjustments to reconcile net income to net cash provided/(used) by operating activities:</i>		
	Depreciation of property	744	744
	Changes in operating assets and liabilities:		
	Inventory	(13,370)	7,001
	Other current liabilities	355	(6,166)
	Net cash provided/(used) by operating activities	(19,816)	(7,011)
	CASH FLOW FROM INVESTING ACTIVITIES		
	Purchases of property and equipment	(744)	(744)
	Net cash provided/(used) in investing activities	(744)	(744)
	CASH FLOW FROM FINANCING ACTIVITIES		
	Contribution/(Distribution)	(4,500)	(1,800)
	Inventory Adjustment	13,370	-
	Net cash provided/(used) by financing activities	8,870	(1,800)
	Change in cash	(11,690)	(9,555)
	Cash—beginning of year	15,428	24,982
	Cash—end of year	\$ 3,738	\$ 15,428
	SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
	Cash paid during the year for interest	\$ -	\$ -
	Cash paid during the year for income taxes	\$ -	\$ -
	OTHER NONCASH INVESTING AND FINANCING ACTIVITIES AND SUPPLEMENTAL DISCLOSURES		
	Purchase of property and equipment not yet paid for	\$ -	\$ -
	Conversion of debt into equity	\$ -	\$ -
	10. GOING CONCERN		
	<p>The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has a net operating loss of \$7,545, an operating cash flow loss of \$19,816 and an accumulated deficit of \$11,224 as of December 31, 2019. The Company's situation raises a substantial doubt on whether the entity can continue as a going concern in the next twelve months.</p>		
Red Flag 3	<p>Lack of Clear Business Plan (or confusing use of proceeds)</p> <ul style="list-style-type: none"> • If the use of proceeds doesn't make sense, or is primarily being used to pay down debt – especially debt owned by the founders – this could be a major red flag. 		
Red Flag 4	Non-Investor Friendly Deal Terms		

- Common with no voting rights

(i) CF Shadow Series shareholders shall have no voting rights and shall not be entitled to vote on any matter that is submitted to a vote or for the consent of the stockholders of the Company;

(ii) Each of the CF Shadow Series shareholders shall enter into a proxy agreement, in the form of Exhibit A attached hereto, appointing the Intermediary as its irrevocable proxy with respect to any matter to which CF Shadow Series shareholders are entitled to vote by law. Entering into such proxy agreement is a condition of receiving CF Shadow Shares and such agreement provides that the Intermediary will vote with the majority of the holders of the relevant class of the Company's Capital Stock on any matters to which the proxy agreement applies; and

(iii) CF Shadow Series shareholders have no information or inspection rights, except with respect to such rights deemed not waivable by laws.

- SAFEs, Coins, and Tokens

- Weird conversions provisions designed to never convert
- Buyback provisions
 - No investor representation for early stage funding
 - Essentially you are giving the company an interest free loan with no promise of repayment.

- Proxied Votes

- “Lead Investor” provisions which require you to relinquish voting rights, and receive a form of carried interest for “managing” the shareholder base.

	<p><u>Voting Rights of Securities Sold in this Offering</u></p> <p>Voting Proxy. Each Subscriber shall appoint the Chief Executive Officer of the Company (the “CEO”), or his or her successor, as the Subscriber’s true and lawful proxy and attorney, with the power to act alone and with full power of substitution, to, consistent with this instrument and on behalf of the Subscriber, (i) vote all Securities, (ii) give and receive notices and communications, (iii) execute any instrument or document that the CEO determines is necessary or appropriate in the exercise of its authority under this instrument, and (iv) take all actions necessary or appropriate in the judgment of the CEO for the accomplishment of the foregoing. The proxy and power granted by the Subscriber pursuant to this Section are coupled with an interest. Such proxy and power will be irrevocable. The proxy and power, so long as the Subscriber is an individual, will survive the death, incompetency and disability of the Subscriber and, so long as the Subscriber is an entity, will survive the merger or reorganization of the Subscriber or any other entity holding the Securities. However, the Proxy will terminate upon the closing of a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933 covering the offer and sale of Common Stock or the effectiveness of a registration statement under the Securities Exchange Act of 1934 covering the Common Stock.</p> <ul style="list-style-type: none"> ● Founder (or preferred) shares with disproportionate voting rights ● Offered Interest payments not commensurate with the risk taken by debt-holders
<p>Red Flag 5</p>	<p style="text-align: center;">Messy Cap Table</p> <ul style="list-style-type: none"> ● As a Reg-CF, the most you should have on your cap table are the founders (likely preferred shares), some debt
<p>Red Flag 6</p>	<p style="text-align: center;">Absurd Ownership Structure</p> <ul style="list-style-type: none"> ● Shell companies and dummy corps ● Foreign domiciled corporations
<p>Red Flag 7</p>	<p style="text-align: center;">Minimal Work Hours by Founders</p>

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|--|--|
| | <ul style="list-style-type: none">• How comfortable are you investing into a business where the founders don't work more than 30 hours per week? |
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Q&A	