



ALASKA

NORTH TO OPPORTUNITY

INTRASTATE CROWDFUNDING FREQUENTLY ASKED QUESTIONS

MAY 2017



State of Alaska Division of Economic Development

Housed within Department of Commerce, Community and Economic Development, the Division of Economic Development (DED) supports the growth and diversification of Alaska's economy through business assistance, financing, and promotion. DED works closely with the private sector and other state agencies. For additional information about the division, visit commerce.alaska.gov/web/ded. For more information about the department and its other divisions, visit commerce.alaska.gov.



Frequently Asked Questions (FAQ)

What is intrastate crowdfunding all about?

Crowdfunding is the funding of a project or venture through a large number of people each contributing a small amount of money. In 2016, the Alaska State Legislature passed the [Innovating Alaska Act](#), which allows any Alaska resident, regardless of wealth or experience, to invest in Alaska businesses through crowdfunding. The Innovating Alaska Act allows Alaska businesses to raise up to \$1 million from individual Alaskans in individual investments of up to \$10,000 per person. The State of Alaska Department of Commerce, Community, and Economic Development [Division of Banking and Securities](#) oversees the crowdfunding program, and the [Division of Economic Development](#) helps promote the program and provide education to companies and investors alike. Like any form of investing, investing via crowdfunding can be quite risky, and our goal is that businesses and investors have all the information they need before engaging in intrastate crowdfunding.

How is this different from Kickstarter?

Kickstarter, and similar sites like Indiegogo, are platforms for donation-based crowdfunding (meaning you might receive a reward like a t-shirt or coffee cup after donating). Intrastate crowdfunding refers to offering equity or debt securities in exchange for investment in a company. Returns based on the investment may be in the form of a share of profits, appreciation in the value of the securities, or interest if debt securities are issued. Securities are governed with very strict regulations at the state and federal levels. However, due to the Innovating Alaska Act passed in 2016, all Alaska residents can now invest in Alaska companies. Instead of receiving a t-shirt or other small reward, crowdfunding investors can provide real capital to local businesses to help them grow, and are able to receive potential financial returns.



FAQs for Companies

What types of businesses can participate in crowdfunding?

In Alaska any type of company can participate (LLCs, corporations, etc.). You must have a Alaska valid business license.

How much can my business raise and in what period of time?

You can raise up to \$1 million in a 12-month period. After this time has passed, you have the option of renewing your crowdfunding campaign, but you must reapply and resubmit all documents. A single person cannot invest more than \$10,000 during a 12-month period unless they are an Accredited Investor.

How much does it cost?

A \$150 non-refundable filing fee made payable to the State of Alaska is required when submitting your crowdfunding application.

I own a cannabis company. Can I participate in intrastate crowdfunding?

Yes. However, the State of Alaska [Alcohol and Marijuana Control Office](#) has set more stringent [residency requirements](#) for investors. Rather than meeting the more general definition of an Alaska resident, investors in cannabis companies must meet residency requirements set by the Permanent Fund Dividend (PFD) Division. According to their definition, to be eligible for a PFD, you must have been an Alaska resident for the entire calendar year preceding the date you apply for a dividend and intend to remain an Alaska resident indefinitely at the time you apply for a dividend. Cannabis companies will have to verify this before accepting funds from any investor.

What kind of advertising can I use for my crowdfunding campaign?

You can use any type of advertising you prefer such as print, electronic media, Facebook, Twitter, LinkedIn, radio, television, etc. However, these ads must only target Alaska residents (Alaska Facebook or LinkedIn groups, people located/living in Alaska, television shows that air on local Alaska TV, local radio, etc.) You must pre-file the advertisements with the Division of Banking & Securities at least ten days prior to beginning your advertising campaign. The information that can be included in advertising materials are LIMITED to the following (this is all that you can include):

- Name and contact information of the issuer (company)
- A brief description of the general type of business of the company
- The type of security offered
- The minimum target amount and the total amount the company is seeking to raise via crowdfunding
- A description of how the company will use the funds raised
- The deadline for raising funds through the crowdfunding campaign
- The company's logo
- A link to the company's website in which the crowdfunding securities are offered or sold, or to a third party website in which the securities are advertised.

Should I hire an attorney to help me navigate all this?

It is not required, but it is strongly recommended that you consult competent securities legal assistance before issuing any securities through crowdfunding. You want to make sure your existing investors are on-board with your desire to participate in crowdfunding, and to make sure that you understand possible implications for your business.



Intrastate
crowdfunding
is a way for
communities to
invest in some of
their most valuable
assets: themselves

Can I set up a website for my crowdfunding campaign?

Yes, it is a form of advertising (mentioned above). However, additional restrictions apply. The company must separate all advertising materials and information related to the offer and sale of securities on a website that is not accessible by the general public. The company must provide a disclaimer on the website explaining that access to securities offerings on the website is limited to Alaska residents only. Additionally, websites must require an affirmative representation by a visitor to the website that they are indeed an Alaska resident before they can view securities-related offering materials on the website.

What is an escrow account and why do I need to set one up?

Money that you receive from crowdfunding has to be placed in an escrow account that you set up with a financial institution (bank or credit union). The institution does not have to have a physical presence or be headquartered in Alaska, but it does have to be licensed to operate in Alaska. Shop around and reach out to various banks and credit unions – it does not have to be one that you currently do business with. If you have questions, contact the [Division of Banking and Securities](#).

An escrow is an arrangement with a financial institution where they receive and disburse money for the investors to your crowdfunding campaign and you, the company. Investments will go directly into the escrow account. You, the company, will set a minimum target amount to raise – once you have raised this amount, you can start to withdraw funds from this escrow account. For example: you plan to raise \$500,000 and your minimum target amount is \$125,000. Once you have raised \$125,000, you can begin to withdraw funds from the escrow account.

Why do I need a minimum target amount, and what happens if I don't reach it?

As part of the requirements of participating in crowdfunding, the law requires companies to set a minimum target amount for their crowdfunding campaign and a deadline to raise that amount. This minimum fundraising amount is also the minimum amount needed to withdraw funds from the escrow account. Why? Let's say you're trying to raise \$100,000 to purchase a piece of equipment, and you only raise \$50,000 – what will you do with the funds? If this amount isn't enough to purchase the equipment, can the money still be used to execute your business plan? If not, the funds should be returned to investors. This should be stated up front – transparency is key to investor trust.



How much should I advertise my campaign?

This is often one of the most underrated components of a crowdfunding campaign. Offering securities through crowdfunding is not a case of “post it on the website and watch the money roll in.” You need to work for it: attend events, manage your social media, engage your investors, reach out to all your networks, etc. Creating a comprehensive marketing and communications strategy to let Alaskans know about your crowdfunding offering is crucial to reaching your goals. Consider hiring external expertise if you do not have the capacity in-house, look at social media and other methods to get the word out, and be prepared for lots of inquiries! Setting up a separate email account and website for your crowdfunding offering, having your prospectus ready to send to potential investors (see more below), and posting updates online about your company’s progress all go a long way in helping Alaskans better understand your company, your objectives, and to feel connected to your goals!

How can I prove that each investor is an Alaska resident?

All persons who invest via intrastate crowdfunding in Alaska businesses must be Alaska residents (note: this is different from Permanent Fund Dividend eligibility, which requires living in Alaska for the past 12 consecutive months). You must verify this by asking for: copy of driver’s license or ID card issued by State of Alaska; or a copy of current voter registration issued by the State of Alaska; or a copy of property tax records showing the person owns and occupies property in Alaska as their principal residence.

What is a prospectus and should I give one to potential investors?

We recommend that you put together a prospectus to provide potential investors critical information and background about your business, and to help them better understand how you will use the funds you raise. To think about what to include in your prospectus, you should review the required disclosures in the law [here](#).



How long will it take for the Division of Banking and Securities to review my application?

The Division of Banking and Securities does not have a set time in which they will process an application. An application will be processed as quickly as possible once all materials have been submitted. Submitting an incomplete application could delay a decision.

What if I become a non-Alaska based company later on?

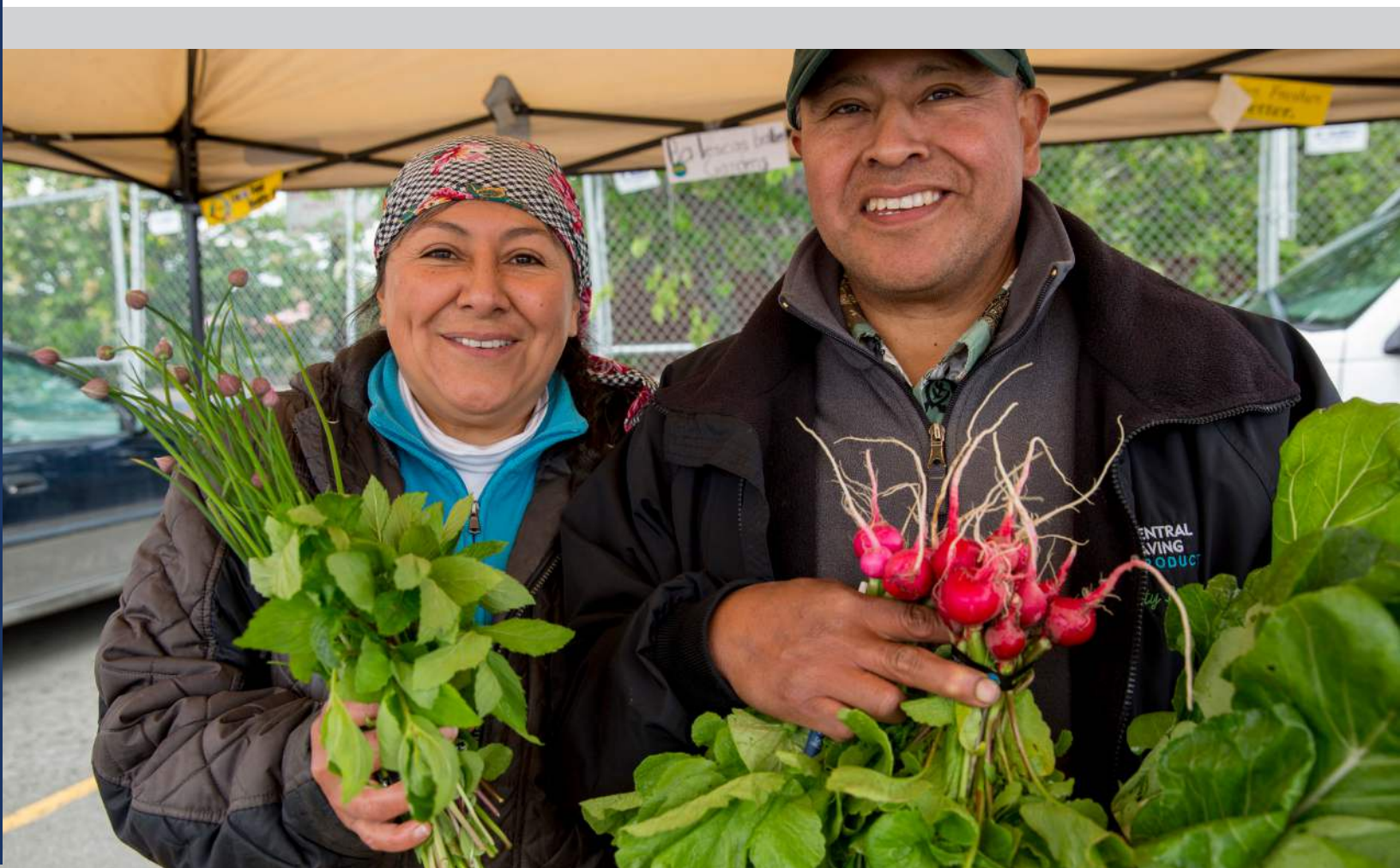
That's fine, however if you want to move your company outside of Alaska, you must do so AFTER you close out your intrastate crowdfunding offering.

Who do I speak with about applying to participate in Alaska intrastate crowdfunding?

This is managed by the State of Alaska Department of Commerce, Community, and Economic Development Division of Banking and Securities. Their telephone number is (907)269-8140 and email is securities@alaska.gov

What are other options besides crowdfunding to raise capital?

After reading this you may have decided that crowdfunding is not a good fit for your business - perhaps you want to apply for a bank loan instead, or use existing capital. Or, you may want to explore the other ways to bring investors in to your business, such as utilizing friends and family as investors, a limited securities offering, or pursuing angel or venture capital funds. If you would like to know more about other types of raising funds, consult with a knowledgeable business/securities attorney or contact the State of Alaska Division of Banking and Securities for general information.





FAQs for Investors

Why should I invest in an Alaska business through crowdfunding?

Most investors are looking to make a return on their investment through interest, dividends, or growth in their initial equity investment. Beyond that, many investors want to help local Alaska businesses, support their local economy, and invest in products or services that they believe in and feel deserve their support.

What does it mean that I have to be an Alaska resident to invest?

All persons who invest via intrastate crowdfunding in Alaska must be Alaska residents (note: this is different from Permanent Fund Dividend eligibility, which requires living in Alaska for the past 12 consecutive months). This will be verified by: copy of driver's license or ID card issued by State of Alaska; or a copy of current voter registration issued by the State of Alaska; or a copy of property tax records showing the person owns and occupies property in Alaska as their principal residence. There is no age restriction to invest.

Can I use my 401(k) or IRA retirement money to invest?

No. You cannot use savings from these types of accounts to invest in these types of securities.

Is my investment guaranteed?

NO! No federal or state agency guarantees your investment. It is up to you to conduct due diligence, look through a company's prospectus and/or business plan (documents that describe the company and its business model, and inform prospective investors of plans for the capital), and do your own research.

I've never invested before. What do I need to know?

We recommend reading as much as you can about community investing, securities, and about the company you're considering investing in. Don't rush into it! Read all the documents carefully. Make sure your expectations are in line with what the business is offering its investors for their investment. Investing can be a risky proposition and you have to do your homework. If you have doubts or questions, you may want to speak with the business owner(s) directly. That's the great thing about local investing – the business might be right down the street!

What protections are there for investors?

Remember there is always significant risk present when investing. Investing, especially in startups, can be particularly risky, and as such, several protections are in place to protect both businesses and investors. The rules allowing intrastate crowdfunding in Alaska protect investors in ways such as:

- An investment cap of \$10,000 per company
- Warnings in offering documents that investing carries certain risks
- Requirement that companies use an escrow agreement to hold funds raised through crowdfunding until a minimum target amount is reached
- Keeping investing within Alaska, and requiring companies to provide each investor with the name and physical address of the company, officers, directors, and controlling persons, along with descriptions of their qualifications

So, how do I invest?

At this time, no online platforms (websites) have been established to aggregate and advertise all crowdfunding offerings in Alaska, but this could happen in the future! The regulations allow for private individuals/companies to set up these types of websites in Alaska. Right now, companies who are raising money through intrastate crowdfunding can advertise to Alaskans on websites, social media, local news outlets, etc.

Key Contacts

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