U.S. SECURITIES AND EXCHANGE COMMISSION

ONLINE INVESTMENT CAPITAL RAISING
VIRTUAL COFFEE BREAK

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WebEx Videoconference
PARTICIPANTS:

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MS. RIEGEL: Okay. Well, good morning, and thanks so much for joining us. I'm going to kick it off and hopefully people may be joining as we go. But we just wanted to thank you for joining us here today. I'm Jenny Riegel, and I'm with the SEC's Office of the Advocate for Small Business Capital Formation. And we're really happy to have this opportunity to virtually engage with small businesses and their investors.

And during this time when so many of you are hunkered down in front of your computers and our office is unable to go out and talk in person to members of the small business community, we're embracing the opportunity to host a series of virtual coffee talks to spotlight what's happening in different areas of the market.

So let me stop sharing my screen so you can see my whole face. It kind of makes me cringe but we'll go with it.

Today we'll be discussing online investment capital raising. And I want to welcome our panelists. We have George Cook of Honeycomb Credit. We have Youngro Lee of NextSeed and Ken Nguyen of Republic. And thank you for recognizing the importance of discussing perspective on how COVID-19 is impacting investment.
capital raising. As more and more businesses and investors are considering new strategies to bridge their networks, we thought this timely topic was a great way to kick off these virtual coffees. We'll start with a few questions for our panelists on the evolution of crowdfunding, the impact of COVID-19 on the marketplace and the future of crowdfunding.

Before we open it up to you to share -- let me see -- there we go. Sorry. Technology is working with me from home. Before we open it up to you to share questions, so this slide has ways that you can interact with us and engage with us. And we hope that you will. So there are two different ways. You can either tweet questions to #SECSmallBiz -- and that's B-i-z for anyone on the phone -- or email to smallbusiness@sec.gov.

There is other -- two other announcements that I need to make before we can kick off our discussion. One is the great government lawyer disclaimer that the views that I or any other member of the staff express today are our own and do not necessarily reflect the views of our Commission or any other staff on the Commission.

The second is the recording that you likely heard when you joined our meeting, which is this video is being recorded and will be archived for future
reference. With those disclaimers behind us, I would like to turn it over to our moderator, Martha Miller, the director of the Office of the Advocate for Small Business Capital Formation. Sorry. I'm trying to talk and stop sharing my screen. Thank you. Apologies.

Turn it over to Martha Miller, the director of the Office of the Advocate for Small Business Capital Formation, as well as our panelists. We have, again, George Cook, CEO and cofounder of Honeycomb Credit; Youngro Lee, CEO and cofounder of NextSeed; and Ken Nguyen, CEO and cofounder of Republic. We know that there is so many challenges that small businesses are facing. And I'm sure many of them we'll discuss here today.

To kick off the discussion, I'll ask the panelists to provide a short introduction of themselves and their connection to online capital raising. In a sense, rays of sunshine are helpful to the -- to us -- to all of us these days, as we are spending more time indoors. I would love to have each of you share something that is bringing you joy during this surreal time, such as the daily cup of coffee in the comfort of your couch or more time with loved ones.

George, would you like to start?

MR. COOK: Sure. Thank you. So greetings
from Pittsburgh, Pennsylvania. I'm George Cook. I'm the cofounder and CEO of Honeycomb Credit. Honeycomb is a loan crowdfunding platform that lets locally-owned small businesses borrow from their own customers and fans and community members. We are -- we have been in operation for about two years.

And my background is actually in community banking. So I -- I have seen kind of first-hand that we are losing a lot of community banks, and that's translated into a lot less capital flowing from traditional lenders to small businesses. So my cofounder, who is a small business owner, and myself kind of put our heads together and decided to leverage regulation crowdfunding to open up a new channel for community capital to flow back to small businesses.

In terms of kind of how it -- I'm keeping myself sane through these trying times. One of the fun things that my wife and I are doing, we have a great little Westie dog. And he is -- we have a competition to see whose office he will hang out in during the day. So we lure him in with different treats and toys. I won today, but my wife is winning the war. So just one of the little things we do to try and create some normalcy in this time.

MS. RIEGEL: That's excellent.
Youngro, would you like to go next?

MR. LEE: Hi. Thanks for having me and -- and everyone on this panel. I think it's really important to have these conversations, especially in these uncertain times. I'm the cofounder and CEO of NextSeed. We are an investment platform as well utilizing regulation crowdfunding but also other private exemptions to basically help private companies raise capital online.

And we have also been primarily focused on -- we call it community-oriented assets. And that's really small businesses and -- and commercial real estate properties that have a specific bent towards community. So obviously it's difficult times. I guess the silver lining is I'm -- I'm finally taking advantage of my Netflix and Amazon Prime and -- and seeing shows that I never -- but the hack is there is now -- everything is like -- everybody is competing. So they are trying to give free subscriptions. So I just saw HBO is making some shows free so I don't have to pay for it.

MS. RIEGEL: Can definitely understand that feeling.

Ken, would you like to introduce yourself?

MR. NGUYEN: Good morning, everyone. Thank you, Jenny, for having me and thank you, everyone, for
taking the time to -- to tune in. I'm Ken Nguyen, CEO of the funding portal, Republic, at Republic, dot, c-o, .co. We launched in 2016, and we're among one of the most active funding portals, having deployed about $40 million into over 100 startups under regulation crowdfunding.

Our focus has traditionally been on tech start-ups and supporting underserved founders. But we have increasingly opened up our platform to brick-and-mortar businesses. We have raised for restaurants, for coffee shops, barber shops and the like. You know, our team is about 40 team members, based mainly in New York with an office in SF and team members in LA and Florida as well.

We serve, though, not business just on the two coasts but also in the Midwest, in the South. And we have founders launching on the platform based in Alaska. It is such an unprecedented time. And I think it's a -- a crisis that we all are in together. And I think what has been so encouraging for me and so fun and amusing as well is kind of like seeing the things that people around me do that they didn't do before.

Like my niece is, like, you know, collecting food to give it to her high school classmates who actually, you know, go through the Food Stamp program at
school and now can't really access food. And my mom is, like, sewing masks. I don't know how effective it is, but I promise her I'm going to wear one while she produces a few. So these kind of things just add on a, you know, humane level but in a positive light among all of the really terrible news that we are following these days.

MS. RIEGEL: I -- I completely agree. There is so many heartwarming things that are going on right now. And thank you for highlighting a few of those that are happening in your life that -- it's inspiring to see how people are taking on this challenge. And I'm going to turn it over to Martha Miller. You have heard enough from me. She is amazing.

So Martha --

MS. MILLER: Well, I'll open up with a thing that's bringing me joy right now, which is the coffee. Can you hear me okay? Can you hear me?

MS. RIEGEL: No. You're having a little bit of -- can you try it again?

MS. MILLER: I'm here. Let me know. If you'll give me the thumbs up, Jenny, if you can hear me okay -- it's -- technology is not being a friend today for everybody, it appears. Can you hear me all right?

MS. RIEGEL: Try -- try it again.
MS. DAVIS: Martha, it's Julie. I hear you fine.

MS. RIEGEL: Oh, okay. Maybe it's just me. Apology --

PANEL Q&A

MS. MILLER: Okay. Well then I -- rolling on through. Ringing majorly is the coffee machine. We bought a Nespresso machine on eBay about a year ago, and I have become a home barista. So I have been making lattes at home using locally-roasted coffee that we have been trying to buy and a number of the different local roasters are delivering, trying to stay in business and keep their product out. And so we have loved supporting them.

And I took a latte-making class from a local coffee shop that's woman-owned here in town that actually raised funding using -- through crowdfunding platform. And so comes -- it all comes full circle. So appreciate everybody joining us for this virtual coffee today and for making time to talk about this important topic, which is how do you go about raising capital over the internet right now, which is a very timely -- figure out how to do just about everything over the internet -- to meetings, to ordering food to funding your business. So I'm looking forward to talking to our expert panelist
that we have convened today. We're about four years
into equity crowdfunding -- the Jobs Act. Would love to
hear each panelist give a very brief kind of what have
you seen in the online capital-raising industry. How
has it evolved up to date and what are -- kind of what
have you seen is the key observation? Would love to
start -- we could maybe go in the order -- question.

George, do you want to kick us off?

MR. COOK: Sure. Absolutely. Yeah, so I
think what we have been seeing -- and maybe I'll start.
I take a little bit of offense to the term "equity
crowdfunding." We prefer to call it investment
crowdfunding. And that -- I know I'm splitting hairs a
little bit.

But I think, actually, in my mind, that --
that's been one of the really big learnings that we've
seen over the past four years that I think, as lawmakers
were preparing the rules and the SEC and FINRA were
interpreting them, there was a lot of -- a lot of
thoughts around equity crowdfunding. And can you hear
me all right? I think I might be having some bandwidth
issues.

MR. LEE: We can hear you fine.

MR. COOK: Okay. Excellent. Thank you. So
as we've seen new applications kind of riding the rails
of regulation crowdfunding, I think, you know, we are focusing on debt. We're finding that it's a really powerful source of capital for small businesses. We love what NextSeed and others are doing with revenue-shared crowdfunding.

And so in my mind, I think the past four years have been sort of the laboratory. It's been this idea of really kind of feeling our way through what those regulations mean, proving that we can have the operational and compliance and marketing expertise to make these business models work. And now I think the -- the industry is evolving and we're -- we're moving into a phase of learning how to scale these and making this investment crowdfunding concept a household concept similar to -- to gift crowdfunding or award crowdfunding.

MS. MILLER: Awesome. Youngro, you want to go next?

MR. LEE: Yeah. It's certainly been a -- I don't know what other way to describe it other than saying amazing in good and bad ways. This journey that we've been on as an industry -- I mean, Ken and I go way back. And I think back in 2015 was when I first talked to him. And then, since then, we -- when -- when the rules got finalized in 2016, it's -- it's just been a
pain; right? The -- and that's normal for any -- anything new in this world, especially something as -- as regulated as -- as the investment industry. But I will say it's been an incredible effort from all parties, businesses, investors, intermediaries like ourselves, SEC obviously as a regulator.

And the frustrating part is I felt like 2020 was finally the year that there is going to be a breakthrough. Specifically, as some people watching us might be aware, SEC has been very active. In fact, Martha's office was -- was new, I think, the last year or so and really trying to gain momentum.

We had SEC Advisory Committee on capital formation, which I'm also serving on. As an industry, we were coalescing around certain principles. I'm also part of a group called Association of Online Investment Platforms. And so long story short, there was momentum; right? Rules were getting better. More people, most importantly, were knowing what investment crowdfunding was, whether it's equity, debt, all of the above.

And, frankly, even for our business after years of, you know, just pounding the pavement -- like literally 2020 first quarter was the best quarter ever. And we expected 2020 to be a very, very significant here. Obviously, you know, it's hard to believe that
was a few weeks ago. And then the world just is complete different. And I think I don't need to say from anybody listening -- but the world is very, very different, and I don't think it's going to be a quick change either. So this is a new normal.

And the fundamental context of everything is that -- because, frankly, the economy is just not going to be as strong. And it's going to be a -- a recovery. And so I think the key question that I'd love to explore in this hour is what can this industry do to, No. 1, alleviate the pain? And "alleviate" might be a nice way to say to literally do anything possible to stop the pain or reduce the pain.

And then second, the -- the other assumption I'm making is, look, this is not the end of the world. We are going to get through this. We are going to win. We are going to get back to normal, whether it's a year from now or five years from now. Who knows? But we are definitely going to be back. And so how can we use this time to innovate and think and change and everything above so that we are ready as soon as the world is back to -- is ready to get back to business.

MS. MILLER: Got it. Thank you, Youngro.

Ken, last but not least on this --

MR. NGUYEN: Yes.
MS. MILLER: -- question.

MR. NGUYEN: I -- I too share many of the sentiments that Youngro and George had mentioned. I would like to dive in a little bit deeper on the timeline. And just to give kind of like a -- a -- you know, firm-to-ground experience looking back. I think when we launched as an industry in 2016, a lot of people thought that equity crowdfunding or crowd investing would get mass adoption overnight. But everything takes time.

And so 2016 and 2017 was, like, R&D for the industry and for Republic. We put in a lot of effort on making accounting and legal cheaper and more affordable and easier for business owners. We obviously also needed to build, like, tools for people who run a campaign to activate and engage the customers. So the business validation, the product validation, all of that, took a bit of time.

It hasn't been easy, but it has gotten easier every day. And one of the things that we had tried to work against is the stigma of equity crowdfunding being the solution of last resort. And that has gone away over time. People do realize that crowdfunding is not just about capital, it's about, you know, a powerful marketing and engagement tool as well. And so in the
past nine months, we have launched more campaigns on Republic and raised more than we did in the first three years combined.

So I think as a whole, our industry has proven two things, that the crowd is a powerful source of capital that may replace institutional capital over time and, separately, even if a business has access to VCs and to bank loans and to institutional capital, raising from your customer and from the -- the community has tremendous marketing value and ought to be viewed as a complementary way of fundraising, not a -- you know, an alternative, a mutually exclusive type of thing and so very much looking forward to how the industry will evolve and grow this year and in the years to come despite the current crisis, which I agree completely with Youngro and I have no doubt that we are going to dive in later on the conversation today that it is temporary. And it may even be a positive thing for the growth of this industry.

MS. MILLER: Well, you've teed up the next question perfectly, Ken, which is the reason that I think so many people wanted to dial in today and why we wanted to convene everyone, which is the fact that the nature of what small businesses are facing and their need for capital has, for many, gone from growth capital
to survival mode over the past few weeks in response to COVID-19, changing every element of how their business is operating and funding portals are frequently on the front lines.

I know that many of you have heard from a number of the companies that have raised capital on your portals as well as those who are interested and that reaching out to talk about how could they use crowdfunding to help weather the current challenges. Would love to hear a little bit from each of you about the impact of recent events on the marketplace and what you are hearing both from companies as well as from their investor.

So this time, why don't we start with Youngro? You were in the middle of the group last time. Youngro, do you want to kick off that conversation with what you are hearing from people right now in response to COVID-19.

MR. LEE: You -- you phrased it -- Martha, you phrased it greatly when -- when the world is transitioning from growth capital to survival capital. And I would say there is actually two scenarios that we are talking about here. There are businesses that truly -- like literally need capital yesterday for them to maintain their livelihood, full stop. And this does
impact the Main Street businesses that are, frankly, cashflow-oriented much more so than maybe some of the traditional growth industries like tech companies.

And they, you know, hopefully have at least some runway to navigate this and -- and do have, you know, institutional capital or venture capital or whoever it is that are willing to give them bridge loans and whatnot. The reality is, for the vast, vast majority of small businesses, traditional Main Street small businesses, they don't; right? And the only hope for them as an industry and -- and obviously everybody -- differ.

But generally speaking, government intervention and support really is the only way that they can get through this. Obviously, the SBA has been really active, and Congress, I think, has been, you know, honestly good in responding to this crisis. But as we're finding out even today, the PPP loans, payment protection loans and grants, banks -- it was supposed to be open today. It's not; right? Every bank is trying to figure out what the rules are and so on. The SBI EIDL loans which theoretically could help a lot of businesses, it is not also that easy.

It's a -- there is complex forms, rules, processes. If you're a brand-new business or if you are
-- if you are a relatively new business, you're --
you're just not going to qualify, or you're just not
going to be able to get that much capital. And so
that's kind of the first situation, is I honestly don't
know. But I would have to say that unless there is more
immediate solutions from the government, there will be a
significant amount of business failures across the
industry.

The second category really is not necessarily
that kind of, like, dire situation. But, you know, this
is the -- frankly, the well-run businesses and even the
larger restaurant groups or whatnot that do have a
bigger cushion. But when -- when I say "relatively
well-protected," it's -- we're really talking about, you
know, maybe three to six months, right, versus the,
you know, two to three weeks' cashflow that most
businesses have.

So the three to six -- to be candid, that
second group of businesses, I think, are the ones that
if the regulation crowdfunding or other kind of private
market offerings were a little more flexible, they could
definitely use the help right now, right? So that
they can maybe use the next couple months to shore up
their balance sheets, to get more cushion, to
strategically plan ahead for the longer term. Because
that -- given the way the world is right now, right?
The banks literally have cut off every other activity
other than, you know, just trying to manage this SBA,
SBA situation with the PPP and EIDLs via -- and we
can hear from businesses all the time.

Like whatever other -- whether it was a
purchase, financing or acquisition financing or
equipment financing or all the financing, basically
every other financing, solutions that were available in
banks or in effect either sold out or shut down,
the private investor banks in the traditional world,
which is a venture capital, private equity and
high-net-worth individuals who are used to these -- and
investments.

You can ask all of them. Nobody is like, "Oh,
my God. This is a great time. Let me just keep putting
money in the market"; right? The stock market has
obviously been pummeled. So there is a general sense of
fear in the investment community. So what does that
mean? Is the people that are willing to support them
are probably the people that know them most in their
communities, their friends and family that are willing
to actually provide capital, potentially have favorable
terms. They know we're in this together. But there are
limitations in the way rules are right now. So, if
nothing else, I hope this can highlight if we make certain improvements how situations like this -- the private markets can be efficient and, frankly, is a solution that can address this situation compared to, let's say, 10 years ago during the financial recession.

MS. MILLER: Got it. And I'd love to -- we'll dive into some of those different ideas that you guys have in a little bit. Ken, you want to jump in with your thoughts on -- on how things have changed with interest in crowdfunding and the utility of crowdfunding in response to the current crisis?

MR. NGUYEN: Yes. This pandemic obviously has hit businesses hard across all sizes, all industries, geographies. You know, so far, we have received in-bound interest from a wide range of businesses, tech startups to local restaurants. The challenge here is that crowdfunding or crowd investing is a very effective mean. But it takes time. And it takes a little bit of money, legal, accounting, due diligence. It takes, you know, on our end, probably about 3- to $5,000 for a company to -- to go through that and in a couple weeks at the least to launch a campaign. That's a lot of time and a lot of money for a coffee shop that now doesn't have any business. So on our end while there is a lot of interest, people are still trying.
And we are trying to see how we can adapt the current model still within the same regulatory framework to make it easier to help businesses and tech companies are some of the things that we are toying with, is that perhaps donation crowdfunding -- since it's not, you know, regulated under same framework, can be quicker. We -- evaluating whether we just do Reg D for some businesses, and that would make it a little bit quicker and less -- take less time to launch.

And we, of course, are also exploring things like, you know, federal, local government partnerships so that we can help deploy capital more effectively. But given, I think, the state of regulation crowdfunding vary, specific framework around the things that you've got to do on, you know, audit and disclosure but which, you know, it is what it is. But, nonetheless, there are ways that I think platforms like us can be pragmatic in coming up with solution in hopes that we can move things forward a little bit quicker.

Investors' interest has been overwhelming on how much people want to support. And they both want to donate as well as investing. But those who want to invest in local businesses, you know they are not even looking to get 100X or even a 10X return. They just want to do something that's more than just donating.
But at the end of the day, I mean, we have gotten feedback that, like, hey, if I lose all of -- if people don't return the money, it's totally fine. So it's like navigating investor expectation in a very generous way that investors are looking at it and also are navigating that regulatory framework and make things work more efficiently. That's exactly what the team and I have been focusing on in the past two weeks.

MS. MILLER: Thanks, Ken. Great perspective there.

George, I'd love to hear what you are seeing with Honeycomb right now.

MR. COOK: Yeah, absolutely. So, you know, I think, as everyone is aware, small businesses are getting hit really hard. And so the first thing we looked to was looking at our alumni businesses, businesses that have already used our platform to raise money. And this was a -- sort of a really interesting data point.

So we -- we reached out to all of the investors on our platform, asking them if they are willing to add a force majeure clause that would allow payment relief to businesses that had borrowed on the Honeycomb platform. And we had a level of engagement. We had two-thirds of our investors vote within 72 hours.
And 98 percent of them voted in favor of -- of allowing payment relief for small businesses, which I think, in many ways, proves that community capital can be a really powerful piece of the puzzle and can be very forgiving and very small business-friendly.

We had all of -- well, the overwhelming majority of our alumni businesses tell us that we -- despite the fact that each of them had dozens of investors, they told us that the Honeycomb investors actually acted faster and more generously than their other lending relationships. So even though they only had one point of contact at the bank, dealing with 25 or 50 local investors was actually easier for them, which I thought -- I thought that was a pretty powerful testimony.

In terms of kind of new businesses that have been coming to us, I will say our inbound activity is up over 10X over the past few weeks. But there is a lot of anxiety. Businesses are trying to figure out what all of the programs are that are out there, the local programs, the state programs, the federal programs. And, frankly, many businesses are pumping the brakes on using crowdfunding as part of their COVID-19 capital plan because they are worried that it's going to disqualify them from other government programs. And to
me, that's a shame because, as we talked about, crowdfunding takes some time, which means businesses need to start now if this is going to be a meaningful piece of the puzzle for them.

You know, a couple of the particular issues that -- that we are running into, one is the -- the 21-day requirement that regulation crowdfunding mandates that a campaign stay up for a while. We have started to do some relief loan campaigns. And we are finding that they are funding very quickly. And that 21 days is -- is a bit of an issue.

And another kind of interesting thing is to -- to file the form ID with a -- for -- for a small business, they need to get a notary public, which means a lot of folks need to go out into the world and find a notary that is open, which has been kind of a surprising but a real barrier for a lot of people to access capital.

MS. MILLER: And George, just to jump in there, we did provide relief on that point. And so there is some specific relief on that if you go to the SEC's COVID-19 page on the notary relief. So we have curbed that --

MR. COOK: Fantastic. Okay.

MS. MILLER: -- and acted quickly on that leg.
MR. COOK: Very good. That's great to know.

MS. MILLER: I had to jump in on that.

MR. COOK: Yeah, and I appreciate it. That's fantastic. And the other interesting point that we run into is state-level filings. Several states are still mandating physical copies be printed out. And we've literally had deals hang up because they cannot access a printer and go to a post office and mail a physical document that already lives in the EDGAR database. So it kind of -- a little bit frustrating that we're seeing some of that.

And then the final thing I want to talk about is -- is sort of the investment activity level. In order for regulation crowdfunding to be a piece of the puzzle, to help solve this crisis, obviously there needs to be investment capital available as well. I will say that the worst couple weeks, kind of two weeks ago as we -- as we saw things really -- the market really collapsing and a lot of worry, we saw investment activity fall pretty sharply. But since then, it has rebounded.

And we're actually seeing a higher level of investment activity than normal. And kind of coupled with that, given, I think, people are a little bit concerned about their own personal finances, we are
seeing larger numbers of investment, but the investment size is actually -- just a little bit. So, you know, a couple of interesting data points in there. But overall, you know, I think businesses are -- are looking at crowdfunding as a piece of the puzzle to solve this crazy environment that they are going through right now. But there are -- there are some roadblocks that -- that are causing folks to -- to kind of think twice about it.

MS. MILLER: Well, those are some I think that we have flagged and I've heard from a couple -- from each of you, there has been a common theme of some of the -- some of the elements that are, you know, costs. I think that was flagged as one element. But that's somewhat of a -- of the given variable. But I want to dive in a little bit on the timing piece because I think that, right now, what we've heard and, yesterday, we had the Small Business Capital Formation Advisory Committee meeting. And one of the things that was discussed is how few days of cash is -- are on hand for most of these businesses.

And the fact that it's in the 20s of days, like 25, 27 days, depending on which resource you're looking at that companies have on hand, and that clock is already ticking right now. Would love to talk a little bit about the timing piece and to tease that out
a little bit more. But before we jump into talking about that, I do want to remind the participants and the attendees who are listening in that you are welcome to send in questions by tweeting with #SECSmallBiz, with a Z, or emailing smallbusiness@sec.gov. Our team is watching that, and we will be asking our speaker some of those questions in just a little bit. But that's just a reminder for those who joined us a little bit late and missed Jenny's wonderful introduction.

But talk a little bit about where are there friction points that are making it there right now given the critical need for capital. Companies may be saying, look, there is -- "I don't have time to go through this," or, "I don't -- this doesn't propose a viable solution to the issue that I'm facing right now with COVID-19."

George, why don't we start with you since you were just teasing that out? And we would love to get feedback from the others.

MR. COOK: Yeah, so the No. 1 feedback we are getting vis-a-vis -- that we are getting from small businesses is that they don't want to become ineligible for the SBA loan programs or the PPP by applying for crowdfunding loans. Even though the crowdfunding talk -- you will get it -- you know, start ticking that clock
today. They are very nervous. They are waiting to hear back from their banks on these other federal programs before they decide whether or not crowdfunding is going to be a piece of the puzzle for them. So that -- that's been a big issue for us.

I think, additionally -- I mean, that's the overwhelming No. 1. The other concerns are, you know, once they do start, the 21 days is a concern for a lot of businesses, especially if they don't have a lot of cash on hand. And, you know, I think there is just so much uncertainty about what all programs are still yet to come, that businesses are -- if they have that luxury are just kind of waiting to see what is going to be available to them.

MS. MILLER: Got it. And just for clarity for those who are listening and are hearing 21 days, what are we talking about here? That 21-day period is a period that provides investors a time to review the documents and to make the decisions about those investments. As long as we talked a little bit further about timing to also hear from you guys on how often do you see investors actually rescinding during that 21-day period.

And talk a little bit about the functionality of that and your experiences. Ken, why don't we switch
over to -- you can jump in on that question.

    MR. NGUYEN: On -- you know, on average, we have not seen the rescission rate to have gone up in any material way through March. And I think it's -- it really depends on the campaign. And let's say a campaign is raising $100,000 and in investments investing $25,000 and, last minute, for some reason, backs out, that's a substantial percentage. But that's very rare.

    I would say the average campaigns see less than 10 percent of investor, you know, basically reversing the investment decision. I want to touch on a challenge that founders are facing during this time in addition to that 21-day period. One of the concern here is very much the cost because if you run a Reg D campaign, you are not required to convert your financials into GAAP compliance and then do the filings.

    So even though that cost, you know, $5,000, is not a lot for a mature company, for a small business, it is a lot of capital. On our end, we are looking at, you know, a solution or a program whereby a certain eligible campaign is coming to Republic that we may just send that cost if they can't really afford that right now.

    But on the investment activity side, you know, March was -- was about 6 percent less in investment activities compared to January or February, which were very -- two
strong months. So I'm quite optimistic on where the industry will go from here. I think it's -- will do well.

MS. MILLER: Great insight, Ken. Youngro?
Youngro, I think we got you muted still.

MR. LEE: Yeah, I'll be -- just to be a bit technical, it really -- everything, of course, depends on the individual case. So, again, a -- a tech company or, let's say, a healthcare company is probably very popular right now if it's addressing this crisis or, you know, clearly has a potential to be beneficial in this new normal.

So that's where the strategic application of the crowdfunding rules could be very helpful if it wasn't a little more easier to use. The other case, the dire situation, again, it is the Main Street small businesses. Regulation crowdfunding for many of them, especially minority-owned and entrepreneurs -- like, for example, our platform has 75 percent of the issuers with ownership within that group.

I mean, literally, there -- there -- it's life or death right now. So from that perspective, the 21 days is just a legal required length of the campaign. But as Ken mentioned, no matter what, it would probably take at least a few weeks to even get to that point of
launching the campaign. So you're really talking about a, you know, month and a half in the best-case scenario from a business who decides to do a campaign to actually get the capitals. That's just not going to be helpful in this environment.

There is certainly a lot of costs associated with it that are very important in this environment as well as disclosure requirements that, frankly, is not applicable in a business situation, for example, if somebody wants debt capital because a lot of disclosure was really governed -- the ownership structure, which is less relevant in a cash-flow situation.

So all that aside, that's -- I mean, investor protection is critical. So we can't just say, okay, forget the investor style. Let's just do whatever; right? And we all -- everybody in the industry understands that. So I think the only thing that I can possibly think of is you can't just change the system overnight. The -- but is it possible to create an emergency relief, exactly what Congress is doing, exactly what SBA is doing, limited used, limited time over this period.

Let's say a micro-offering exemption that Commissioner Peirce mentioned, something, whether it's $250,000 or 500, whatever it is, because that number is
certainly bigger than the 5,000, 10,000, you know, grants that businesses can get these days. It's probably at least 100- to $300,000 issue is my guess for the average business to be able to get through this period.

And if there was a way to just allow that specific use case over a limited period of time, I think that is -- that would be amazing -- right? -- to provide another source of capital for these businesses that really, really need them right now.

MS. MILLER: Wonderful perspective, Youngro, and I appreciate that. And I think those are very helpful, to hear from each of you how you're seeing this break down. I would love to switch because I know we've got a number of people that have joined in; the attendees that have been sending in questions to our team. I would love to open it up to get some questions of our panelists that have come from those who have joined us virtually. Jenny and Julie, if one of you wants to ask or Jessica want to ask the first question?

MS. MCKINNEY: Yeah. This is Jessica from the Office of the Advocate for Small Business Capital Formation. We heard from -- we've heard from quite a few people. So thank you all for tweeting in #SECSmallBiz, B-i-z, and at smallbusiness@sec.gov. We
heard from Chris at the National Coalition for Community Capital. He wrote in to share an encouraging positive viewpoint. He says, "We think that COVID will provide a breakthrough as communities recognize the value of small businesses." And we also heard from Corey who asked, "Given the economic climate, what are current options for startup technology businesses like mine to access investment capital through sorts of -- these sorts of medium?"

MS. MILLER: Great question.

MS. MCKINNEY: Does somebody want to -- it's kind of open-ended --

MS. MILLER: Yeah, so --

MS. MCKINNEY: -- but does somebody want to grab it?

MS. MILLER: Yeah, I mean, I think that that really goes to the question of what's -- what's the quick elevator pitch? If one of you gets in the elevator with somebody who says, "Oh, you want a crowdfunding portal," what does that take from me to actually raise money on it? What's the very quick thing that you tell somebody to get started?

You don't want the answer from the regulators because it's going to be for both. You want it from the business folks that are regularly talking to people
about it. Youngro, do you want to kick us off with
your --

MR. LEE: Yeah, I mean, I think -- I'd love to
hear what Ken has to say because he has probably the
most expertise with more tech startups. But just as a
general matter, I think, look, this is a really
difficult time for everyone, literally, so I don't think
you can ignore that. You have to have everything ready.
And your pitch in this environment cannot be, if you're
-- if you're a growth startup, "I need help." It really
can't. It needs to be, "I got this."

Like I'm -- I'm making something. And if I
just had X dollars, I can get it through the next level.
But in this environment, I think it would be very
difficult to raise capital if they think they are trying
to save you versus, "Hey, this is an opportunity to make
some money." That's the dynamic.

MS. MILLER: George, Ken, welcome you to chime
in with your thoughts as well.

MR. COOK: Yeah, I think I would echo that. I
think we are finding that there -- the stories that
investors are reacting to right now are very different
than the stories that they were reacting to three, four
weeks ago. I think for -- for some Main Street small
businesses that -- where people understand intuitively
that they don't have a lot of cash on hand, that story of, "I need to get some cash in the door tomorrow to help keep the lights on," is one that resonates with folks.

But I think for technology companies where -- where I have a lot less experience because we do focus on Main Street small businesses. I do think this story needs to remain a growth story and really talking about how this challenging environment can actually present opportunities and that there is actually going to be ways for -- for you to take meaningful steps forward.

MS. MILLER: Excellent. Ken?

MR. NGUYEN: You know, Martha, my pitch now would be the same that it was before. It has always been. Equity crowdfunding, crowd investing, is as much a capital raising as it is about marketing community engagement. So as long as you are willing to put in twice the work, fundraising is not easy anywhere, whether it's pounding the pavement on Sand Hill Road or pounding the pavement virtually.

You have got to do the work and got to have true business fundamental. The good thing is that now people have a lot of free time or attend -- you are able to get their attention a bit more. So go back to the drawing board. Make sure that you map out a financial
condition and a business plan that is lean and mean and go back there and get the support of your friends, your family, your customers and navigate through this environment I think will teach all of us as founders to be more efficient business owners. So, you know, it's just a matter of understanding what it takes and executing it even more cleanly and more -- with more focus than before.

If you do that, people can raise, I believe, a meaningful amount of capital. And I think one thing that a lot of new founders have mistaken, you don't need a million dollar to build a new business. You know, Whole Foods, HP, all of these massive companies started out with 15,000, 20-, $25,000 to launch their business. And in most cases, so can you unless you are building a rocket company or a medical device company. That's an exception.

MS. MILLER: Yeah. I think that's a great perspective. And I think one thing that I have been clinging to, you have got to find the positive things to seize onto right now. And one thing that has at least mattered a lot to me is thinking about the number of startups and really important companies that we think of now as mainstays of our economy that have come out of really challenging times. Their people recognized there
was a challenge. And I won't use any sorts of cliches of when the going gets tough, the tough get going or anything like that. But I think right now, you have a lot of people who are realizing that there is something that doesn't work, whether that's a product, a technology tool, or there is a solution needed. And I think that we are going to see some really interesting companies come out of this.

We are, unfortunately, right now, seeing a lot of interesting companies and wonderful companies and teams that are struggling. But I am hopeful that there is the bright side of that coin that we also see wonderful things coming out, looking ahead. I want to turn back over for another question from the audience from our team.

MS. DAVIS: Sure. This is Julie Davis with the Office of the Small Business Capital Formation, the Advocate Office. And we got a question in from Jerry who asked -- says, "It looks like a lot of education is happening around business owners accessing crowdfunding." But he is interested in knowing what types of education are happening to make consumer participation mainstream.

So I thought this one might be one where -- could talk a little bit about the different education
for investors that you have on your websites and elaborate on how those can help to inform investors on their options here.

MS. MILLER: Yeah. And as we dive in on that question, one thing that I will also point people towards, if you are looking for information, investor.gov, which is maintained by our Office of Investor Education and Advocacy, is a wonderful resource and has a lot of information as an investor that's looking to try to navigate the options and understand different terms for the first time. So highly recommend looking at that.

And then each of the portals also have great information and videos and tutorials that are out there. Would love to hear from each of you on things you would like to highlight. And I'll just let whoever wants to jump in jump in on that.

MR. NGUYEN: You know, I -- if I may, this is Kendrick from Republic. I want to start out by saying that private investing is highly risky. So it goes without saying that, particularly in this climate but generally applicable, if you are going to invest in private companies, expect an extremely high risk of total loss of capital. Now, that said, it is compelling. It is a compelling asset class. And so in
addition to the usual educational materials that we have always provided on our website, lately, we have been, you know, setting up webinar and webcast and invite experienced venture capitalists to join us and share their perspective on investing, how they conduct due diligence. In fact, the next webcast will start at 12 p.m. ET today and it's on the Republic events page.

But I think the only way for -- for people to become experienced investors over time is by just reading up and following and listening to as many perspectives as possible. And investing in tech is very different than investing in a revenue share, you know, local business offering model. So do as much work as you can. But it is educational and compelling and fun. It's been fun for me.

MR. LEE: Yeah. I'd like to echo that. Investing is difficult. And it's not just the private stuff. I mean, as you have seen the -- the public markets, if you invested in public markets, you are probably suffering a lot right now as well. So no matter what, I think -- if you're thinking about investments, please be careful and please understand every single possible -- and you really shouldn't be investing unless you have the willingness to go through some ups and downs.
How the alternative investments is different in a traditional market -- so this is, to be clear -- I mean, we heard of the term "black swan." What's happening now, it is a unforeseen event in the sense that, you know, who could possibly reasonably imagine that the entire government, you know, shuts down our economy?

So these -- if you are probably, you know, a little bit older, like last time it occurred in 2007 on Wall Street when the financial crisis happened -- and so, like, this is kind of my second time around and in going through these kind of very serious disruptions. Especially in times like this, it is a chance to evaluate your personal financial goals, investment goals and understand what diversification truly means; right?

It doesn't mean, hey, like, I have X dollars to invest. Let me figure out the best thing and go all in. What it really means is how do you balance the totality of your resources and strategically place it in things that you think will help you in the long run? So that's a -- and when you talk to regular financial advisors, it puts certain percentage in the public markets, puts certain percentage in real estate, puts certain percentage in private companies. The key issue that most people should understand is that until the
crowdfunding rules were adopted, until platforms like
the ones you are talking to today -- and there is so
many more amazing ones in all those industries. So for
the average person, you just didn't even have that
option; right? And it's -- investors and major family
offices and people with a lot of money did, but the
average American did not. So that's both an opportunity
and a risk.

So it's really up to individuals to understand
what exactly you are willing to do, what you're
interested in doing. And if you are not comfortable,
don't invest. But if you are comfortable, there are
options for you to consider. And hopefully this period
is a learning curve for all of us from a financial
perspective and investment perspective as well.

MR. COOK: Yeah. And maybe to kind of echo
just how risky everything is -- right? -- there is no
living person on the planet that has underwritten a
small business during a pandemic. Like there is no one
that knows exactly how to assess that risk. So, you
know, I think everyone that is considering investing
needs to be really mindful of that.

In terms of investor education, I think one of
the things, the key things we've done at Honeycomb is
just creating a really plain-vanilla product. Our --
our investment vehicles are fully amortizing three to five-year loans. It looks and feels a lot like an auto loan. Businesses know what they are getting themselves into. Investors can mechanically understand how it works very easily. And so we have tried to -- to, at least in the early days here, keep a -- keep the product very simple so that people can focus on -- they can compare it more apples-to-apples with other products they might be familiar with.

MS. MILLER: Got it. And I think, just to look at some other questions that have been coming in, we have had a couple people that have been asking some questions about whether or not the SEC is still reviewing registration statements and things are still being processed with forms that are filed for crowdfunding and otherwise. And the answer is yes. Absolutely.

We are still working very hard, and we are, while all working remotely, we are very much so open for business and are actively responding and working as quickly as we can to make sure that everyone has access to the capital markets that they need right now. Another question -- we've had a couple people send in some questions in response, George, to the comment that you raised about people being concerned about not
qualifying for some of the federal relief programs that
may -- either the ones that currently exist under the
CARES Act in the Phase 3 package or future programs. I
think a lot of those relate to uncertainty and
challenges with the affiliation rules that are a part of
the SBA 7(a) loan program and clarity about whether or
not the investors are going to get the investors'
investments and different portfolio companies will get
pulled together for purposes of calculating the number
of employees.

We're hoping for some guidance, some clarity,
on that soon. And that's something that we've been
hearing a lot about and are in conversations on behind
the scenes directly on those topics. What I would love
to do since we have just a few minutes, would like to
ask a wrap-up question to you guys to look ahead six
months, a year from now, where each of you hope to see
crowdfunding and what, if anything, you think that we
need to be doing that's responsive.

For those who are attending and have not seen
the proposal that we put out on some updated rules on
capital raising, we proposed some changes to the
crowdfunding rules, including increasing how much you
could raise, as well as allowing the use of special
purple -- purpose, not purple, vehicles. That sounds
like Scooby Doo, special purpose vehicles that would allow investors to pull together and a number of other changes intended to make it a more seamless process for investing. Would welcome comments. Please pay attention to that.

We are very interested in what everyone has to say. And so please reach out to us to the extent that we can answer any questions or you would like to discuss. But I'll pivot back over. I would love to hear panelists. What are we looking at? Six months, a year from now, if you have a crystal ball -- and what do we at the SEC need to do to make sure that that happens? George, since you were the last one to answer, I'll let you start with that one, and then we'll go through Ken and then Youngro to wrap up.

MR. COOK: Yeah. So I think the next six to 12 months are probably largely going to be recovery mode for us for the whole economy. I am having a difficult time trying to forecast beyond the crisis right now. I will say we are very excited about some of the proposed changes that the SEC has proposed. And we'll certainly be commenting and in favor of many of those.

But I think, you know, one thing to kind of keep all this in context, we -- the federal government has now unlocked about $400 billion to small businesses.
That is the GDP of Norway. This is an incomprehensibly large amount of money. And even whenever you start to layer in local and state money going to small businesses, it only comes out to about $15,000 per small business. So even this just astronomically large sum of money that has been unlocked for small businesses is only going to be a drop in the bucket of what's needed.

And in my mind, it -- we're -- we've seen that, you know, past recessions are -- show us that banks and private capital markets often lag, and you could probably even argue kind of forestall economic recoveries. So I think, in many ways, this is the time for investment crowdfunding to shine. I think if we, the portals, do our job correctly, this could be a really powerful way to deploy capital to small businesses. They need it now more than ever.

I know things are changing day to day. And, like I said, it's very hard to forecast what tomorrow is going to look like, much less a year from now. But, you know, I'm excited to have folks like Youngro and Kendrick and many others, you know, thinking about this problem alongside us at Honeycomb. And I hope that this is a moment for the industry to really step up and help solve what is going to be one of the biggest economic recoveries in U.S. history.
MS. MILLER: Thanks, George.

Ken?

MR. NGUYEN: Yes. On my end, I'm optimistic not only about the long-term future of equity crowdfunding, crowd investing, but about the near-term future as well. If you -- the challenge and the promise of our industries on mainstream adoption and by some very loose math, I believe that the total users among all the portals today is below a few million total, which is less than 1 percent of our population, meaning most people out there do not know that they don't have to be a millionaire to invest and support businesses and companies that they believe in.

And so even with this unprecedented -- and I think it's far larger than the 2008 economic crisis, although I hope that the recovery will be quicker as well. But even notwithstanding all of that, the opportunity now -- you have everyone's attention. What we can do on the portals and to eventualize and get word out, I think that's why at Republic we've seen pretty much the same investment activities.

And we do expect to see much more robust volume in the months to come and obviously we're super grateful for the effort from the SEC and particularly your office, you know, the Advocate for Small Business
Capital Formation. This is an unprecedented private-public engagement like the very webcast that we are on. I think these things are going to go a really long way, and, needless to say, we are very excited about the proposed rules.

The fact that if you raise the cap to a more meaningful amount, it will enable larger companies with larger customer base that can activate and can take advantage of this, you know, model of this fundraising model. So net net, I do think that 2020 will be several times larger in investment volume for the industry as a whole compared to the prior years. And I think that a few years out, this space will be a significant percentage of the venture capital space and, needless to say, for the entire private sector as well.

MS. MILLER: Excellent observations. Ken?

Youngro?

MR. LEE: Yeah. Likewise, I think, in the long run, which I'm going to define as just basically the next couple years, things will get better. And the application and the benefit of the crowdfunding rules could be proven to be, you know, greater than what we think today and, in fact, I would say the JOBS Act probably would not have happened but for the financial crisis in 2008 and '9 when people realized the
limitations of our current system. Having said that, there is a separate issue. Really is -- there needs to be some massive, massive action from everybody in the short-term so you can have a long run that makes sense.

And so from that perspective, I mean, I was still -- it would be amazing if there could be some sort of emergency action or any activities from the SEC to allow a short-term relief to allow businesses to access as many different channels as possible. Specifically, it could be as simple as anything under $200,000, which is the cap resembled -- the SBA put on EIDL, which doesn't require personal guarantee.

So any amount under $200,000 basically either eliminate or reduce the obligations on the businesses. Eliminates the investment limitations on investors, allowed concurrent offerings to different other exemptions. Whatever it is that we can do in a limited time, I think the No. 1 -- really, really help benefit the small businesses, the major businesses that are the backbone of our economy that are really, really going to suffer without any massive change.

And, secondly, if we do that, I think we'll learn so much as an industry, as a regulator. So that -- some elements of that press can be folded into the upcoming changes that I think can really benefit the
country and really the small business economy for the long-run. But thank you guys for having us. I mean, this is amazing. Really appreciate, again, this -- this conversation would not have been possible if -- if Martha's office wasn't created at all.

So we know -- I mean, this is really for the audience. The SEC, we always think of it as a police. And obviously they have to serve that function. But it's not just about that. They are, as -- as you can see now, they are really trying get feedback and try to make positive changes as well. So the way the individuals who are listening might help is, like, literally send the comment letter. Send responses to the policy statements which seem hard, but it's actually pretty easy. You just got to send the email. So I hope we all just pay more attention to all this because this -- I do believe private markets is a really effective way to address a lot of problems we see today.

CLOSING REMARKS

MS. MILLER: Youngro, thank you. And I appreciate you expressing gratitude. We are all grateful and passionate advocates in our office for small business. I think that each of us have been talking internally about ways that we can do everything from support our dog walkers who aren't available to the
local restaurant or places that you love. And, I mean, it's -- this isn't something we just think about during working hours. This is something that I think about when I'm sitting at home on the weekends and talking to friends who are struggling through navigating with their own businesses and the family on that front. It is time to wrap up. We're a couple minutes over. I do want to remind everybody to reach out to us. We have far more questions today than we could have gotten through, I think, in two or three hours, which is a wonderful indication of everybody's interest in this topic.

Please do continue. Reach out to us. Shoot us an email at smallbusiness@sec.gov. You are welcome to also continue tweeting. But if you'll send us contact info, we will be happy to try to get back to you and schedule time to answer your questions. I know that Jenny is going to put up some contact info for each of our panelists on the screen right now. But I encourage you to also reach out.

Tell us what you like about today. We want to hear feedback. This is our first of these virtual coffee breaks. We put the point where my coffee is now on empty and I need a refill. But I would love to hear from you what you'd like from this, what worked well and what we can do to improve and iterate because, next
week, we're hosting another event with iFundWomen. We're with the National Small Business Association the week following. All of those details are going to be on sec.gov/virtualcoffee, which is where we will be continuing to roll out additional events.

Please tell us what we can do to be as impactful as possible and deliver value for you. Jenny, I will turn it over to you to wrap us up. Thank you all for joining and taking time today to be with us. And thank you, George, Ken and Youngro for sharing your wonderful insight and for taking the time to really be leaders on these issues.

MS. RIEGEL: Thank you so much.
MR. NGUYEN: Thank you, Martha.
MS. RIEGEL: I won't take too much of anyone's time. I did want to just give a few plugs for a few resources out there for those that may want them. One is there were a couple of questions that came in on reporting deadlines. And I just wanted to highlight there is a COVID-19 page on the SEC's homepage that refers to different relief that have been given.

Martha mentioned the Form ID aspect of that. And the -- it's no longer required to be notarized. That relief was provided, and it's all on the COVID-19 page as well as for crowdfunding reports, Reg A reports
and normal Exchange Act reporting. There is a 45 delay that the Commission granted. So all of that relief is on the homepage. I wanted to highlight that for those of us that have heard us talk about this proposal and you're wondering, "What is this? Can I learn more?" We have a video that walks you through it. So please check out that video.

We also have a video that helps you learn how to comment. We really need those comments and want your perspective on what's working and what's not. So, review those videos. Reach out to us at smallbusiness@sec.gov for questions. And thank you, again, Youngro, Ken, George. We really appreciate your insight. And thank you for everybody who tuned in today. Give us feedback. If you like what you heard or you have ways to improve, definitely happy to hear it. We will be doing more and hope to see you next Wednesday for the iFundWomen discussion. Thank you so much.

MS. MCKINNEY: Thanks, everyone.

(Whereupon, at 12:05 p.m., the meeting was adjourned.)
PROOFREADER'S CERTIFICATE

In the Matter of: SEC INVESTMENT CAPITAL RAISING VIRTUAL COFFEE BREAK

File No: OS-0403

Date: Friday, April 3, 2020

Location: Washington, D.C.

This is to certify that I, Christine Boyce (the undersigned), do hereby certify that the foregoing transcript is a complete, true and accurate transcription of all matters contained on the recorded proceedings of the meeting.

_______________________       _______________________
Proofreader's Name)           (Date)
REPORTER'S CERTIFICATE

I, Beth Roots, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the matter indicated, held on __4/3/2020________, at Washington, D.C., in the matter of:

SEC INVESTMENT CAPITAL RAISING VIRTUAL COFFEE BREAK.

I further certify that this proceeding was recorded by me, and that the foregoing transcript has been prepared under my direction.

Date: 4/3/2020

Official Reporter: Beth Roots