Talk to the SEC!

Join in a conversation with the U.S. Securities and Exchange Commission (SEC), which regulates how businesses raise money from investors, to learn how to navigate your options.

Feb 24 @ 10:00 am PST
Online via Zoom

Hosted By RAIN OREGON

SEC Commissioner Caroline A. Crenshaw

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Office of the Advocate for Small Business Capital Formation

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What are common sources of capital for small and emerging businesses?

1. Retained Business Earnings: 77%
2. Personal Funds: 14%
3. Loan or Line of Credit: 54%
4. Credit Card: 53%
5. Trade Credit: 12%
6. Leasing: 11%
7. Equity Investment: 6%
8. Merchant Cash Advance: 5%
9. Factoring: 3%
10. Other: 2%

Collateral is often a pre-requisite for small businesses seeking bank financing

- **PERSONAL GUARANTEE**: 59%
- **BUSINESS ASSETS**: 49%
- **PERSONAL ASSETS**: 31%
- **NO COLLATERAL REQUIRED**: 17%
- **FUTURE SALES**: 8%

Minority-owned businesses face challenges accessing bank capital, leading to more financial restraints:

- More likely to use **personal funds** as primary funding source
- More likely to use **personal funds** in response to financial challenges
- Generally **lower credit approval** ratings
- Less frequently **approved** for full amount of loans

Common Terms You May Encounter

- Security
- SEC (Securities and Exchange Commission)
- Registered Offering
- Exempt Offering
- Accredited Investor

Info on other terms available at: www.sec.gov/cutting-through-jargon
What regulatory pathways are companies using to raise capital?6

- Rule 506(c) $69B ($900,000 median)
- Initial Public Offerings $60B ($150M median)
- Rule 506(b) Private Placements $1.4T ($1.8M median)
  - Rule 504 $171M ($100,000 median)
  - Regulation A $1.3B ($2.1M median)
  - Crowdfunding $88M ($100,000 median)
- Other Registered Offerings $1.5T ($99M median)

Other Exempt Offerings7 $1.2T

Source: See FY2020 Report p. 11.
**Exempt securities landscape… It’s complex.**

<table>
<thead>
<tr>
<th>Type of Offering</th>
<th>Offering Limit within 12-month Period</th>
<th>General Solicitation</th>
<th>Issuer Requirements</th>
<th>Investor Requirements</th>
<th>SEC Filing or Disclosure Requirements</th>
<th>Restrictions on Resale</th>
<th>Preemption of State Registration and Qualification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section 4(a)(2)</td>
<td>None</td>
<td>No</td>
<td>None</td>
<td>Transactions by an issuer not involving any public offering. See SEC v. Ralston Purina Co.</td>
<td>None</td>
<td>Yes, Restricted securities</td>
<td>No</td>
</tr>
<tr>
<td>Rule 506(b) of Regulation D</td>
<td>None</td>
<td>No</td>
<td>&quot;Bad actor&quot; disqualifications apply</td>
<td>Unlimited accredited investors, Up to 35 sophisticated but non-accredited investors in a 50 day period</td>
<td>Form D, Financial statement requirements for non-accredited investors consistent with Regulation A</td>
<td>Yes, Restricted securities</td>
<td>Yes</td>
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<tr>
<td>Rule 506(c) of Regulation D</td>
<td>None</td>
<td>Yes</td>
<td>&quot;Bad actor&quot; disqualifications apply</td>
<td>Unlimited accredited investors, Issuer must take reasonable steps to verify that all purchasers are accredited investors</td>
<td>Form D, Exit report</td>
<td>Yes, Restricted securities</td>
<td>Yes</td>
</tr>
<tr>
<td>Regulation A: Tier 1</td>
<td>$20 million</td>
<td>permitted, before qualification, testing the waters permitted before and after the offering statement is filed</td>
<td>U.S. or Canadian issuers, Excludes blank check companies, investment companies, business development companies, issuers of certain securities, certain issuers subject to a Section 12(g) order, and Regulation A and reporting issuers that have not filed certain required reports.</td>
<td>&quot;Bad actor&quot; disqualifications apply, No asset-backed securities</td>
<td>None, Form 1A, including two years of financial statements</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Regulation A: Tier 2</td>
<td>$75 million</td>
<td>permitted in limited circumstances</td>
<td>Excludes blank check companies, Exchange Act reporting companies, and investment companies</td>
<td>&quot;Bad actor&quot; disqualifications apply</td>
<td>Form 1A, including two years of audited financial statements</td>
<td>Yes</td>
<td>No</td>
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<tr>
<td>Rule 504 of Regulation D</td>
<td>$10 million</td>
<td>permitted in limited circumstances</td>
<td>Excludes blank check companies, Exchange Act reporting companies, and investment companies</td>
<td>&quot;Bad actor&quot; disqualifications apply</td>
<td>None, Form D</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Regulation:</td>
<td>$5 million</td>
<td>testing the waters permitted before Form C is filed</td>
<td>Excludes non-U.S. issuers, blank check companies, Exchange Act reporting companies, and investment companies</td>
<td>&quot;Bad actor&quot; disqualifications apply</td>
<td>Form C, including two years of financial statements that are certified, reviewed or audited, as required, Progress and annual reports</td>
<td>Yes</td>
<td>12-month resale limitations</td>
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<tr>
<td>Crowdfunding: Section 4(a)(6)</td>
<td>$1 million</td>
<td>testing the waters permitted before Form C is filed</td>
<td>Excludes in-state residents and &quot;doing business&quot; and incorporated in-state; excludes registered investment companies</td>
<td>No investment limits for accredited investors</td>
<td>Form C, including two years of financial statements based on the greater of annual income and net worth</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Intrastate: Section 3(a)(11)</td>
<td>No federal limit (generally, individual state limits between $1 and $5 million)</td>
<td>in-state residents</td>
<td>Offenses must be in-state residents</td>
<td>Offenses and purchasers must be in-state residents</td>
<td>None</td>
<td>Securities must come to rest with in-state residents</td>
<td>No</td>
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<tr>
<td>Intrastate: Rule 147</td>
<td>No federal limit (generally, individual state limits between $1 and $5 million)</td>
<td>in-state residents</td>
<td>Offenses must be in-state residents</td>
<td>Offenses and purchasers must be in-state residents</td>
<td>None</td>
<td>Securities must come to rest with in-state residents</td>
<td>No</td>
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<tr>
<td>Intrastate: Rule 147A</td>
<td>No federal limit (generally, individual state limits between $1 and $5 million)</td>
<td>in-state residents and &quot;doing business&quot; in-state, excludes registered investment companies</td>
<td>Purchasers must be in-state residents</td>
<td>None</td>
<td>Yes, Resales must be within state for six months</td>
<td>No</td>
<td>No</td>
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Breaking down the pathways

- Private Placements (Rule 506(b))
- Accredited Investor Crowdfunding (Rule 506(c))
- Mini IPOs (Reg A)
- Crowdfunding (Reg CF)
- Intrastate Offerings
Taking the Pulse of Oregon’s Capital Infrastructure

- How could a company in Oregon go about raising $200K for a coffee shop?
- Would it be different if they don’t have a network of accredited investors?
- What about a company looking for a larger amount of money, such as $15 million?
Q&A

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