

U.S. SECURITIES AND EXCHANGE COMMISSION

ADVISORY COMMITTEE ON SMALL
AND EMERGING COMPANIES MEETING

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U.S. Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C.

<p style="text-align: right;">Page 2</p> <p>1 PARTICIPANTS:</p> <p>2</p> <p>3 Sarah Hanks, Co-Chair</p> <p>4 Stephen Graham, Co-Chair</p> <p>5 Mary Jo White, SEC Chair</p> <p>6 Kara M. Stein, Commissioner</p> <p>7</p> <p>8 Robert Aguilar</p> <p>9 Julie Z. Davis</p> <p>10 Paul Elio, Elio Motors</p> <p>11 Sebastian Gomez</p> <p>12 Xavier Gutierrez</p> <p>13 Brian Hahn</p> <p>14 Kyle Hauptman</p> <p>15 Keith Higgins</p> <p>16 Catherine Mott</p> <p>17 Betsy Murphy</p> <p>18 Jonathan Nelson</p> <p>19 Michael Pieciak</p> <p>20 Patrick Reardon</p> <p>21 Amy Reischauer</p> <p>22 Lisa Shimkat</p> <p>23 Annemarie Tierney</p> <p>24 Mark Walsh</p> <p>25</p>	<p style="text-align: right;">Page 4</p> <p>1 PROCEEDINGS</p> <p>2 CO-CHAIR GRAHAM: Why don't we think about</p> <p>3 getting started. Can I ask people to take their seats?</p> <p>4 I would like to call this meeting to order.</p> <p>5 You know, welcome to the meeting of the SEC's Advisory</p> <p>6 Committee on Small and Emerging Companies.</p> <p>7 Sebastian, do we have quorum?</p> <p>8 MR. GOMEZ: We do.</p> <p>9 CO-CHAIR GRAHAM: Okay. Well, again welcome</p> <p>10 everyone. For those around the table that have not had</p> <p>11 an opportunity yet to have a muffin, they're over there</p> <p>12 on the table to my left. And I didn't realize I was</p> <p>13 going to be giving a muffin commercial, but I just want</p> <p>14 you to know that these pastries are brought to you by a</p> <p>15 small, local business, something called Lord of the Pies.</p> <p>16 CHAIR WHITE: It's one of those things you</p> <p>17 can't make this up I think.</p> <p>18 MR. GRAHAM: No, no. They were made just</p> <p>19 blocks away at a place called Union Kitchen, which is an</p> <p>20 incubator that offers commercial kitchen space, catering,</p> <p>21 distribution, consulting and more for culinary</p> <p>22 businesses. So I hate to be trite, but this is just one</p> <p>23 more example of how a small business makes your life</p> <p>24 better.</p> <p>25 Our agenda today includes three important</p>
<p style="text-align: right;">Page 3</p> <p>1 PARTICIPANTS (CONT.):</p> <p>2</p> <p>3 Gregory Yadley</p> <p>4 Laura Yamanaka</p> <p>5 Dan Zinn, OTC Market Groups</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 5</p> <p>1 matters. The first is the accredited investor definition</p> <p>2 under the Securities Act. We had an engaging and</p> <p>3 thoughtful discussion on this important definition during</p> <p>4 our May 18 meeting and came up with an outline for a</p> <p>5 recommendation, and I believe that we can finalize that</p> <p>6 in probably short order.</p> <p>7 Secondly we will turn to Regulation A, which is</p> <p>8 timely because a month ago today was the one year</p> <p>9 anniversary of the new Reg A Rules going into effect. We</p> <p>10 will hear from Elio Motors and OTC Markets about their</p> <p>11 experiences in this relatively new space.</p> <p>12 And as a final matter today we will hear from</p> <p>13 SEC staff about the Commission's new proposal to amend</p> <p>14 and update the definition of smaller reporting company, a</p> <p>15 topic this committee has been interested in for some</p> <p>16 time.</p> <p>17 But before we move into our agenda for the day</p> <p>18 we are honored to start with opening remarks from Chair</p> <p>19 White and -- welcome, I didn't see you sneak in, and</p> <p>20 Commissioner Stein.</p> <p>21 Chair White, let me turn it over to you.</p> <p>22 CHAIR WHITE: Thank you, Steve, and</p> <p>23 thank you Steve and Sarah for presiding and welcome back</p> <p>24 everyone. I guess these dog days of summer you see people</p> <p>25 fleeing Washington, so it's very good to see you all here</p>

<p style="text-align: right;">Page 6</p> <p>1 in Washington for this meeting.</p> <p>2 I'm just going to make a few very short</p> <p>3 comments on each of your agenda items and then I'll just,</p> <p>4 you know, give a word on kind of what we're seeing so</p> <p>5 far, and it's obviously early, but in the crowd funding</p> <p>6 space.</p> <p>7 So your agenda today starts with a discussion</p> <p>8 of the accredited investor definition, which is obviously</p> <p>9 an issue of great importance which we and you are very</p> <p>10 focused on. We've received some 40 comment letters on</p> <p>11 the staff's study of the definition, and as the staff is</p> <p>12 working on further recommendations for the Commission I</p> <p>13 look forward to your thoughts and recommendation. Your</p> <p>14 feedback is obviously very important and helpful to us.</p> <p>15 Your agenda today also focuses on Regulation</p> <p>16 A+. It was actually just over a year ago, in June of</p> <p>17 2015, that the Commission's amendments to Regulation A+</p> <p>18 went into effect. We have had over a hundred offering</p> <p>19 statements filed with the Commission, with even more</p> <p>20 issuers actually taking advantage of provisions in the</p> <p>21 rules that allow for non-public staff review of draft</p> <p>22 offering statements before publicly filing.</p> <p>23 Since the effective date of the final rules the</p> <p>24 Commission has qualified nearly 50 of those offering</p> <p>25 statements. So this is obviously a very interesting and</p>	<p style="text-align: right;">Page 8</p> <p>1 public comments we receive on the SRC proposal from you</p> <p>2 and all constituents, including investors and companies,</p> <p>3 as well as the comments that we receive on our Regulation</p> <p>4 SK concept release, which explores the scaled disclosure</p> <p>5 requirements for SRCs among many other areas.</p> <p>6 So your input along with the input from</p> <p>7 investors, issuers and other affected market participants</p> <p>8 will help inform any changes to the scaled disclosure</p> <p>9 system or other changes to our disclosure requirements.</p> <p>10 The word I promised I would give, and really is</p> <p>11 just a word, a very quick update on another of our recent</p> <p>12 rules to facilitate small business capital formation, and</p> <p>13 that is Regulation Crowd Funding, which went into effect</p> <p>14 May 16th, which I think was just two days actually before</p> <p>15 your last meeting here.</p> <p>16 I can report that a diverse range of companies are</p> <p>17 using the crowd funding exemption and that as of July</p> <p>18 18th, which I think is yesterday, there had been over 60</p> <p>19 offerings with a total of \$4.4 million in funds committed</p> <p>20 by investors. Twelve funding portals have registered with</p> <p>21 the Commission and become members of FINRA, which are</p> <p>22 both requirements. For our part the SEC staff continues</p> <p>23 to closely monitor the Regulation Crowd Funding, and</p> <p>24 Regulation A+ markets and are available, the staff is</p> <p>25 available to answer questions.</p>
<p style="text-align: right;">Page 7</p> <p>1 dynamic space and I very much look forward to today's</p> <p>2 discussion, and especially in the presentation by</p> <p>3 participants who are directly involved in this market.</p> <p>4 As was mentioned by Steve, last month the</p> <p>5 Commission proposed amendments that would increase the</p> <p>6 financial thresholds in the smaller reporting company</p> <p>7 definition. As you know the SRC definition has been of</p> <p>8 really keen interest to this committee for some time and</p> <p>9 the subject of prior committee recommendations, which</p> <p>10 actually go beyond the reach of the Commission's current</p> <p>11 proposal in some respects. If adopted the proposal would</p> <p>12 expand the number of companies that can qualify for</p> <p>13 certain existing scale disclosures provided in the SEC's</p> <p>14 regulations, again by raising the public float threshold</p> <p>15 from its current level of \$75 million to up to \$250</p> <p>16 million and the annual revenues threshold in the absence</p> <p>17 of a public float from less than \$50 million to less than</p> <p>18 \$100 million.</p> <p>19 The objective of the proposal, which would</p> <p>20 raise the financial thresholds and the definition as I</p> <p>21 just indicated, is to promote capital formation and</p> <p>22 reduce compliance costs for smaller companies while</p> <p>23 maintaining important investor protections, such as those</p> <p>24 provided by Section 404(b) of Sarbanes-Oxley. The</p> <p>25 Commission will benefit greatly from the thoughts and</p>	<p style="text-align: right;">Page 9</p> <p>1 So thank you again for being here and I very</p> <p>2 much look forward to your discussion and your input.</p> <p>3 CO-CHAIR GRAHAM: Commissioner Stein.</p> <p>4 COMMISSIONER STEIN: Thank you. Good morning</p> <p>5 to everyone and welcome to today's meeting of the</p> <p>6 Advisory Committee on Small and Emerging Companies.</p> <p>7 Always a mouthful to say. I want to take the opportunity</p> <p>8 to thank each of you for taking time out of very busy</p> <p>9 schedules to come to Washington to share your best</p> <p>10 thoughts with us and I'm looking forward to today's</p> <p>11 discussion.</p> <p>12 I'm especially interested in hearing more about</p> <p>13 the apparent hesitancy of issuers to use Regulation A+.</p> <p>14 Perhaps some of the hesitancy can be attributed to the</p> <p>15 newness of the program, are we yet able to identify the</p> <p>16 reasons issuers are either self-selecting out of using</p> <p>17 Reg A+ or not even aware of it as a capital raising</p> <p>18 alternative, are there any nascent trends in the data</p> <p>19 that we should be concerned about.</p> <p>20 I'm also interested in the committee's draft</p> <p>21 recommendations regarding the definition of accredited</p> <p>22 investor. As we move forward in considering how small</p> <p>23 businesses can best raise capital I like you also focus</p> <p>24 on how to best protect investors. How can we increase</p> <p>25 the ability of companies to raise capital while at the</p>

<p style="text-align: right;">Page 10</p> <p>1 same time protecting investors. It's that tension that</p> <p>2 we all, you know, have to keep struggling with.</p> <p>3 Finally, the committee this afternoon will</p> <p>4 discuss a proposed rule to amend the definition of</p> <p>5 smaller reporting company. As currently defined smaller</p> <p>6 reporting companies, as the Chair mentioned, registrants</p> <p>7 with less than \$75 million in public float as of the last</p> <p>8 business day of their second quarter or with zero public</p> <p>9 float and annual revenues of less than \$50 million as of</p> <p>10 the most recently completed fiscal year for which audited</p> <p>11 financials are available. Companies that get designated</p> <p>12 as smaller reporting companies are able to selectively</p> <p>13 make use of certain scaled disclosure accommodations.</p> <p>14 The Commission's proposed rule would raise the</p> <p>15 public float threshold from \$75 million to \$250 million.</p> <p>16 It would also change the revenue threshold from \$50</p> <p>17 million to \$100 million. I recognizes the committee's</p> <p>18 interest in revising the smaller reporting company</p> <p>19 threshold to expand the availability of scaled disclosure</p> <p>20 to a larger group of companies. However, it's not clear</p> <p>21 to me that this will actually facilitate innovation and</p> <p>22 job creation.</p> <p>23 The Commission's Division of Economic and Risk</p> <p>24 Analysis, we call it DERA so you don't usually have to</p> <p>25 say the whole name out, their empirical findings, which</p>	<p style="text-align: right;">Page 12</p> <p>1 Steve and Sara. Good morning to everyone here in the</p> <p>2 building as well as those who are joining us on the</p> <p>3 webcast.</p> <p>4 Of course before we begin I need to give the</p> <p>5 standard disclaimer on behalf of each person from the</p> <p>6 SEC's staff who speaks today that the views they express</p> <p>7 are their own and don't represent the views of the</p> <p>8 Commission or any of our other colleagues on the staff of</p> <p>9 the Commission.</p> <p>10 I want to express the division's appreciation</p> <p>11 for all of you in the work that you do and the service</p> <p>12 that you give to this committee. The topics that you'll</p> <p>13 discuss today are very important to our work as we</p> <p>14 prepare our recommendations to the Commission on the</p> <p>15 accredited investor definition and on implementing -- and</p> <p>16 as we continue to implement Regulation A.</p> <p>17 While on that topic of Regulation A, our staff</p> <p>18 is working on fine tuning our review of Regulation A</p> <p>19 filings and we hope we're providing helpful and timely</p> <p>20 comments and assistance to smaller companies who are</p> <p>21 often navigating the SEC disclosure regime and our</p> <p>22 registration system or our qualification system for the</p> <p>23 first time. And our staff has really, you know, taken a</p> <p>24 keen interest in making sure that we're getting it right</p> <p>25 as we review these filings. I know these topics have</p>
<p style="text-align: right;">Page 11</p> <p>1 are attached to the proposed rule, suggest that</p> <p>2 anticipated benefits for newly eligible smaller reporting</p> <p>3 companies under the proposed revisions may be extremely</p> <p>4 modest. Moreover, the flip side of all of this is an</p> <p>5 observable cost to smaller reporting companies using</p> <p>6 scaled disclosure. Less disclosure could lead to lower</p> <p>7 liquidity and a higher cost of capital for smaller</p> <p>8 companies if there's less transparency.</p> <p>9 So I think that's the other part of this that we</p> <p>10 need to at least think about. Is less transparency</p> <p>11 something that smaller reporting companies benefit from</p> <p>12 in the long run and, you know, what are the costs. Why</p> <p>13 are some smaller reporting companies not using the</p> <p>14 current option they have of scaled disclosure, you know,</p> <p>15 even though they qualify.</p> <p>16 So I hope you consider these issues in your</p> <p>17 discussion of the proposed amendments. That's some of</p> <p>18 what I'm struggling with, and as always I look forward to</p> <p>19 hearing from you today. Thank you.</p> <p>20 CO-CHAIR GRAHAM: Thank you, Commissioner</p> <p>21 Stein. And I should note that Commissioner Piwowar is</p> <p>22 not here today, but he wanted to be here but he is</p> <p>23 traveling.</p> <p>24 Keith.</p> <p>25 MR. HIGGINS: Thanks. Am I on? Yeah. Thanks,</p>	<p style="text-align: right;">Page 13</p> <p>1 been important to the committee over the years and</p> <p>2 they're very important to us as well.</p> <p>3 We're looking forward to getting your feedback</p> <p>4 on the small reporting company proposal that the</p> <p>5 Commission recently put out for public comment, and you</p> <p>6 may have seen last week the division has been busy on our</p> <p>7 disclosure effectiveness review, putting out another</p> <p>8 proposal on getting rid of redundant, overlapping,</p> <p>9 superseded and outdated disclosure requirements. And so</p> <p>10 we're interested in getting feedback from investors, from</p> <p>11 companies, and others on how we can make our disclosure</p> <p>12 system better for everybody.</p> <p>13 Now today I'm joined by members of the Office</p> <p>14 of Small Business Policy, who of course need no</p> <p>15 introduction, Sebastian Gomez, who is our chief of the</p> <p>16 office, and Julie Davis, who is senior special counsel in</p> <p>17 the office. You know them well. With me also is Betsy</p> <p>18 Murphy. Betsy is associate director in the division who</p> <p>19 oversees the office, and thank you Betsy and Sebastian</p> <p>20 and Julie and everybody on the staff who has helped to</p> <p>21 participate in getting these meetings off the ground.</p> <p>22 They do a great job and we appreciate their efforts.</p> <p>23 And with that, Steve, I'll turn it back to you</p> <p>24 for getting back to business.</p> <p>25 CO-CHAIR GRAHAM: Okay, thank you, Keith. And</p>

<p style="text-align: right;">Page 14</p> <p>1 I would like to echo your comments, Keith. I know that I</p> <p>2 couldn't do this without Julie and Sebastian's help so --</p> <p>3 So let's turn to accredited, the accredited</p> <p>4 investor definition. At our last meeting I really</p> <p>5 appreciated our lively discussion on the subject. As you</p> <p>6 know it is a central component of Regulation D, which in</p> <p>7 turn is central to our unregistered markets.</p> <p>8 We came up with a strong recommendation at that</p> <p>9 meeting and today hope to finalize it. We distributed</p> <p>10 drafts. I think you all have had an opportunity to</p> <p>11 review it and I think it reflects where we came out last</p> <p>12 time. This is an opportunity to supplement that</p> <p>13 recommendation and to otherwise refine it and finalize</p> <p>14 it.</p> <p>15 As you all know the concept behind accredited</p> <p>16 investor is intended to encompass those individuals and</p> <p>17 entities with the financial sophistication and ability to</p> <p>18 sustain risk of loss of investment or the ability to fend</p> <p>19 for themselves. The current definition, which was</p> <p>20 adopted in 1982, uses only financial measures, income and</p> <p>21 net worth, to serve as a proxy for determining whether an</p> <p>22 investor possesses these attributes.</p> <p>23 The recent SEC staff study on this topic</p> <p>24 recommended that the Commission revise the definition to</p> <p>25 allow individuals who qualify as accredited based on</p>	<p style="text-align: right;">Page 16</p> <p>1 income standards that whatever is decided upon does not</p> <p>2 go above 50 percent of the current levels. So income</p> <p>3 would go to 300, 450 net worth would go to 1.5 million.</p> <p>4 So that is a recommendation I would make with respect to</p> <p>5 the current test, that we not jump out and do the</p> <p>6 inflation based change that would exclude too many</p> <p>7 potential investors.</p> <p>8 CO-CHAIR GRAHAM: You know, at our last</p> <p>9 meeting, you know, I would like to think that the balance</p> <p>10 of the committee essentially agrees with you. That</p> <p>11 seemed to be the consensus, that, you know, to resist</p> <p>12 this, maybe this inclination to make changes because the</p> <p>13 question has been raised.</p> <p>14 MR. REARDON: Right.</p> <p>15 CO-CHAIR GRAHAM: You know, certainly it's my</p> <p>16 feeling, and I think it's the feeling of the balance of</p> <p>17 the committee, that we concluded that this is a part of</p> <p>18 the small business capital formation system that wasn't</p> <p>19 broken, seemed to work, and that we should be careful</p> <p>20 about doing anything that might reduce the pool of</p> <p>21 accredited investors and only think in terms of what</p> <p>22 might be done to -- might be done to expand the pool.</p> <p>23 So the draft recommendation essentially</p> <p>24 reflects the recommendation to maintain the status quo in</p> <p>25 terms of the numbers, in terms of the thresholds. But we</p>
<p style="text-align: right;">Page 15</p> <p>1 other measures of sophistication. The study set forth</p> <p>2 alternative approaches which could be considered to</p> <p>3 identify individuals who could qualify as accredited</p> <p>4 investors based on criteria other than income and net</p> <p>5 worth.</p> <p>6 As the staff and the Commission move forward in</p> <p>7 this area we think specific feedback on these measures</p> <p>8 would be helpful. So we would like run through each</p> <p>9 potential approach one at a time and briefly hear what</p> <p>10 you have to say about each of them.</p> <p>11 The first non-financial measure or proposal if</p> <p>12 you will is to permit individuals with a minimum -- with</p> <p>13 a minimum amount of investments to qualify as accredited</p> <p>14 investors. Investors may in some cases -- investments</p> <p>15 may in some cases be more meaningful in terms of</p> <p>16 measuring an individual's experience and exposure than</p> <p>17 the net worth test or the income test.</p> <p>18 Any thoughts on that? Patrick.</p> <p>19 MR. REARDON: I'm not aware -- well, I agree</p> <p>20 with your conclusion that we have here that we don't need</p> <p>21 to fix the definition, it's not broken. But knowing that</p> <p>22 once you ask if something should be changed there's</p> <p>23 sometimes pressure to go ahead and make change.</p> <p>24 I would consider a recommendation that if</p> <p>25 you're going to change the net worth standards or the</p>	<p style="text-align: right;">Page 17</p> <p>1 didn't -- we didn't provide much commentary relating to</p> <p>2 non-financial measures and, you know, before we finalize</p> <p>3 the recommendation I wanted to give everybody an</p> <p>4 opportunity to weigh in, you know, with respect to those</p> <p>5 suggestions to see if -- well, to see what your input</p> <p>6 might be.</p> <p>7 Just to throw them all out on the table,</p> <p>8 they're in the study, I'm sure you've all reviewed the</p> <p>9 study. I don't expect you to have committed the study to</p> <p>10 memory.</p> <p>11 CO-CHAIR HANKS: There's a test later.</p> <p>12 CO-CHAIR GRAHAM: Yeah, there's a test later says</p> <p>13 Sara.</p> <p>14 But let me just throw them out. Number one as</p> <p>15 I said is to permit individuals with a minimum amount of</p> <p>16 investments to qualify as accredited investors. And my</p> <p>17 own thought there is if you don't qualify as an</p> <p>18 accredited investor how did you make the investments in</p> <p>19 the first place, but that's something that maybe someone</p> <p>20 can enlighten me on.</p> <p>21 Then number two, permit individuals with</p> <p>22 certain professional credentials to qualify as accredited</p> <p>23 investors, for example those who pass Series 7, Series 65</p> <p>24 or Series 82 examinations. Someone I think made the</p> <p>25 suggestion that perhaps all lawyers should automatically</p>

<p style="text-align: right;">Page 18</p> <p>1 be accredited. As a member of the bar I'm not sure if 2 that's a good idea.</p> <p>3 Number three is permit individuals with 4 experience investing in exempt offerings to qualify as 5 accredited investors. And again how did you get this 6 experience if you -- if they're already screened out. 7 Again if somebody can maybe explain that to me. 8 Number four, permit knowledgeable employees of 9 private funds to qualify as accredited investors for 10 investments in their employer's funds.</p> <p>11 And number five is to permit individuals who 12 pass an accredited investor examination to qualify, which 13 I find attractive. I think the idea of just having, 14 coming up with a test that you either pass or fail that's 15 -- that has -- there's simplicity, there's certainty, 16 that has some appeal to me.</p> <p>17 So any comments? Catherine.</p> <p>18 MS. MOTT: Obviously this is a topic near and 19 dear to my heart. So Stephen, when I looked at the 20 numbers here my reactions were very similar to yours. 21 With the minimum amount of investment I just thought 22 about my colleagues, the group of people that are in our 23 investor group in Pittsburgh, is that they likely do have 24 investments. It's something that if they qualify 25 according to the minimum standards of a net worth of a</p>	<p style="text-align: right;">Page 20</p> <p>1 example they retire and they no longer have the income 2 that would have allowed them to qualify, then because of 3 the fact that they already had that experience in 4 previous investments the idea is that experience might 5 have given them the tools to understand what they need to 6 look for in future investments.</p> <p>7 So the staff didn't call that a grandfathering 8 rule, but I can see how it could be something if you 9 previously qualified and you got to the investments but 10 you no longer qualify.</p> <p>11 MS. MOTT: Now I understand. Thank you. 12 That's good.</p> <p>13 CO-CHAIR GRAHAM: I'm not sure if I understand, 14 Sebastian --</p> <p>15 MS. MOTT: thank you for the clarification.</p> <p>16 CO-CHAIR GRAHAM: -- because you're saying that 17 if you qualified before but then you lost all your money 18 because you did such a bad job investing and you no 19 longer qualify, as long as there were ten bad investments 20 you --</p> <p>21 MR. GOMEZ: It could have been that you 22 invested it all in artwork and you just had a bad choice 23 of art.</p> <p>24 CO-CHAIR GRAHAM: Okay.</p> <p>25 CO-CHAIR HANKS: You just haven't had an exit</p>
<p style="text-align: right;">Page 19</p> <p>1 million or they have \$200,000 revenue they tend to be 2 sophisticated enough to have these investments anyway.</p> <p>3 Professional credentials, to me it really does 4 make sense to include anyone if you're a Series 7, Series 5 63. I mean, you certainly -- if you pass that test -- 6 and I've taken that test, so I know. I mean, it 7 certainly would make sense.</p> <p>8 Experience. When I was reading this I actually 9 wrote a question down. I actually said does that mean we 10 -- does this -- is this a grandfathering clause, you 11 know, instead of -- you know, I don't see how you get the 12 experience -- if you can't qualify you can't get the 13 experience. So you have to qualify to get the 14 experience. So I was a little confused about that so I 15 wrote down the question grandfathering. Is that -- is 16 that what we mean by this? I guess let me go, jump to 17 the last --</p> <p>18 MR. GOMEZ: Catherine, if --</p> <p>19 MS. MOTT: -- jump to the last one.</p> <p>20 MR. GOMEZ: This is Sebastian, if I may just to 21 jump in on that one.</p> <p>22 MS. MOTT: Okay.</p> <p>23 MR. GOMEZ: What the staff was thinking is a 24 situation in which someone who had previously invested in 25 similar Reg D type deals but subsequently, say for</p>	<p style="text-align: right;">Page 21</p> <p>1 yet.</p> <p>2 MS. MOTT: Well, regarding the exam, I think 3 there would be some pushback from the industry itself on 4 an exam. But on the other hand I think that if it was 5 clarified managed, accessible, whatever, I think an exam 6 might make sense.</p> <p>7 CO-CHAIR HANKS: It would be always be in 8 addition to.</p> <p>9 MS. MOTT: Yes, right.</p> <p>10 CO-CHAIR HANKS: I think -- you know, we have 11 to be very clear that we are not talking about changing - 12 - this is accretive as opposed to substituting.</p> <p>13 MS. MOTT: Yes, I think that's a good point.</p> <p>14 Yeah, thank you. And then finally my thoughts on 15 experience, whether lawyers -- so you have your CPA, MBA, 16 whatever, again I looked at the -- I looked to our group, 17 I looked at my colleagues across the country, most of 18 them tend to be educated, have some sort of degree, tend 19 to fall in that category unless it's simply they got 20 lucky and inherited money or got it -- made it big on one 21 investment, something like that.</p> <p>22 But for the most part people, you know, that are 23 doing this are already qualified according to the net 24 worth of a million, and they're making that money, they 25 have those credentials, they already have them.</p>

<p style="text-align: right;">Page 22</p> <p>1 So the only comment I would make is that when I</p> <p>2 look at everything that we're going to talk about today,</p> <p>3 including this, is that the more complex something is</p> <p>4 made, the more expensive it is made, there's always going</p> <p>5 to be resistance in the market and you're going to reduce</p> <p>6 the amount of qualified individuals who could potentially</p> <p>7 participate in investing in particularly, you know, this</p> <p>8 asset class.</p> <p>9 So my concerns are about for instance if we</p> <p>10 include the minimum investment amount is there going to</p> <p>11 be now a procedure by which you will have to report your</p> <p>12 -- I mean, have your CPA, you know, verify or your stock</p> <p>13 advisor to verify that you are -- now we're going back to</p> <p>14 that verification versus self-certification, and then</p> <p>15 we're talking about cost, and complexity, and resistance</p> <p>16 and, you know, because that was really what was holding,</p> <p>17 you know, the investors back between with, if I remember</p> <p>18 right, we were talking about 506(b) and (c).</p> <p>19 So when I think about the market and how it reacts,</p> <p>20 I think it's just important for us to continue to keep it</p> <p>21 simple in order to avoid resistance in the marketplace</p> <p>22 and impact entrepreneurs, and particularly in this asset</p> <p>23 class. This is the first place they come besides</p> <p>24 incubators. If they don't make it through here they</p> <p>25 don't make it to venture capital.</p>	<p style="text-align: right;">Page 24</p> <p>1 I would assume that people have gained</p> <p>2 experience -- hey, Greg -- gained experience investing</p> <p>3 maybe through interstate exemptions or 506 offerings</p> <p>4 where you're one of the 35 non-accredited, or maybe a</p> <p>5 504. So there are other options out there for people to</p> <p>6 have made investments in the private space.</p> <p>7 So I like that idea, if you have investment</p> <p>8 experience in the private space to translate that into</p> <p>9 another option to meet the accredited investor</p> <p>10 definition. I'm all for that.</p> <p>11 The exam idea, we were thinking about that when</p> <p>12 I was at Second Market many moons ago and we were trying</p> <p>13 to figure out who would write the exam, who would police</p> <p>14 the exam, who would,, you know, give the exam. And we</p> <p>15 kept saying it's probably going to be FINRA. So if FINRA</p> <p>16 doesn't hate the idea then I support that idea as well.</p> <p>17 I've taken the Series 7 as well. It's terrible, but if</p> <p>18 you study and you have a little finance expertise then</p> <p>19 you pass. So I like the idea of the exam as well.</p> <p>20 So again my suggestion would be support</p> <p>21 anything that addresses options, doesn't take away from</p> <p>22 the pool that already is able to invest, and just creates</p> <p>23 more money out there for angel networks and companies to</p> <p>24 access capital. Because that's really going to -- I</p> <p>25 think it's going to be a huge help to private companies</p>
<p style="text-align: right;">Page 23</p> <p>1 So if we -- if we decrease the number -- if we</p> <p>2 decrease this here it will have impact on future rounds</p> <p>3 and other I guess -- and the opportunity in particular</p> <p>4 for high growth companies like, you know, I think they've</p> <p>5 been termed by, as gazelles in the industry, anything</p> <p>6 that's fast growing. I mean, I'm just worried about</p> <p>7 impacting the marketplace, so as long as we keep it</p> <p>8 simple and not make it complicated.</p> <p>9 CO-CHAIR GRAHAM: Thank you, Catherine.</p> <p>10 Annemarie.</p> <p>11 MS. TIERNEY: I like the idea that I think you</p> <p>12 expressed of like do no harm, right. So we know from the</p> <p>13 statistics, I think we talked about this before, that</p> <p>14 when the accredited investor definition was changed to</p> <p>15 exclude primary residence from the net worth test it</p> <p>16 decreased the pool of potential investors, I think it was</p> <p>17 like from 9 percent of Americans to 7 percent o</p> <p>18 Americans. That's -- that's a pretty big percentage</p> <p>19 decrease.</p> <p>20 So the idea of changing the numeric thresholds</p> <p>21 that exist, I think we've all discussed the fact that we</p> <p>22 probably would not support that, I certainly wouldn't</p> <p>23 support that. The idea of adding additional options to</p> <p>24 make people accredited obviously is I think very helpful</p> <p>25 to the market.</p>	<p style="text-align: right;">Page 25</p> <p>1 if there's additional access to capital.</p> <p>2 CO-CHAIR HANKS: Annemarie, if we were to</p> <p>3 include a minimum number of investments as a test is</p> <p>4 there a number, is it a dollar number, a number of</p> <p>5 investments?</p> <p>6 MS. TIERNEY: I don't know the answer to that,</p> <p>7 Sara. I have the idea of its -- you have blanket</p> <p>8 investments, because I would have a sense that people</p> <p>9 would want that number to be fairly high. And maybe</p> <p>10 that's not going to be the case, maybe it's a number of</p> <p>11 investments. But I don't know what the -- I don't have</p> <p>12 an idea in my head of what would be comfortable.</p> <p>13 I like the idea of, you know, do you have</p> <p>14 experience investing, have you invested in maybe five to</p> <p>15 ten offerings over the past five years, and maybe that's</p> <p>16 comfortable. But there may not be that many options for</p> <p>17 non-accredited investors to have made those investments.</p> <p>18 So I hate to put a number on it that would limit</p> <p>19 somebody who maybe has done, you know, two sizeable</p> <p>20 506(b) investments but only two, but instead of somebody</p> <p>21 who has done five or six teeny investments.</p> <p>22 I don't know. I don't know the right -- I don't</p> <p>23 know what the right parameter would be.</p> <p>24 CO-CHAIR GRAHAM: You know, I don't know what</p> <p>25 the right parameter is either. It seems like that would</p>

<p style="text-align: right;">Page 26</p> <p>1 be a difficult one to come up with. But also keep mind 2 what Sara said a moment ago, and that is that we're 3 talking about adding. And so if one of the things we add 4 is, you know, you qualify if you've done X number of 5 investments over X period, you don't have to really spend 6 that much time thinking about whether or not that's the 7 right measure or whether it's too difficult because it's 8 not the only measure.</p> <p>9 MS. TIERNEY: Well, I think -- what I was 10 getting at, is it the number of investments or is it the 11 amount. I think that it's difficult to -- that's what 12 I'm saying I have difficulty.</p> <p>13 CO-CHAIR GRAHAM: Oh, yeah.</p> <p>14 MS. TIERNEY: I'm all for adding it, 15 absolutely. I'm just -- when Sara asked me what numbers 16 might be comfortable I actually don't have enough data to 17 sort of assess what a typical non-accredited investment - 18 - non-accredited investor portfolio would look like.</p> <p>19 CO-CHAIR GRAHAM: I would agree with that.</p> <p>20 MS. TIERNEY: Yes.</p> <p>21 CO-CHAIR GRAHAM: I mean, is it -- is it the 22 number, the amount, the issuer, the industry. You can go 23 -- you can go on and on I think.</p> <p>24 MS. TIERNEY: Right.</p> <p>25 CO-CHAIR GRAHAM: Any other comments? Yes,</p>	<p style="text-align: right;">Page 28</p> <p>1 kind of menu that you can go up and down. I would just 2 posit this. I was just in Birmingham, Alabama at an 3 incredible accelerated incubator down there and I met a 4 whole bunch of accredited private investors that are 5 supporting this giant incubator and accelerator, which 6 took over an old Sears store as a matter of fact. 7 And a bunch of them were saying, effectively said 8 to me I have no idea what I'm doing but I know the 9 business I'm investing in. Like there was a cooking 10 business, they were making a special kind of cold coffee 11 that was going to be in Whole Foods.</p> <p>12 So as you went down some of these 13 conversations, knowledge of the company and knowledge of 14 the industry as opposed to being an accredited investor 15 who knows the investing business, I think that's another 16 interesting dynamic and I think you just touched on it as 17 well. I don't know how you put it into the regs and I 18 don't know how you phrase it, but some of the smartest 19 investors I've ever seen know the company and the 20 industry as opposed to the investing community. 21 And I'm not sure how we commemorate that, but it is 22 something I would argue to include in the argument of the 23 additional things, which is industry knowledge or 24 specific knowledge of the company and the environment, or 25 even the geography that it's in, which you sometimes see</p>
<p style="text-align: right;">Page 27</p> <p>1 Mark.</p> <p>2 MR. WALSH: Just to clarify. These things that 3 you listed are in replacement of the dollar figure --</p> <p>4 CO-CHAIR GRAHAM: No.</p> <p>5 MR. WALSH: -- they are additional too?</p> <p>6 CO-CHAIR GRAHAM: Additional too.</p> <p>7 MR. WALSH: So as long as I have the dollar 8 amount this would be a separate layer on top of that?</p> <p>9 CO-CHAIR GRAHAM: Exactly.</p> <p>10 MR. WALSH: So just a couple of quick thoughts 11 on that. The -- a couple of I think as you mentioned 12 were sort of tautological. They were kind of -- they 13 were self-referential and I think you could probably 14 purge those pretty rapidly.</p> <p>15 But the test idea, I would suggest that whatever 16 test you make the answers will be shared on the Internet 17 for everybody so that the issuers will give the answers.</p> <p>18 I mean, I know -- I know it's an interesting idea, but I 19 just don't see where a test for an individual as opposed 20 to a Series 7, and they're more official and kind of 21 rigorous ones, I'm not sure that would ever work. So I 22 would just personally tell you I think that's going -- 23 that's going to fail.</p> <p>24 And as far as number of investments and dollars 25 and stuff, you're right. I think this is an interesting</p>	<p style="text-align: right;">Page 29</p> <p>1 when you go to these incubators and accelerators or 2 startups that are in places in our nation that typically 3 do not get venture capital as was mentioned in the 4 document.</p> <p>5 CO-CHAIR GRAHAM: Thank you. Laura.</p> <p>6 MS. YAMANAKA: Yes, first off I want to say I 7 really agree with a lot of the ideas that I'm hearing 8 coming across and I really support the idea of broadening 9 the pool of potential funders for this -- in this area. 10 I also want to comment in light of life and what's 11 happening in the world that it's not just about the 12 investors, but it's about the people who have the 13 opportunity to invest.</p> <p>14 So while we want to protect and we want to 15 provide Transparency, and we do have to protect those who 16 are not able to protect themselves, on the other hand as 17 we look at the economy, how it's moving forward, how 18 people accumulate wealth, how they save for their 19 retirement, and how all those economics impact how we all 20 live, I think it's really important that we as a 21 committee see what we can do to balance those factors 22 out.</p> <p>23 Somebody made a comment to me, I was on my way 24 to this trip here and, you know, I told them what I was 25 doing. They were like, oh, my God, you're on this SEC</p>

<p style="text-align: right;">Page 30</p> <p>1 committee, and they don't do anything and who really</p> <p>2 cares.</p> <p>3 And, you know, got my dander up a little bit and I</p> <p>4 gave them my standard answer, and, you know, who cares.</p> <p>5 But then when I really thought about it this is exactly</p> <p>6 why we're here too. Yes, it's for capitalism, it's for -</p> <p>7 - to make sure that we continue to fund at all different</p> <p>8 levels the growth and the innovation of the United</p> <p>9 States, but it's also equally and maybe more important</p> <p>10 that we're giving our people the opportunity at the</p> <p>11 broadest possible section to invest in the United States</p> <p>12 and in their small companies, in the companies that you</p> <p>13 talked about.</p> <p>14 My uncle just died. He didn't go to college.</p> <p>15 He worked right out of high school. He started out at an</p> <p>16 electrical company, okay. He put my parents through --</p> <p>17 my father through college. And when he died he had</p> <p>18 amassed a huge amount of investments. He would have</p> <p>19 never qualified under any of these rules.</p> <p>20 One time I spoke to him, I go, "Uncle, how are you</p> <p>21 doing this?"</p> <p>22 He goes, "Well, you know, I can't do it the</p> <p>23 other way so I just do it by the school of hard knocks."</p> <p>24 And I go, "What do you mean?"</p> <p>25 And he goes, "I knew" -- he knew the electrical</p>	<p style="text-align: right;">Page 32</p> <p>1 investing is invest in what you know and this is what</p> <p>2 small investors do. Yeah, I bet angels have input in it.</p> <p>3 How do we put that into words that our friends at the</p> <p>4 Commission could actually put into a rule?</p> <p>5 MS. MOTT: First of all I probably -- I'll</p> <p>6 speak on behalf of the ACA. I'm sure they would be</p> <p>7 pleased to help participate in defining that. So let me</p> <p>8 ask, was your uncle -- he had the net worth, though,</p> <p>9 right?</p> <p>10 MS. YAMANAKA: Eventually he did, but when he</p> <p>11 started out he was -- he just saved money on the side,</p> <p>12 you know. No, in the beginning he didn't. He was always</p> <p>13 the one who told me, you know, when we were little he</p> <p>14 goes, "You got to save a little money for the rainy day</p> <p>15 and you save, you know, a couple dollars here for this",</p> <p>16 he called it his play fund, right.</p> <p>17 And what happened is over time it -- smart</p> <p>18 investing he got to be -- he would have qualified, okay.</p> <p>19 But it took him how many years? I mean, he lived a long</p> <p>20 time, but that's what he said. He goes, hey, if he knew</p> <p>21 that he could be this successful he would have done this</p> <p>22 first instead of the first 30 years and whatever.</p> <p>23 So their group really made investments viable I</p> <p>24 think after they retired. They retired at 55 and they</p> <p>25 could back, you know, union and stuff. And then after</p>
<p style="text-align: right;">Page 31</p> <p>1 industry, he knew it backward and forwards. He knew what</p> <p>2 would work in the short run and long run. He got his</p> <p>3 buddies together, they made an investment pool, and they</p> <p>4 invested in all these little technologies that, hey,</p> <p>5 maybe you're not going to see it grow, but he did quite</p> <p>6 well, turned over, turned over.</p> <p>7 And I'm going, that's the kind of intelligence,</p> <p>8 funds, resources that we want to encourage here. And the</p> <p>9 fact that -- I like that we're expanding, it's great, I</p> <p>10 think it's wonderful. But I'm thinking are there ways</p> <p>11 that we can also expand the reach for all those people --</p> <p>12 for my uncle out there, for all my uncles out there and</p> <p>13 people who are -- they knew their industry, they know it</p> <p>14 backwards and forwards.</p> <p>15 Because the rules that we're setting are not for</p> <p>16 today or for tomorrow, we're setting the seeds for the</p> <p>17 future. And I got to put my one last shout out for we</p> <p>18 really need data. We really, really need more data so we</p> <p>19 can make solid decisions and not guess and use my uncle</p> <p>20 as evidence. Thank you.</p> <p>21 CO-CHAIR HANKS: In the absence of data, I mean</p> <p>22 how -- does anyone have any ideas on how we do the</p> <p>23 industry specific uncle definition for accredited</p> <p>24 investors? Because I think this is a really excellent</p> <p>25 point. I mean, one of the best statements about</p>	<p style="text-align: right;">Page 33</p> <p>1 that that's when they made their real money.</p> <p>2 MS. MOTT: Okay. So what you and Mark have</p> <p>3 both described is -- characterizes the industry of</p> <p>4 private investors because they provide more than their</p> <p>5 money, they provide their knowledge, their expertise,</p> <p>6 their, you know, their connections. They open up their</p> <p>7 rolodexes to find vendors, suppliers, advisors. I'm</p> <p>8 trying to think. Even when they're doing due diligence</p> <p>9 they're looking in their rolodex and they're connecting</p> <p>10 to -- and I'll just give you an example.</p> <p>11 We looked at a device that is going to help us</p> <p>12 understand and manage strokes. And so we were like, we</p> <p>13 don't have neurosurgeons in our group, but we have</p> <p>14 doctors and doctors who know neurosurgeons. And the next</p> <p>15 thing you know, before you know it, we're calling the</p> <p>16 head of neurosurgery at Columbia University because one</p> <p>17 of our doctors knew him, went to med school with him. So</p> <p>18 that got us someone who could help advise on making those</p> <p>19 decisions.</p> <p>20 So my point is here is you've characterized the</p> <p>21 industry. They want to help these companies be</p> <p>22 successful. It's their own money, it's not someone else's</p> <p>23 money, and it's also typically, you know, their neighbor</p> <p>24 or somebody they know down the -- you know, in their</p> <p>25 community. So it's a little bit different.</p>

<p style="text-align: right;">Page 34</p> <p>1 How we can characterize that in a number, Sara? I</p> <p>2 don't know, but I think it would be worth, you know,</p> <p>3 saying you know -- I mean, we could certainly survey our</p> <p>4 membership. It's just a thought.</p> <p>5 MR. WALSH: I have another suggestion in the</p> <p>6 oft used but rarely achieved synergy amongst government.</p> <p>7 At the SBA we have engaged the Library of Congress,</p> <p>8 which has a for profit research arm, which I did not know</p> <p>9 when I arrived there. And we're doing -- they're</p> <p>10 surveying all of our SBIC investments to see what kind of</p> <p>11 SBIC funds or Latino, African American women managed and</p> <p>12 then what kinds of companies that they invest in to see -</p> <p>13 - to make sure, to validate that we're doing our part to</p> <p>14 get dollars where they often don't go and should go.</p> <p>15 But we're doing another survey with them on</p> <p>16 accelerators and incubators. And -- because we have an</p> <p>17 accelerator, incubator contest that we offer every year</p> <p>18 with hundreds and hundreds of accelerators and incubators</p> <p>19 that submit their plan, and their strategy, and videos</p> <p>20 and we hand them cash awards of \$50,000. The third one</p> <p>21 is happening right now. But we're doing research to make</p> <p>22 sure that the accelerators and incubators we choose are</p> <p>23 better than the ones that we don't choose. And I won't</p> <p>24 bore you with the details, but it's actually a wonderful</p> <p>25 story that we're --</p>	<p style="text-align: right;">Page 36</p> <p>1 we're talking about private placements.</p> <p>2 I think one of the fundamental problems</p> <p>3 everyone has when we're talking about more regulation</p> <p>4 here is investor protection. What does that mean? Are</p> <p>5 we -- I think what it means, what it ought to mean is</p> <p>6 protecting investors from fraud, not protecting investors</p> <p>7 from loss. Most businesses don't work out the way</p> <p>8 they're planned to, and I don't care how much specialized</p> <p>9 knowledge somebody has it doesn't mean this deal is going</p> <p>10 to work out. Because maybe management is not that good,</p> <p>11 maybe the concept is really stupid but they've got a</p> <p>12 really good marketing person or a charismatic individual</p> <p>13 who is able to penetrate the market.</p> <p>14 So I think it's all about disclosure, and in</p> <p>15 essence what investors need to know is that there is risk</p> <p>16 here and the risk factors should identify with</p> <p>17 particularity the kinds of risk that exists here. And I</p> <p>18 think trying to put too precise a point on this we're</p> <p>19 simply going to have lots of wordy regulations that are</p> <p>20 going to be hard to apply.</p> <p>21 So I'm -- I'm happy with sticking with what we</p> <p>22 have, period. If we're going to add things I think the</p> <p>23 specific training, charter financial analysts, the Series</p> <p>24 7 and other FINRA exams are good and the previous</p> <p>25 investment experience would all be things I would</p>
<p style="text-align: right;">Page 35</p> <p>1 So I'm happy to expand that if you're looking</p> <p>2 for either hard data across a large audience or anecdotal</p> <p>3 -- not anecdotal, but survey type data, sample type data</p> <p>4 across a larger audience, happy to expand that and sit</p> <p>5 with you or your teammates to see how the stuff we're</p> <p>6 gathering could be of value in this data need.</p> <p>7 CO-CHAIR GRAHAM: Thank you for that. Greg,</p> <p>8 welcome.</p> <p>9 MR. YADLEY: Thank you. I apologize for being</p> <p>10 late. The date of the meeting was changed and I was on</p> <p>11 vacation, didn't get home until last night, didn't have</p> <p>12 time to shave. But I did find a clean white shirt.</p> <p>13 So I'm not sure what everyone has said but I --</p> <p>14 the draft recommendations I definitely concur in and</p> <p>15 would underscore the do no harm and the fact that we're</p> <p>16 talking about additional exemptions.</p> <p>17 I agree with Mark that a test sounds like a good</p> <p>18 idea, but I'm a part-time law professor and I have to</p> <p>19 change my homework assignments every year in major ways</p> <p>20 because otherwise I get the same bad answers back because</p> <p>21 they're shared.</p> <p>22 I think minimum investments is a good test, but</p> <p>23 it's priming the pump. I was -- I lost on my second</p> <p>24 investment and did okay on my first one and was back to</p> <p>25 even. So it shouldn't be that large of a number when</p>	<p style="text-align: right;">Page 37</p> <p>1 support. Thank you.</p> <p>2 CO-CHAIR GRAHAM: Thank you, Greg. Michael.</p> <p>3 MR. PIECIAK: Thank you, Stephen. I just</p> <p>4 wanted to make a couple of broader policy points from a</p> <p>5 state regulator perspective. When we often think of</p> <p>6 accredited investor we think of wealth and income as a</p> <p>7 proxy for sophistication, experience, knowledge, which I</p> <p>8 think we're all discussing today. But in addition the</p> <p>9 ability to withstand loss as Greg points out, there's</p> <p>10 both the risk of the loss, there's a risk of fraud.</p> <p>11 There's also legal risk in my opinion that, you know, the</p> <p>12 terms of the deal might not be quite what you understood</p> <p>13 them to be or you could be put at risk by future rounds</p> <p>14 of investment, and that's something to be considerate of</p> <p>15 as well.</p> <p>16 So when we move away from, you know, asset</p> <p>17 based qualifications to credentials or a test or things</p> <p>18 of that nature, we move away from the ability to</p> <p>19 withstand loss in terms of the individuals that are</p> <p>20 making the investment. So I just make that point, not to</p> <p>21 make a recommendation but to say, you know, is there some</p> <p>22 way of protecting those investors that are young, have a</p> <p>23 credential but don't have considerable net worth or</p> <p>24 income protecting their investment, protecting their</p> <p>25 future, you know, going forward.</p>

<p style="text-align: right;">Page 38</p> <p>1 On the knowledge of the industry perspective, I</p> <p>2 just wanted to make one point there as well. People can</p> <p>3 have great experience and great knowledge of a particular</p> <p>4 industry, but I think as John, and Greg, and Stephen, and</p> <p>5 other lawyers would attest it doesn't necessarily mean</p> <p>6 that they understand the deal terms, and just for one</p> <p>7 risk for example do they understand what dilution means</p> <p>8 if the next round of investment comes in.</p> <p>9 So there has to be some level of sophistication</p> <p>10 built into someone's knowledge of a particular industry</p> <p>11 or experience in my opinion.</p> <p>12 CO-CHAIR GRAHAM: Thank you, Michael. Anyone</p> <p>13 else? Patrick.</p> <p>14 MR. REARDON: I'm happy with tests or anything</p> <p>15 on sophistication. I do think the problem -- we're not</p> <p>16 going to be able to create a test, so we will have to</p> <p>17 rely on somebody else's certification, like a chartered</p> <p>18 financial analyst. Once you have one test there's going</p> <p>19 to be the me too syndrome, that the certified financial</p> <p>20 planners are going to want to come in and -- or the</p> <p>21 accountants take a test and the lawyers take a test.</p> <p>22 Wherever you go there are going to be people</p> <p>23 that may have credentials and there are going to be</p> <p>24 dummies in there that are going to make bad investments.</p> <p>25 But, I mean, I'm happy as long as -- and Julie pointed</p>	<p style="text-align: right;">Page 40</p> <p>1 know, sophistication goes on both sides of the table and</p> <p>2 you've seen it many, many, times, I've seen it many, many</p> <p>3 times, where you're representing a company and there's</p> <p>4 certain investors that you just stay away from for those</p> <p>5 kinds of reasons.</p> <p>6 MR. REARDON: There's a joke about that. The</p> <p>7 guy goes back to his college reunion, flies in on a</p> <p>8 helicopter. Have you heard this old joke?</p> <p>9 CO-CHAIR GRAHAM: No, please tell.</p> <p>10 MR. REARDON: He gets off with his body guards</p> <p>11 and some of his classmates from the class of whatever go</p> <p>12 up to him and say, "Gee, Joe, you're -- this is great.</p> <p>13 How did you make all this money?"</p> <p>14 And he said, "Well, I make a part for a dollar and</p> <p>15 I sell it for \$4, and that 4 percent interest really adds</p> <p>16 up."</p> <p>17 (Laughter.)</p> <p>18 MR. REARDON: There are a lot of people like</p> <p>19 that. CO-CHAIR GRAHAM: Yeah. Okay. Anyone</p> <p>20 else?</p> <p>21 Well, everyone has a copy of the draft</p> <p>22 recommendation. I'm not going to read through it again.</p> <p>23 But what I would like to do is to, you know, move to</p> <p>24 adopt that recommendation with the following changes that</p> <p>25 we can sort out later this morning or early this</p>
<p style="text-align: right;">Page 39</p> <p>1 out that this -- we had a discussion of this before the</p> <p>2 meeting, and she's got a mind like a steel trap. She</p> <p>3 immediately said this may be already in there, but there</p> <p>4 needs to be a presumption that if somebody says I'm</p> <p>5 sophisticated for this reason that they've got the burden</p> <p>6 if they ever get buyer's remorse of proving they weren't</p> <p>7 sophisticated and there was some reason why the issuer</p> <p>8 should have not accepted that self-certification.</p> <p>9 You know, I'll pick on my own profession.</p> <p>10 There are plenty of lawyers and a lot of lawyers will</p> <p>11 tell you they know everything. But, you know, if they</p> <p>12 lose some money it's going to be that they were cheated</p> <p>13 and deceived and they're going to have remorse over</p> <p>14 making that investment.</p> <p>15 So if you're going into the area of</p> <p>16 subjectivity, and we talked about protecting the</p> <p>17 investor, I worry about protecting the issuer, that the</p> <p>18 issuer is not set up if they -- if the rule says you're</p> <p>19 going to -- you're going to take their certification.</p> <p>20 Well, if I take their certification that's got to be it</p> <p>21 and for -- you know, absent fraud and winking and</p> <p>22 nodding. But, I mean, there are plenty of people out</p> <p>23 there who for whatever reason don't know things and I see</p> <p>24 it all the time.</p> <p>25 CO-CHAIR GRAHAM: Yeah, you're right. You</p>	<p style="text-align: right;">Page 41</p> <p>1 afternoon so we can have a final to look at today. Is</p> <p>2 that feasible?</p> <p>3 And add to that the suggestion that expanding</p> <p>4 the pool to include those who have passed the Series 7,</p> <p>5 65 or 82 exams, you know, makes sense, and that the</p> <p>6 Commission should give some thought to this whole idea</p> <p>7 that we're talking about where it's -- and we touched on</p> <p>8 this a little bit the last time around as well, is that</p> <p>9 when -- when it seems -- it seems a little bit out of</p> <p>10 bounds when we start trying to protect people from</p> <p>11 themselves as opposed to trying to protect people from</p> <p>12 fraudsters when -- because you come from a certain</p> <p>13 background or a certain income level you're not given the</p> <p>14 opportunity to invest in things that could be very</p> <p>15 lucrative.</p> <p>16 The flip side of that is of course as we all</p> <p>17 know is investor protection. That's -- I think that's</p> <p>18 something that needs to be thought about because I think</p> <p>19 that's a real issue. I don't know how you get there</p> <p>20 necessarily, but I think it's something that does deserve</p> <p>21 additional thought. If you can somehow define the</p> <p>22 industry expertise, somehow define the knowledge that you</p> <p>23 might have with respect to a particular company to enable</p> <p>24 you to qualify I think we should kind of put our heads</p> <p>25 together and see if there's an answer.</p>

<p style="text-align: right;">Page 42</p> <p>1 MS. YAMANAKA: Stephen, that's so important. I</p> <p>2 just want to give people the opportunity to play. If we</p> <p>3 can be part of a group that broadens that pool in however</p> <p>4 way we can do it I don't think it could hurt in that</p> <p>5 sense, If people have the opportunity to participate in a</p> <p>6 non-traditional way. Because all the others are, to</p> <p>7 Mark's point, you know, you got to be -- you're in the</p> <p>8 group already. I think that if we can look and see if</p> <p>9 there are other ways if you're not in the group how can</p> <p>10 you participate. Thank you.</p> <p>11 CO-CHAIR GRAHAM: Right.</p> <p>12 CHAIR WHITE: Stephen.</p> <p>13 CO-CHAIR GRAHAM: Yes, please.</p> <p>14 CHAIR WHITE: If I may just follow up</p> <p>15 with a question. Does that also mean -- I mean,</p> <p>16 opportunity to participate, I guess I would ask you -- I</p> <p>17 think I probably know the answer but, you know, your</p> <p>18 views on investment limits coupled with the opportunity,</p> <p>19 broadening the opportunity to participate, I assume --</p> <p>20 let me let -- you answer for yourself, okay.</p> <p>21 MS. YAMANAKA: I struggle with limits, right,</p> <p>22 because I think -- let's take my uncle again. He was in</p> <p>23 a totally different situation. He was a bachelor, he had</p> <p>24 no -- his first big investment was his house that he paid</p> <p>25 off early because he had no family obligations. And he</p>	<p style="text-align: right;">Page 44</p> <p>1 how many times they're told that they might lose</p> <p>2 everything, they never believe it. And then when they</p> <p>3 lose everything then it's -- it's -- you have a difficult</p> <p>4 situation. Well, sometimes yes, sometimes no. Sometimes</p> <p>5 they -- I mean, there are those that are prone to sue,</p> <p>6 but there are others who just lose everything.</p> <p>7 And so, you know, some sort of balance, and I don't</p> <p>8 know what the answer is but, you know, I could -- I can -</p> <p>9 - in this context I would -- I could see the -- I could</p> <p>10 see room for limits. I don't know what they might be,</p> <p>11 but I can see some sort of limitation.</p> <p>12 MS. YAMANAKA: Let's say it's on the table.</p> <p>13 It's a tough, it's a tough question, I agree. I just --</p> <p>14 I think that right now as it stands you're eliminating a</p> <p>15 whole category of people that we can bring into the</p> <p>16 wealth making process of the United States, and not only</p> <p>17 that but they bring something else to the table, to</p> <p>18 Catherine's point and then to Mark's point, regarding</p> <p>19 knowledge and expertise.</p> <p>20 I don't think it's our responsibility to prevent</p> <p>21 loss because if not, you know, we're out of business</p> <p>22 before we start. On the other hand I don't think we're</p> <p>23 talking about people who are going to take their first</p> <p>24 paycheck and put it into this. We're talking about I</p> <p>25 think a different level or segment of the population that</p>
<p style="text-align: right;">Page 43</p> <p>1 was in a different financial situation versus my parents</p> <p>2 who put their kids through college on their own and all</p> <p>3 this other kind of things.</p> <p>4 I think that when you -- like we had all</p> <p>5 indicated earlier, there's no protection against loss. I</p> <p>6 mean, if there is it would be -- you know, this would be</p> <p>7 a different business. So loss is a very real part of the</p> <p>8 equation that people have to understand.</p> <p>9 I think that, and I could be wrong, but I'm hoping</p> <p>10 that people understand when they have to start thinking</p> <p>11 about investments as a normal course of their whole life</p> <p>12 directory it's like having a checking account, thinking</p> <p>13 about retirement, and now, look, they're not going to be</p> <p>14 taken care of. They have to take care of these things</p> <p>15 for themselves. I think that it's fair to them if they</p> <p>16 are going to have that responsibility that they have full</p> <p>17 access to the complement. I'm not saying there has to be</p> <p>18 a lot of education, structure, or whatever those things</p> <p>19 are but, no, we can't protect against loss or limits</p> <p>20 because again by definition you're keeping that pool</p> <p>21 small.</p> <p>22 CO-CHAIR GRAHAM: Yeah, we can't do that and I</p> <p>23 don't know what the answer is, but so many investors that</p> <p>24 are not small investors I don't care how many times, you</p> <p>25 know, they read through the risk factors, I don't care</p>	<p style="text-align: right;">Page 45</p> <p>1 has some sort of knowledge and they're not just investing</p> <p>2 in their 401K at their company level stock.</p> <p>3 CO-CHAIR GRAHAM: Right. It's a difficult</p> <p>4 question.</p> <p>5 MS. YAMANAKA: It's a line.</p> <p>6 CO-CHAIR GRAHAM: I don't know what the answer</p> <p>7 is. But you don't want -- and I have -- I have said I</p> <p>8 don't like paternalistic attitudes, but nonetheless I</p> <p>9 don't want to see somebody lose their house.</p> <p>10 MS. YAMANAKA: Yes, yes, absolutely.</p> <p>11 CO-CHAIR GRAHAM: And it's -- you know, and as</p> <p>12 far as preventing loss is concerned, the idea is to make</p> <p>13 people understand, really truly understand the risk</p> <p>14 involved and the possibility of loss and not to -- not to</p> <p>15 ever hope to prevent loss because that's, that's folly.</p> <p>16 MS. YAMANAKA: Right.</p> <p>17 CO-CHAIR GRAHAM: Greg.</p> <p>18 MR. YADLEY: If we -- if the Commission is</p> <p>19 going to look at limits I would start with the crowd</p> <p>20 funding limits only because one of the things we want to</p> <p>21 keep in mind is simplicity there. And I think the</p> <p>22 Commission has done a good job in the bad actor area</p> <p>23 about trying to get to one standard. So if we're going</p> <p>24 to do that we may as well at least start with something</p> <p>25 that we're going to start, be able to gather data on, and</p>

<p style="text-align: right;">Page 46</p> <p>1 that's Regulation CF.</p> <p>2 Personally part of me says, yeah, it's nice</p> <p>3 that there should be limits. I'm not a gambler, but</p> <p>4 whenever I've been on a cruise ship I've taken the amount</p> <p>5 of money that I've decided I can lose and gone to play</p> <p>6 and gone to bed early.</p> <p>7 And I'll say that my most successful investments</p> <p>8 have been those where my conservative nature came through</p> <p>9 and I said I trust the people, I think it's a good deal,</p> <p>10 I don't want to get over extended, and those have always</p> <p>11 been the best ones.</p> <p>12 So the next time when I invest in something I</p> <p>13 invest more and it doesn't work out. So I think that's</p> <p>14 the problem with limits. But at least a percentage of</p> <p>15 assets or net income, although it's a snapshot at times,</p> <p>16 at a moment in time, and it may prevent you, an individual</p> <p>17 from taking advantage of a deal that you believe in, if</p> <p>18 we're going to do that then I guess that's okay.</p> <p>19 CO-CHAIR GRAHAM: Annemarie.</p> <p>20 MS. TIERNEY: I have a couple of thoughts.</p> <p>21 First of all I would be adamantly opposed to any kind of</p> <p>22 limits that impact the existing structure. So if there</p> <p>23 was a limitation I would think it would need to be on a</p> <p>24 category where there's less comfort, so maybe it's</p> <p>25 somebody who has a minimum investment history. But you</p>	<p style="text-align: right;">Page 48</p> <p>1 they're not looking for a hundred investors, they're</p> <p>2 looking for a limited number, a network of SPV,</p> <p>3 something. They don't want to do a lot of small</p> <p>4 investors.</p> <p>5 So I think again if you look at crowd funding we've</p> <p>6 always talked about, you know, in kind of the area where</p> <p>7 I practice a lot of companies aren't going to want to</p> <p>8 take advantage of crowd funding offerings potentially</p> <p>9 because they're ending up with a lot of really small</p> <p>10 investors. And we've talked in a conference that I've</p> <p>11 attended, venture capital firms have said they will</p> <p>12 probably never come in and invest after a crowd funding</p> <p>13 round because there's just going to be too many people on</p> <p>14 the cap table and too hard to manage.</p> <p>15 So again they do have a small limitation amount.</p> <p>16 It will impact what they can invest in, it will impact</p> <p>17 issuers' interests in allowing them to invest. So I</p> <p>18 think we have to be really careful to balance that as</p> <p>19 well.</p> <p>20 CO-CHAIR GRAHAM: Thank you for that. Again I</p> <p>21 -- let's stipulate that we're not doing anything to the</p> <p>22 core, the core framework, right. And then anything that</p> <p>23 we might add to that, for example passing a Series 7, et</p> <p>24 cetera, that we're not talking about applying limits to</p> <p>25 that either, at least that's not what I'm thinking.</p>
<p style="text-align: right;">Page 47</p> <p>1 certainly wouldn't want to tell a financially accredited</p> <p>2 investor that they were -- that they needed to be limited</p> <p>3 in their investment. I think the --</p> <p>4 CO-CHAIR GRAHAM: No, not at all.</p> <p>5 MS. TIERNEY: -- thing you need to think about</p> <p>6 when you talk bout limits is that's going to preclude</p> <p>7 limited people from investing in a lot of opportunities</p> <p>8 because there's always a minimum investment amount. So</p> <p>9 if you have a minimum investment amount of \$25,000 or</p> <p>10 \$50,000, Catherine, right, in a normal angel investment -</p> <p>11 -</p> <p>12 MS. MOTT: The average is 20.</p> <p>13 MS. TIERNEY: The average is 20. Then if you</p> <p>14 set a limit that precludes people from investing that</p> <p>15 amount then they're already out of -- they're out of the</p> <p>16 network of investing, and then maybe they can only invest</p> <p>17 in one opportunity a year.</p> <p>18 So I think you have to be really careful with</p> <p>19 limitations because you're going to shoot yourself in the</p> <p>20 foot. You're not going to get -- these people are not</p> <p>21 going to get the opportunity to invest.</p> <p>22 Also I think companies that are raising capital</p> <p>23 probably are tending to look to accumulate the capital</p> <p>24 from a limited number of investors, right. Most Reg D</p> <p>25 506 offerings, you know, they're not looking to invest,</p>	<p style="text-align: right;">Page 49</p> <p>1 I'm thinking about -- and again I don't have the</p> <p>2 answer, but just going back to those individuals that</p> <p>3 otherwise would be left out, how do you bring them in in</p> <p>4 a rationale way.</p> <p>5 Catherine.</p> <p>6 MS. MOTT: So, yes, I wanted to respond to</p> <p>7 Commissioner White's question because, you know, one of</p> <p>8 the things I've -- you know, my first -- let me talk</p> <p>9 historically. The industry has changed dramatically over</p> <p>10 the past ten years. I made my first investment in 1999,</p> <p>11 and it was one of those things where I was sitting,</p> <p>12 talking to some folks, sitting at the bar talking bout a</p> <p>13 deal. It was Smart tech, Smart card technology. It</p> <p>14 sounded great and I wrote my check without any due</p> <p>15 diligence, you know, lost everything. But you know --</p> <p>16 But how the industry has changed since that</p> <p>17 time you know, with dot com and what it's like today. It</p> <p>18 is much more sophisticated. Best practices are out</p> <p>19 there. There was not -- there was no Angel Capital</p> <p>20 Association, there were no portals like Angel List and</p> <p>21 other things that really help the individual investor</p> <p>22 with a portfolio approach.</p> <p>23 Because this is -- as a matter of fact we have an</p> <p>24 orientation, most of the best practices of the ACA has an</p> <p>25 orientation program and that includes -- we take</p>

<p style="text-align: right;">Page 50</p> <p>1 everything that our financial advisors tell us and say, 2 hey, we advise that this -- you know, we're not telling 3 you how much to put in here or how much to do, but we 4 advise that you limit it to 10 percent of your investable 5 assets. So we tell them that.</p> <p>6 We also say that we -- you should not invest in 7 less than ten companies, and even ten may not be right. 8 I mean, some of the research that we've done and we've 9 shown is that it may mean 15 or 18 in order to get a 27 10 percent, you know, return on investment.</p> <p>11 So, I mean, so the industry has changed, and so 12 even if you're an individual investor like your uncle now 13 there is information available now that he could just 14 search the Internet and with his group of friends say, 15 oh, gee, we shouldn't put all our eggs in one basket, 16 although there's a temptation to do that sometimes 17 because this is -- this next antibiotic is going to be 18 the best thing ever and I'm going to put \$300,000 in it 19 and, you know what I mean. There is a temptation there.</p> <p>20</p> <p>21 But as again the information has -- the whole 22 industry has changed and you can jump onto Angel List or 23 a crowd funding portal, something like that that will 24 help you make some decisions differently than you would 25 have 12 years ago.</p>	<p style="text-align: right;">Page 52</p> <p>1 it. He was smart but, you know, I just think there are a 2 lot of people out there doing those things and to not let 3 them expand -- but however we can do it.</p> <p>4 CO-CHAIR GRAHAM: Okay.</p> <p>5 CO-CHAIR HANKS: Jonathan.</p> <p>6 CO-CHAIR GRAHAM: Okay, Lisa.</p> <p>7 MS. SHIMKAT: I just wanted to add a little bit 8 on the -- I don't think that we need to put more limits 9 on and I know that it is something that was just out 10 there and thrown on the table, because I think when we 11 start overstepping back into the -- away from protection 12 of fraud and more protection for themselves. And we have 13 to remember, too, what makes the headlines. What makes 14 the headlines is a fraud or -- and that's how somebody 15 lost it.</p> <p>16 It's just like the customer service. You hear from 17 the 2 percent that had a bad experience but you don't 18 hear from the 98 percent that had a wonderful experience.</p> <p>19 And so I think, though, the news media grabs those 20 first and that's what we have to remember, that that is not 21 the majority hopefully out there.</p> <p>22 And we do business differently now, it is so much 23 different. It's like the whole incubator, the whole 24 industry is inside out now and we're pushing resources to 25 it. So I appreciate what we have now and I just want to</p>
<p style="text-align: right;">Page 51</p> <p>1 MS. YAMANAKA: I just want to point out that my 2 uncle didn't know about the ACA. I don't think he got 3 the Internet in the last, you know, whatever. But a lot 4 -- but the portfolio, the limitation, the expertise, they 5 -- his group had all of those in place. So if one of the 6 guys said, hey, I got this buddy and he wants to like 7 whatever -- and remember they're all kind of similar 8 industries. So they would put less money in and if they 9 had three of them they would put more money in. 10 And they had this whole thing on liquidation, you 11 know, as far as how much do they want to get out, when, 12 who, the tax situation, the extra money, because they 13 would have their meetings in Vegas, right. All of these 14 things that -- it's kind of funny because when I started 15 reading all the best practices they were already doing 16 it.</p> <p>17 So my point is I think there's a lot of people 18 out there that we don't realize who don't have the 19 opportunity to sit in this room, who don't have the 20 little degrees, haven't gone to college in that way, 21 aren't connected, aren't on the Coast, that are doing 22 this and we probably don't know about it, which gets back 23 to my thing about really with liking to have data to 24 either tell me my uncle was the aberration, the only man 25 in his group in the United States doing that. I doubt</p>	<p style="text-align: right;">Page 53</p> <p>1 make sure that we don't start the conversation again to 2 where we're trying to protect people from themselves 3 again.</p> <p>4 CO-CHAIR GRAHAM: Okay. It's about time to 5 wrap up. Commissioner Stein, did you have something?</p> <p>6 COMMISSIONER STEIN: No, Jonathan has --</p> <p>7 CO-CHAIR GRAHAM: I'm going to Jonathan.</p> <p>8 COMMISSIONER STEIN: I'm fine.</p> <p>9 CO-CHAIR GRAHAM: You're fine, okay. So 10 Jonathan, wrap it up.</p> <p>11 MR. NELSON: Just to kind of dovetail on what 12 Ms. Mott was saying, has there been any discussion in 13 terms of protecting investors from bad investments by 14 encouraging them, like smart defaults would be to 15 actually help them create portfolios of 20 to 25 16 companies? From what I understand it's actually -- 17 unaccredited investors actually can't make those types of 18 investments, they can't actually invest in funds. But 19 portfolio diversification is actually one of the best 20 ways to actually encourage, you know, actually to build 21 those results in those, have those IRRs.</p> <p>22 I also in terms of investor protection was 23 talking with a friend of mine who runs the largest 24 secondary fund in Silicon Valley and he was saying that 25 one of the reasons that there aren't as many publicly</p>

<p style="text-align: right;">Page 54</p> <p>1 listed companies is because frankly the returns on 2 capital are all in the private markets. Unaccredited 3 investors only have public markets to actually invest in 4 or they have real estate, and when everybody gets frothy 5 about that we've seen what happens there. 6 I think it would be interesting to encourage them 7 to invest in these other asset classes and actually build 8 smart defaults by building portfolios. I don't 9 necessarily see that listed here, but I was wondering if 10 anybody else had had conversations along those lines. 11 CO-CHAIR GRAHAM: You know, that might dovetail 12 into what we've talked about and we'll probably get to in 13 later meetings, and that's outreach. I think there's a 14 lot of educating that needs to be done on both sides of 15 the table. 16 Okay, so we have the -- we have the draft 17 recommendation from last time and I'm suggesting that we 18 add to that, that we suggest expanding the pool of 19 accredited investors by including those who have passed a 20 Series 7, 65 or 82 exams. And I'll also ask the 21 Commission to look for ways to be more inclusive, 22 shorthand for what we've been talking about for the last 23 30 minutes. 24 Any -- does that -- does that -- 25 MR. REARDON: What about the CFP exam?</p>	<p style="text-align: right;">Page 56</p> <p>1 So we should probably think about the financial 2 designations. And I would even throw in, you know, the 3 MBA as well as a component for identifying a 4 sophisticated investor. 5 CO-CHAIR HANKS: I think we all know a lot of 6 MBAs who are as stupid as JDs. 7 CO-CHAIR GRAHAM: If not more so. So -- 8 MR. WALSH: They were in my class by the way. 9 CO-CHAIR GRAHAM: It's -- I don't recall being 10 in your class but -- 11 So why don't we say 7, 65, 82, CFA or similar? 12 CO-CHAIR HANKS: Yeah, similar or equivalent, 13 yeah. 14 CO-CHAIR GRAHAM: Okay. Anything else? Can I 15 get a motion? 16 (Motion made and seconded.) 17 CO-CHAIR GRAHAM: Any additional discussion? 18 All those in favor? 19 (Chorus of ayes.) 20 CO-CHAIR GRAHAM: Opposed? 21 (No response.) 22 CO-CHAIR GRAHAM: Okay, thank you. 23 We're just a little bit behind, but let's just 24 kind of dive into Regulation A. 25 Sarah.</p>
<p style="text-align: right;">Page 55</p> <p>1 CO-CHAIR GRAHAM: I'm sorry? 2 MR. REARDON: CFP, chartered financial -- no, 3 it's chartered financial analyst, CFA. 4 MR. YADLEY: Yeah, CFA is really -- I mean, my 5 son passed it so I know how hard it is. I would -- and I 6 mentioned that earlier. 7 CO-CHAIR GRAHAM: Okay. 8 MR. YADLEY: And I'm not sure that CPAs and law 9 degrees really matter. 10 CO-CHAIR GRAHAM: No. 11 MR. YADLEY: But I think the chartered 12 financial analyst is a pretty good -- 13 CO-CHAIR GRAHAM: I can assure you they don't. 14 15 CO-CHAIR HANKS: WE all know too many lawyers. 16 17 MS. TIERNEY: What were the exam numbers that 18 you were suggesting? I'm sorry, I heard the 7 and the -- 19 CO-CHAIR GRAHAM: 65. 20 MS. TIERNEY: so that's the financial advisor? 21 CO-CHAIR GRAHAM: And 82. 22 MS. TIERNEY: Okay. 23 MR. AGUILAR: Yeah, there's a few exams that I 24 think are tougher than the Series 7, like the CFA, the 25 CAIA, which is an alternative investment certification.</p>	<p style="text-align: right;">Page 57</p> <p>1 CO-CHAIR HANKS: All right. So one of the 2 things we were talking about earlier is the fact that a 3 number of us have been distressed by the fact that 4 there's a lot of small businesses out there who really 5 don't know how many options there are for capital raising 6 outside of the public market. This ties into what we've 7 been talking about throughout this committee with respect 8 to outreach to small businesses, and I'll get to the 9 investor side of that in a second. 10 But we're now celebrating the 13 month 11 anniversary or so of implementation of one of those 12 exemptions, which is Regulation A, also referred to as 13 Regulation A+ or the mini IPO. And I hadn't realized 14 that -- are you guys okay with calling it a mini IPO? We 15 -- 16 (Laughter.) 17 CO-CHAIR HANKS: I'm going to take that -- 18 A PARTICIPANT: A+ is nice. 19 CO-CHAIR GRAHAM: It's not okay. 20 A PARTICIPANT: Stick with A+. 21 CO-CHAIR HANKS: So I personally don't call it 22 a mini IPO because the implications of public markets. 23 But those amendments went into effect just over 24 a year ago and now companies can do offerings up to \$50 25 million in a twelve month period.</p>

<p style="text-align: right;">Page 58</p> <p>1 We talked about Reg A back in our February</p> <p>2 meeting and several of us have worked with companies who</p> <p>3 have contemplated or executed a Reg A offering. I've got</p> <p>4 to say I've worked on 11 filings of Reg A now and I</p> <p>5 really want to give some props to the Commission and the</p> <p>6 staff because it is very much a right sized scaled</p> <p>7 approach to the whole review process. I've had no</p> <p>8 problems with it and I can say that all of the filings</p> <p>9 I've worked on are better coming out of the SEC review</p> <p>10 process than they were going in and it's really not been</p> <p>11 too burdensome. So well done on hitting the right</p> <p>12 balance there, and all of my clients would have said the</p> <p>13 same thing.</p> <p>14 But now that we've got this one year</p> <p>15 anniversary it's a good time to start thinking about how</p> <p>16 it's been used. From my own experience I've seen that</p> <p>17 there's a number of filings out there. As the Chair said</p> <p>18 there's been roughly a hundred filings. It looks like</p> <p>19 roughly half of them are real estate, which is a</p> <p>20 completely different asset class in many ways, and some</p> <p>21 of these that we identify I think don't apply to real</p> <p>22 estate. Some of the real estate companies have been very</p> <p>23 successful.</p> <p>24 There have been a lot of really exciting</p> <p>25 companies filing who are operating companies, roller</p>	<p style="text-align: right;">Page 60</p> <p>1 of presentations. We are lucky to have Paul Elio. We</p> <p>2 are going to have that? Okay. So we're going to be</p> <p>3 joined virtually by Paul Elio, one of the success stories</p> <p>4 of Reg A. And before we hear from Paul, Sebastian is</p> <p>5 going to give us a brief update with some stats.</p> <p>6 Sebastian.</p> <p>7 MR. GOMEZ: Thanks, Sara. So as all of you</p> <p>8 know the rules became effective June 19th of last year.</p> <p>9 Just briefly to bring everyone up to date as to what Reg</p> <p>10 A or Reg A+ is, it's an exemption from registration and</p> <p>11 as amended it consists of two tiers. Tier one for</p> <p>12 offerings of up to \$20 million a year and tier two for</p> <p>13 offerings of up to \$50 million a year.</p> <p>14 For offerings of up to \$20 million a year a</p> <p>15 company can elect to proceed either under tier one or</p> <p>16 tier two. Both of those tiers are subject to basic</p> <p>17 requirements as to eligibility, disclosure, and other</p> <p>18 matters that were drawn from the current, what existed in</p> <p>19 Reg A before and updated by the Commission.</p> <p>20 Both tiers also permit companies to submit</p> <p>21 draft offering statements for non-public review. That</p> <p>22 means that a company that wants to start the process</p> <p>23 doesn't have to actually go live, public in the filing,</p> <p>24 but can commence a review of that filing behind the</p> <p>25 scenes with the staff and start getting those comments</p>
<p style="text-align: right;">Page 59</p> <p>1 coasters for example, virtual reality companies, every</p> <p>2 sort of three wheeled vehicle that you can imagine. I</p> <p>3 think there's about five of them testing the waters or</p> <p>4 filing at the moment. So there's some very exciting</p> <p>5 companies there.</p> <p>6 But to answer the question that Commissioner</p> <p>7 Stein raised earlier, she was asking why aren't more</p> <p>8 companies using this exemption. And I think part of the</p> <p>9 answer is the investors don't know it's out there. We've</p> <p>10 already seen a number of these really exciting companies</p> <p>11 file, not get anywhere, withdraw, and that seems really</p> <p>12 disappointing, and especially building on the thing that</p> <p>13 Laura was talking about earlier about access and the</p> <p>14 ability for small investors to build their portfolio.</p> <p>15 I mean, here is a very safe place where investors</p> <p>16 could build their portfolio. These securities have been</p> <p>17 -- they've gone through an SEC review process. They are</p> <p>18 very risky, but they are less risky in many ways than</p> <p>19 some of the Reg D offerings we've talked about before. I</p> <p>20 think it's a real shame that the investors are not yet</p> <p>21 turning up, and I think the fact that the investors are</p> <p>22 not turning up is one of the reasons why the issuers are</p> <p>23 not filing, and you've got a whole chicken and egg thing</p> <p>24 going on there.</p> <p>25 So anyway, today we're going to hear a couple</p>	<p style="text-align: right;">Page 61</p> <p>1 from the staff before they actually go public with their</p> <p>2 filing.</p> <p>3 Companies can also test the waters both before</p> <p>4 the filing of the offering circular and while the</p> <p>5 offering circular is under review by the Commission, by</p> <p>6 the staff. In addition to the basic requirements that</p> <p>7 applies to both tiers. Tier two offerings are subject to</p> <p>8 some other requirements, including the requirement to</p> <p>9 provide audited financial statements, the requirement to</p> <p>10 file annual and semi-annual reports, and a limitation on</p> <p>11 the number of securities that non-accredited investors</p> <p>12 can purchase of no more than 10 percent of the greater of</p> <p>13 the investor's income or net worth.</p> <p>14 So touching upon the numbers that the Chair</p> <p>15 mentioned this morning, more specifically since the</p> <p>16 effectiveness of the rules, and that's as of July 5th,</p> <p>17 issuers have publicly filed 108 offerings with the</p> <p>18 Commission. A number have taken advantage of this non-</p> <p>19 public staff review process that I have described. The</p> <p>20 108 public filings are seeking an aggregate amount of</p> <p>21 just over \$2 billion.</p> <p>22 Of the publicly filed offering statements our data</p> <p>23 indicates that there's a largely even divide between tier</p> <p>24 one offering and tier two offerings. And since the</p> <p>25 effectiveness of the final rules the Commission has</p>

<p style="text-align: right;">Page 62</p> <p>1 qualified 48 offering statements. Qualification means</p> <p>2 the staff has completed the review process and the</p> <p>3 company can begin selling the securities. Those</p> <p>4 qualified offerings are seeking to raise \$841 million.</p> <p>5 That's all that I have, Sara.</p> <p>6 CO-CHAIR HANKS: I had another question for</p> <p>7 you, Sebastian, on the rulemaking petition we understand</p> <p>8 from OTC to expand the companies who can use Regulation</p> <p>9 A. And I wondered if you might explain to everybody what</p> <p>10 the issue and what the process is for that rulemaking</p> <p>11 petition.</p> <p>12 MR. GOMEZ: Sure. For all of those of you who</p> <p>13 want to take a look at it, anyone can submit a rulemaking</p> <p>14 petition to the Commission. They're actually posted on</p> <p>15 the SEC website. So anyone can go to the SEC website and</p> <p>16 look at the specific petition.</p> <p>17 The petition is seeking to expand Reg A with</p> <p>18 respect to two aspects. One is to permit companies that</p> <p>19 are already reporting companies to use the exemption.</p> <p>20 The original Reg A and as amended by the Commission, both</p> <p>21 of them excluded from participating in the exemption</p> <p>22 companies that were already reporting companies, so</p> <p>23 companies that had already done the IPO and were already</p> <p>24 reporting companies.</p> <p>25 So the petition asked for the Commission to</p>	<p style="text-align: right;">Page 64</p> <p>1 the securities pursuant to that tier two offering to</p> <p>2 register a class of securities, so the equivalent of</p> <p>3 actually doing an IPO. Instead of doing it through the</p> <p>4 traditional registration statement and Form S-1 the</p> <p>5 company would do the Reg A offering and then try to</p> <p>6 register the class of securities afterwards.</p> <p>7 To date there's been very, very few companies</p> <p>8 who have done the tier two offering in conjunction with</p> <p>9 an 8(a). I'm aware of at least one, but it's a very small</p> <p>10 number compared to the total pool.</p> <p>11 MS. TIERNEY: Thank you.</p> <p>12 MR. REARDON: Sebastian, can you tell, do you</p> <p>13 happen to know out of the 108 how many had placement</p> <p>14 agents or underwriters, whatever they're called in these</p> <p>15 offerings?</p> <p>16 MR. GOMEZ: That's a great point, Patrick. I</p> <p>17 don't have the specific numbers, but it is a very small</p> <p>18 percentage of them. A lot of them, the vast majority of</p> <p>19 them are self-underwritten. There has been some of those</p> <p>20 offerings that had underwriters or placement agents, but</p> <p>21 it's a small percentage of the 108 pool.</p> <p>22 MR. REARDON: That might be an avenue because,</p> <p>23 I mean, to reach out to the small broker/dealers are</p> <p>24 these done on at best -- I assume they're best efforts?</p> <p>25 MR. GOMEZ: That's right. And Sara may have</p>
<p style="text-align: right;">Page 63</p> <p>1 expand the issuer eligibility to allow those companies to</p> <p>2 use the exemption. In addition to that the petition also</p> <p>3 asked with respect to resale of the securities for</p> <p>4 expansion there as well. I encourage everyone to take a</p> <p>5 look at it.</p> <p>6 As far as the process itself, once a petition</p> <p>7 comes in the staff will look at it and consider it and</p> <p>8 provide recommendations to the Commission. The staff is</p> <p>9 currently taking a look at that petition.</p> <p>10 CO-CHAIR HANKS: Thank you, Sebastian.</p> <p>11 MS. TIERNEY: Can I just ask a question on the</p> <p>12 data? So Sebastian, of the 48 companies that have been</p> <p>13 qualified do you have a breakdown of how many of those</p> <p>14 were tier two and did any of them also file the 8(a)?</p> <p>15 I'm just curious, though, are they just doing the</p> <p>16 straight tier two or are they doing the tier two with the</p> <p>17 8(a)? Is there any trend there?</p> <p>18 MS. GOMEZ: So the -- I don't have the specific</p> <p>19 numbers, but the divide between tier one and tier two</p> <p>20 companies for qualification was also largely equal in</p> <p>21 their -- so there wasn't really a big difference with</p> <p>22 that respect.</p> <p>23 The 8(a) for all of you who are not aware of</p> <p>24 it, it's another form that allows a company that does a</p> <p>25 tier two offering to also in connection with the sale of</p>	<p style="text-align: right;">Page 65</p> <p>1 some more. She worked on a number of them. So you may</p> <p>2 have some idea as to the thinking between -- Paul might</p> <p>3 also have some thoughts as to the thinking between the</p> <p>4 writing, the offering versus self-underwritten, best</p> <p>5 efforts.</p> <p>6 CO-CHAIR HANKS: There's some real challenges</p> <p>7 there because one of the issues very few of them as</p> <p>8 Sebastian says have -- there's several different ways of</p> <p>9 going about it, you know, firm commitment, underwriting,</p> <p>10 there aren't any best efforts, a person saying that</p> <p>11 they're in underwriting, the selling broker, it's</p> <p>12 probably about 10 percent of those filings. And then the</p> <p>13 next level down is either completely self-underwritten,</p> <p>14 or they're going out on their own, or they're using an</p> <p>15 executing broker/dealer to address state Blue Sky</p> <p>16 broker/dealer issues.</p> <p>17 So there's very -- various different levels.</p> <p>18 Part of the problem here from the point of view of</p> <p>19 brokers is a lot of these companies -- and we're talking</p> <p>20 about operating here as opposed to real estate -- a lot</p> <p>21 of them are complete startups with negative shareholder's</p> <p>22 equity and no revenues. There are a lot of broker/dealers</p> <p>23 who are not the slightest bit interested in this. So --</p> <p>24 MR. REARDON: Okay, thank you.</p> <p>25 MR. WALSH: Just going over the math one more</p>

<p style="text-align: right;">Page 66</p> <p>1 time. You said 108 registrants with \$2 billion in total 2 ask. 48 were qualified with \$800 million. The delta -- 3 or have they been withdrawn? What's the delta, what's 4 going to happen to the Delta?</p> <p>5 MR. GOMEZ: So part of it is the fact that this 6 is relatively new. So you have a one year period in 7 which the companies are going through a process of filing 8 the offering document. It goes through the review 9 process with the staff. The ones that are tier one are 10 also going through the review process at the state level.</p> <p>11 So part of the delta is the fact that it's just 12 so new. A number of companies that were the earlier 13 filers have completed the process and already cleared it.</p> <p>14 The 108 also includes companies that have very recently 15 filed and are just starting the process. So I think the 16 delta is something that as time progresses I expect that 17 it's going to be compressed and it's just due to the fact 18 that this is very new.</p> <p>19 CO-CHAIR GRAHAM: So again how much has 20 actually been raised that we're aware of?</p> <p>21 MR. GOMEZ: So that's a great question, Steve, 22 and I'll give you a number, but also want to put that 23 number in context. The rules require a company to report 24 to the SEC the total amount that has been raised once the 25 offering has been completed. And if the company is a</p>	<p style="text-align: right;">Page 68</p> <p>1 Engineering. He is an automotive enthusiast who saw a 2 need for radically different vehicle, and if you've seen 3 them they are really radically different. They are 4 economical in terms of initial purchase price and ongoing 5 fuel costs as well as safe, environmentally conscious, 6 and fun to drive.</p> <p>7 So in 2009 he founded Elio Motors, the design and 8 manufacturing company, to make efficient, low cost, three 9 wheeled vehicles in the United States. In November 2015 10 he began a Regulation A offering of Elio's common stock. 11 They have raised nearly \$17 million from the offering. 12 The shares are now traded on the OTCQX market and we 13 thought it would be interesting to hear both from Elio 14 and later OTC Markets about their experiences with Reg A.</p> <p>15 And Paul, thank you for joining us and go 16 ahead.</p> <p>17 MR. ELIO: Thanks for having me. My 18 understanding is you kind of wanted to go through a 19 little overview of the company first and then talk about 20 Reg A+.</p> <p>21 This is a very interesting conversation to listen 22 in on. I have to say that the single biggest hurdle in 23 creating Elio Motors was attracting capital. And I don't 24 think if Reg A+ hadn't happened we would have made it. 25 This was absolutely key to our success. So I thank you.</p>
<p style="text-align: right;">Page 67</p> <p>1 tier one company they will file a short form that reports 2 how much was raised after the offering was completed.</p> <p>3 The companies that are tier two will report that in 4 their annual report.</p> <p>5 A lot of these offering's costs they are self- 6 underwritten. Best efforts by the company are very long 7 going. So the company has not completed the offering 8 itself, so has not reported -- has not been required to 9 report how much they sold because the offering is still 10 ongoing.</p> <p>11 So the data that we have is the data for the 12 very small sliver of companies that likely underestimates 13 how much has been sold because of the fact that it only 14 captures those companies that have actually completed 15 their offering, meaning they filed, qualified, and 16 completed the offering. The data has been reported as 17 \$99 million to date, but keep in mind the caveat because 18 it likely underestimates companies that have started 19 selling but have not completed the offering themselves.</p> <p>20 CO-CHAIR GRAHAM: Thanks.</p> <p>21 CO-CHAIR HANKS: All right. We are ready to go 22 to Paul. So thanks, everyone. We are now pleased to 23 have Paul Elio join us from Phoenix, Arizona. Prior to 24 founding Elio Motors Paul was an engineer at Johnson 25 Controls, CEO of the Automotive Consultancy ESG</p>	<p style="text-align: right;">Page 69</p> <p>1 So any forward looking statements. So 2 basically Elio is about four things: a compelling value 3 proposition, low price and high mileage. So our target 4 sticker price is \$6,800 and our target mileage is 84 5 miles per gallon. And either one of those by themselves 6 is compelling, but when you put them together it's an 7 overwhelming value proposition.</p> <p>8 It's got to be safe. We're designing it to the 9 highest automotive safety standards. We aren't allowing 10 any new technology. I believe technology risk is the 11 death now of many pre-revenue startups, right. Even if 12 you bet on the technology, if it takes you six or nine 13 months longer to work out the thought and you're working 14 off of other people's money bad things happen. So by 15 using all technology that's already out there, it's 16 already being made and on other vehicles and executing it 17 on this vehicle, we substantially mitigate that risk.</p> <p>18 And we're committed to making it in America. We 19 control a site that we got out of the GM bankruptcy in 20 Shreveport, Louisiana. And we have a target of 90 21 percent North American content and I think we'll come 22 very close to that. So not only is it assembled in 23 America but the parts are coming from here as well.</p> <p>24 The basic architecture is it seats two people 25 front to back. The reason for that seating configuration</p>

<p style="text-align: right;">Page 70</p> <p>1 is that's the key to the gas mileage. At highway speeds</p> <p>2 most of your fuel goes to moving air. We are half as</p> <p>3 wide and we move half as much air, so we get double</p> <p>4 mileage.</p> <p>5 It has three wheels, which technically makes it a</p> <p>6 Motorcycle, but what it does for us is it hides that</p> <p>7 third wheel behind the air stream that you've already</p> <p>8 moved. So it improves aerodynamics. It's front engine,</p> <p>9 front wheel drive. So 70 percent of your mass and all</p> <p>10 your traction is happening over those front two wheels.</p> <p>11 This is showing some of the engineering going</p> <p>12 on behind the scenes. This is the front, side and rear</p> <p>13 impact analysis, the computational fluid dynamics, which</p> <p>14 is predicting drag, which drives our gas mileage</p> <p>15 calculations. This is a high speed swerve at 50 miles an</p> <p>16 hour and this is showing the interior finish.</p> <p>17 So this is not a paper napkin sketch. There's</p> <p>18 a lot of work that's gone on with this project.</p> <p>19 We believe that there are four markets that we</p> <p>20 can sell Elio into. Two of them exist and two of them we</p> <p>21 are going to create all by ourselves, at least for a</p> <p>22 time. The first and most obvious is the new car market.</p> <p>23 It's traditionally about 16 million units a year. It's</p> <p>24 more this year than probably next year. It's highly</p> <p>25 developed, highly segmented, with hundred year old</p>	<p style="text-align: right;">Page 72</p> <p>1 credit card and every time you charge gas we charge a</p> <p>2 trip. So buy \$10 worth of a gas and it shows up as a \$30</p> <p>3 charge on your credit card statement and that \$20 extra</p> <p>4 goes to paying down your loan, right, it's your car</p> <p>5 payment.</p> <p>6 Now as long as you drove into the dealership in</p> <p>7 something that gets 27 miles to the gallon or less, and</p> <p>8 all 100 million of those old cars do, your monthly fuel</p> <p>9 bill actually goes down, right. Three times 27 is 81 and</p> <p>10 we get 84. So from the consumers' perspective they have</p> <p>11 a brand new vehicle, under warranty, that's fun to drive.</p> <p>12 They don't have a car payment and they are guaranteed to</p> <p>13 spend less on gas. Next month they'll triple the amount</p> <p>14 on their brand new Elio than they did single amount on</p> <p>15 their clunker last month on the vehicle they were</p> <p>16 struggling to keep on the road. We can literally give</p> <p>17 cars away with 100 million old cars driving.</p> <p>18 The last segment that we create is the third</p> <p>19 vehicle or the and vehicle, a-n-d. So the premise here</p> <p>20 is that Americans buy big vehicles for a reason, right.</p> <p>21 We like to disparage ourselves as being wasteful and</p> <p>22 lazy, but the reality is you can't haul plywood in a</p> <p>23 Prius, you can't tow a boat with a Versa, right. And we</p> <p>24 buy big vehicles with a specific use in mind and we use</p> <p>25 that vehicle for that purpose. Five percent of it is</p>
<p style="text-align: right;">Page 71</p> <p>1 players with great reputations, and quite honestly we</p> <p>2 will get our hats handed to us in that market. We're not</p> <p>3 going to go in and take 100,000 Toyota, Ford or GM</p> <p>4 customers away. So although it's by far the most obvious,</p> <p>5 it's the least interesting.</p> <p>6 The next market that also exists is the used car</p> <p>7 market. It's traditionally 2-1/2 to 3 times larger than</p> <p>8 the new car market and I think we play very well there.</p> <p>9 If your alternative is a 120,000 mile Civic for \$7,000 or</p> <p>10 a brand new Elio for \$7,000 I think I would win a fair</p> <p>11 number of those.</p> <p>12 Then we have the two markets that we create.</p> <p>13 First is the clunker market. There's approximately 100</p> <p>14 million clunkers on U.S. highways. Now these are</p> <p>15 different than used cars. These are cars that people are</p> <p>16 using duct tape and bubble gum to keep on the road</p> <p>17 because they can't afford to trade up to get a better</p> <p>18 used car. I think we would do very well in this segment.</p> <p>19</p> <p>20 We're going to run a program aimed at those folks</p> <p>21 called let your gas savings make your payments. And the</p> <p>22 way it works is you walk in showroom, sign your name, you</p> <p>23 get a brand new vehicle and a credit card with a \$300</p> <p>24 limit on it and we let you walk back out the door. Now</p> <p>25 the deal is you have to charge all your fuel with that</p>	<p style="text-align: right;">Page 73</p> <p>1 minds, right.</p> <p>2 And because small cars are too expensive they're</p> <p>3 not a choice. And so we end up driving all that metal</p> <p>4 back and forth to work all by ourselves to have that</p> <p>5 functionality when we need it.</p> <p>6 At \$6,800 and 84 miles per gallon Elio becomes</p> <p>7 a choice. So you buy and keep the big vehicle for the</p> <p>8 reasons that you wanted it and you buy an Elio too. Now</p> <p>9 we have been preaching that this segment existed and now</p> <p>10 we have data. We pulled our reservations, and this is</p> <p>11 about a year, year-and-a-half ago, and asked them if they</p> <p>12 were going to trade a vehicle. Ninety percent said they</p> <p>13 were not going to trade in a vehicle, they were just</p> <p>14 going to buy an Elio.</p> <p>15 So we've now demonstrated that this vehicle or this</p> <p>16 segment exists and almost of our reservations are coming</p> <p>17 from that segment, which makes sense, right. If you're</p> <p>18 in the market for a new or used car you need a vehicle</p> <p>19 today, so you're not putting a reservation on an Elio.</p> <p>20 If you're in the clunker market you don't have money to</p> <p>21 put down on a vehicle you're not going to see for a year.</p> <p>22 So that -- it makes sense that all of our reservations</p> <p>23 are coming from that one segment. And as we have go into</p> <p>24 production and have vehicles we'll start being able to</p> <p>25 sell to the other segments.</p>

<p style="text-align: right;">Page 74</p> <p>1 We've gotten really good traction in social</p> <p>2 media. We have 320,000 likes on Facebook. We</p> <p>3 consistently get about 500 to 600,000 unique visitors to</p> <p>4 our website every month, which puts us ahead of Fiat, and</p> <p>5 Sion, and on the heels of Volvo Mini. And for a new</p> <p>6 company we're pretty proud of that.</p> <p>7 We're now over 55,000 reservations. So we have</p> <p>8 55,000 people who have said I want an Elio and is willing</p> <p>9 to put money down. We have two programs, refundable and</p> <p>10 non-refundable, and we've collected approximately \$24</p> <p>11 million in rewards crowd funding. \$23 million of that is</p> <p>12 non-refundable, so it skews heavily to the non-refundable</p> <p>13 category.</p> <p>14 We recently did a survey on have you ever heard</p> <p>15 of Elio, and it turns out only 6-1/2 percent of America</p> <p>16 has heard of us. So this -- these reservations, the</p> <p>17 number is rather impressive, but it would be more</p> <p>18 impressive when you realize that we've only -- we've</p> <p>19 ruled out 93 percent of America so far. So we're on a</p> <p>20 mission to increase the brand awareness, because</p> <p>21 obviously if you haven't heard of us you can't make a</p> <p>22 reservation.</p> <p>23 And by the way, this rewards crowd funding has</p> <p>24 been critical for our success. The dollars obviously</p> <p>25 were important, but what's more important is providing</p>	<p style="text-align: right;">Page 76</p> <p>1 need nor want to get the things that you do want.</p> <p>2 So we're going to do that differently. We're</p> <p>3 only going to build it two ways, a standard and an</p> <p>4 automatic, that's it. Everyone comes with air</p> <p>5 conditioning, power windows, power door locks, a stereo</p> <p>6 and cruise control because pretty much everybody wants</p> <p>7 that. All of the rest of the upscale content that you</p> <p>8 are used to seeing on your vehicle you can get on your</p> <p>9 Elio but add it post manufacturer. So if you wanted</p> <p>10 power leather seats we can get you that. If you want</p> <p>11 blind spot protecting mirrors, you know, Continental is</p> <p>12 our electronic supplier, they're the world's largest, we</p> <p>13 can get you that.</p> <p>14 So the process is you walk into our showroom</p> <p>15 and say I want the red automatic with the leather seat</p> <p>16 and blind spot protecting mirrors. That order goes out</p> <p>17 to one of seven marshalling centers where the content</p> <p>18 gets added as the orders come in. We close our stores at</p> <p>19 9:00 p.m. and we build out vehicles to midnight, so we</p> <p>20 have three hours to clear the system.</p> <p>21 At midnight all those vehicles go on trucks, and</p> <p>22 with seven marshaling centers we're within nine hours of</p> <p>23 all of our showrooms. So theoretically at 10:00 a.m. the</p> <p>24 next day you get the vehicle exactly the way you wanted</p> <p>25 it the day before no matter what time you walked in.</p>
<p style="text-align: right;">Page 75</p> <p>1 the market. So when we first hatched the idea and we</p> <p>2 said, hey, people will buy this low cost, high mileage</p> <p>3 vehicle with front to back seating and three wheels in</p> <p>4 this unproven market, it was very hard to get traction.</p> <p>5 But as we've gotten more and more people to say, yeah, I</p> <p>6 will buy that, that really has helped us in so many other</p> <p>7 areas.</p> <p>8 Our business model is different as well. So</p> <p>9 we're going to do company owned stores, direct sales to</p> <p>10 customers, the same as Tesla. So that's not particularly</p> <p>11 innovative, but I think it's the right way to go.</p> <p>12 What we're really doing different is we are</p> <p>13 abandoning the package system. So current auto</p> <p>14 manufacturers can build millions of configurations of a</p> <p>15 given model. Now they don't because that would cripple</p> <p>16 their inventory. So they've created packages, LX, SX and</p> <p>17 VX to constrain their build sequences to 3 to 500.</p> <p>18 The problem with that is you get forced to buy</p> <p>19 an enormous amount of content you don't want. JD Powers</p> <p>20 recently did a survey and consumers were reporting they</p> <p>21 don't use 40 percent of the technology embedded in their</p> <p>22 vehicle. The problem is it's not the same 40 percent for</p> <p>23 any of us, so they can't just lop it off of the package.</p> <p>24 So the consequence of the package system is you are</p> <p>25 forced to buy thousands of dollars of stuff you neither</p>	<p style="text-align: right;">Page 77</p> <p>1 So at first blush this system gives the</p> <p>2 customer a lot more for a lot less, but it does a lot --</p> <p>3 but it does more than that. Most of the content that you</p> <p>4 see in vehicles today are created by the tier one supply</p> <p>5 base, not by the OEMs. And those tier ones have a very</p> <p>6 difficult time getting their new ideas executed on a</p> <p>7 vehicle.</p> <p>8 The two questions they have the hardest time</p> <p>9 answering is who else has it. Nobody wants to be first,</p> <p>10 everybody wants to be second. Nobody wants to be fourth,</p> <p>11 but nobody wants to be first because if they integrate it</p> <p>12 and it doesn't work they're on the hook on repairing that</p> <p>13 widget for a decade trying to keep their customer.</p> <p>14 We don't have that issue. Because it's</p> <p>15 designed to put on after the vehicle is made it comes off</p> <p>16 easily as well. So we will -- we're okay with being</p> <p>17 first, and if it doesn't work we're going to have a very</p> <p>18 liberal return policy and we'll take it back it off and</p> <p>19 return the customer's money.</p> <p>20 The next question they have a very difficult</p> <p>21 answer -- question answering is does my customer actually</p> <p>22 want this. Because these things are always packaged in</p> <p>23 with a bunch of other stuff they can't say yes your</p> <p>24 customer is buying that package because of our widget.</p> <p>25 Now with this -- we call this, this business model, the E</p>

<p style="text-align: right;">Page 78</p> <p>1 Plus system. With the E Plus system now they can go and 2 say are you -- are you first? No, Elio has got it. Does 3 my customer want it? Yes. 4 Seventy percent of Elio customers are putting it on 5 their vehicle and are willing to pay \$150. So they want 6 it and this is what they're willing to pay. So it's a 7 great way for them to test out their new technology and 8 prove that it's viable and drive it through their 9 traditional customer. 10 What's good for our customers is they get see 11 the new technology first, right. If the big guys get 12 enamored with the technology because of their design 13 cycle it takes them three years before it shows on the 14 market. Our accessories won't have a model year. So as 15 soon as it's available it will be available on Elio. 16 So for the first time ever the lowest priced 17 vehicle on the market will have the best technology 18 first. That's never happened before and our customers 19 will get a lot better options on how to appoint their 20 vehicle. 21 The next thing is the vehicle stays relevant 22 longer. So particularly with electronics, the cycle time 23 for electronics is much, much faster than the useful life 24 of a car. Think about how many vehicles are on the road 25 with -- today with cassette players and CD players that</p>	<p style="text-align: right;">Page 80</p> <p>1 This is really the story of Elio Motors, it's 2 the supply base. So people outside of Detroit look at 3 who's selling us parts and say of course they'll sell you 4 parts. And the answer is no, actually, they won't. They 5 don't like startups and they don't like small companies, 6 and particularly right now. So in the downturn a ton of 7 suppliers went out of business. We're now back at record 8 volumes and every single supplier is resource 9 constrained. So they are telling the big guys no in 10 order to have resources available to work on Elio. 11 So the fact that they're engaged really means 12 something and it's truly the who's who of the global 13 supply base. Continental is the largest auto part 14 supplier of any description. They're doing our 15 electronics. Bosch is the second largest auto parts 16 supplier of any description. They're doing fuel 17 injection, and safety sensors, and a bunch of other 18 stuff. Aisin is the world's largest transmission 19 supplier and the fifth largest auto parts supplier of any 20 description. Comau is our manufacturing partner. 21 They're wholly owned by Fiat/Chrysler. Guardian is the 22 world's largest auto glass supplier. I can go on, but 23 it's truly a who's who of the global supply base. 24 And that's really the story of Elio Motors is 25 getting these folks engaged. And how the vehicle is</p>
<p style="text-align: right;">Page 79</p> <p>1 are all but obsolete and it's taking up that real estate 2 in your dash. If that weren't integrated in so that when 3 the next big technology comes out you can pull that off 4 and add the new thing your vehicle stays relevant for 5 much, much longer. 6 So I think although there's not a huge risk, 7 we're not going outside the lines too far. This is going 8 to be a big improvement in customer satisfaction and 9 making the vehicle viable for quite a long time. 10 On service we've partnered with Pep Boys. That 11 allows us to have 800 authorized service centers day one. 12 So we have more service centers than Volkswagen day one, 13 which is a big win for a startup. 14 I think I've talked through that slide. 15 So we have developed our own engine in 16 cooperation with IAV. IAV has 65 percent of the 17 engineering services business in Germany and does engine 18 development for Mercedes Benz, BMW, Bugatti and others. 19 We showed the vehicle down here, the red one in 20 the corner at the LA auto show with an Elio engine in it. 21 And that is not a trivial milestone. It's the first 22 time a new American startup showed a vehicle with its own 23 engine in it since Nash did it in 1951. So it's been 65 24 years since somebody did that and we're very proud that 25 we made that milestone.</p>	<p style="text-align: right;">Page 81</p> <p>1 designed is through a series of what we call supplier 2 summits. So we get all these folks together for three 3 days, work on the vehicle as a group, break apart, come 4 back together, and do it again. 5 We acquired this site out of the GM bankruptcy. 6 It's a 4 million square foot building on 500 acres of 7 land. To put that number into perspective, the Empire 8 State Building, it's about 1-1/2 Empire State Buildings. 9 So it's an enormous site. And GM left all the equipment 10 behind. We believe or estimate that the -- it reduces 11 our total startup cost by about \$400 million or cuts our 12 startup costs in half. We get out of about \$300 million 13 of equipment purchased at about \$100 million of building 14 construction as opposed to a greenfield. 15 But it's even more important than that. If you 16 gave me all this equipment it wouldn't be nearly as 17 valuable as it is in place. A manufacturing plant like 18 this is a very complex, one off organism, and it takes a 19 lot of time and money to get all those pieces and lines 20 to work together. All that debugging and technology has 21 been accomplished for us by GM and we get the benefit 22 from that. 23 This section of the presentation is kind of the 24 why of the project. So the billboard on the right is a 25 real billboard from South Africa. German engineering and</p>

<p style="text-align: right;">Page 82</p> <p>1 Swiss innovation, American nothing, smart for four. And</p> <p>2 if that don't piss you off. That's what the world thinks</p> <p>3 of us, and quite honestly that's what we think of</p> <p>4 ourselves.</p> <p>5 And I believe that the direct impact of Elio is</p> <p>6 significant, but I believe the indirect impact of Elio is</p> <p>7 even more significant. Just like Roger Bannister didn't</p> <p>8 get the memo that the human body couldn't run a mile in</p> <p>9 under four minutes, so he went ahead and did it and</p> <p>10 within 90 days I think three or four people did it and</p> <p>11 within two years like 20 people did it. The same thing</p> <p>12 here. We didn't get the memo that you can't build a high</p> <p>13 quality, high mileage, low cost vehicle in this country</p> <p>14 with substantially all North American parts, so we're</p> <p>15 going to go ahead and do it. And when we succeed this is</p> <p>16 a high profile sexy project. Other entrepreneurs will</p> <p>17 follow in our footsteps and make things in America.</p> <p>18 Patriotic or green, it's both. So after our</p> <p>19 nominal business case volume was 250,000 units. So we're</p> <p>20 fast tightening the line to do 250,000 units on two</p> <p>21 shifts, five days. We can overrun that obviously. And</p> <p>22 so after five years of sales we can reduce total U.S. gas</p> <p>23 consumption by nearly half a percent. That's a</p> <p>24 meaningful number.</p> <p>25 Whether your biggest concern is greenhouse gases</p>	<p style="text-align: right;">Page 84</p> <p>1 MR. YADLEY: We're speechless. Thank you very</p> <p>2 much.</p> <p>3 MR. ELIO: Oh, there you go.</p> <p>4 MR. WALSH: Yes, we are. What's your market</p> <p>5 cap?</p> <p>6 MR. ELIO: About 500 million.</p> <p>7 MR. WALSH: What was it at issue?</p> <p>8 MR. ELIO: 300. So if we -- the Reg A+ was \$12</p> <p>9 a share and there was 25 million shares outstanding, so</p> <p>10 it was \$300 million pre-money valuation and then 317</p> <p>11 post.</p> <p>12 MR. WALSH: Thank you.</p> <p>13 MR. REARDON: Patrick Reardon here. Did you</p> <p>14 have any selling stockholders?</p> <p>15 MR. ELIO: I'm sorry, what was that?</p> <p>16 MR. REARDON: Did you have any selling</p> <p>17 stockholders in your Reg A offering?</p> <p>18 MR. ELIO: Selling stockholders?</p> <p>19 MR. REARDON: Yes, did any of your existing</p> <p>20 stockholders, insiders, sell any shares in the Reg A</p> <p>21 offering?</p> <p>22 MR. ELIO: No, no. We didn't have that</p> <p>23 facility. I didn't realize the possibility. But, no,</p> <p>24 that didn't happen.</p> <p>25 CO-CHAIR GRAHAM: I've got -- I've got one</p>
<p style="text-align: right;">Page 83</p> <p>1 and global warming or a trade deficit due to foreign oil,</p> <p>2 the answers are the same, use less oil. And Elio can do</p> <p>3 that better than any other project that I'm aware of.</p> <p>4 And then the last piece that doesn't</p> <p>5 immediately leap off the page is if you're struggling in</p> <p>6 this country your biggest issue is mobility. Harvard</p> <p>7 economists recently came out with a study that said the</p> <p>8 number one predictor on whether you get out of poverty or</p> <p>9 not is mobility. It correlates better than test scores</p> <p>10 in your community, in your grade schools, the number of</p> <p>11 two parent households or crime rates in your community.</p> <p>12 The number one correlator is mobility.</p> <p>13 New Jersey had a study that said some huge</p> <p>14 percentage of their chronologically unemployed have been</p> <p>15 forced to turn down jobs because they had no way to get</p> <p>16 to the job, and at \$6,800 and 84 miles per gallon people</p> <p>17 can afford to get to their job. This product really</p> <p>18 matters at the end of the day.</p> <p>19 So on financing, we've raised \$100 million to</p> <p>20 date if you allow me to round slightly. \$17 million of</p> <p>21 that came from Reg A+, and as I've said \$24 million came</p> <p>22 from rewards crowd funding. We're trading on the OTCQX</p> <p>23 as I mentioned earlier.</p> <p>24 And that is all I have on the planned presentation.</p> <p>25 If you're speaking I cannot hear you.</p>	<p style="text-align: right;">Page 85</p> <p>1 question for you.</p> <p>2 MR. ELIO: But our Reg A+ experience, 64</p> <p>3 percent of our Reg A+ shareholders and 68 percent of the</p> <p>4 dollar value came from people who already have a</p> <p>5 reservation on the vehicle. So, you know, it looks like</p> <p>6 an overnight success but a lot of it had to do with, you</p> <p>7 know, several years of hard work, communicating the Elio</p> <p>8 Motor story and getting them behind it before Reg A+</p> <p>9 happened.</p> <p>10 CO-CHAIR GRAHAM: Could you kind of let us know</p> <p>11 your thinking in choosing to go the Reg A route?</p> <p>12 MR. ELIO: Well, you know, again I really</p> <p>13 enjoyed hearing the discussion before my presentation.</p> <p>14 Access to capital has been the single most difficult part</p> <p>15 of the Elio project. You would think designing a \$6,800,</p> <p>16 84 miles per gallon car built in this country would be</p> <p>17 the hard part of the project and it turns out no, finding</p> <p>18 the money to build it has been the hard part, right.</p> <p>19 And we were stuck with the institutions before Reg</p> <p>20 A+, and as soon as I found out about it, because we had</p> <p>21 such good luck with the rewards crowd funding, I thought</p> <p>22 Reg A+ was a natural fit. And at the time I didn't</p> <p>23 understand it. Since then I've read the book "The</p> <p>24 Innovator' Dilemma," and I think that really fits Elio's</p> <p>25 experience. And if you're not familiar with it the book</p>

<p style="text-align: right;">Page 86</p> <p>1 studies the disc drive industry and then uses what it</p> <p>2 learned there across other industries and proves that it</p> <p>3 seems to fit.</p> <p>4 And what -- what happened on the disc drive</p> <p>5 industry was in the 60's there were 14 inch disc drives</p> <p>6 and they were for mainframes. And the -- somebody came</p> <p>7 up with an 8 inch disc drive and it was more expensive</p> <p>8 per megabyte, but it was overall cheaper. And what</p> <p>9 characterizes a disruptive technology is a low price</p> <p>10 point, carryover technology, and an undefined market,</p> <p>11 which describes Elio to a T.</p> <p>12 And so the 14 inch disc drive companies were well</p> <p>13 managed companies, and so they listened to their</p> <p>14 customers and they invested, improving their product in</p> <p>15 high margin demonstrable markets and didn't worry about</p> <p>16 these 8 inch disc drives who were aimed at mini</p> <p>17 computers, and who knew how big mini computers would ever</p> <p>18 get anyway.</p> <p>19 These disc drive guys got so good they put all</p> <p>20 the 14 inch guys out of business. Now they were the</p> <p>21 incumbents. Somebody came up with a 5-1/4 inch drive</p> <p>22 aimed at a PC. And the same thing, you know, undefined</p> <p>23 market, low price point. The well managed 8 inch drive</p> <p>24 company listened their customers, plowed money into</p> <p>25 making their drives better, faster, et cetera, went after</p>	<p style="text-align: right;">Page 88</p> <p>1 track of the question in my answer I think.</p> <p>2 CO-CHAIR GRAHAM: Well, I think you did. The</p> <p>3 question was just kind of give us some insight as to your</p> <p>4 thinking and choosing to go the Reg A route. And I guess</p> <p>5 a follow on question might be follow on offerings and</p> <p>6 what are you thinking about, what are your future capital</p> <p>7 needs that you're projecting, and then how do you plan on</p> <p>8 addressing that?</p> <p>9 MR. ELIO: So this is the -- I'm learning to be</p> <p>10 a CEO of a public company. I don't know how much of that</p> <p>11 I can answer now because if it's not publicly disclosed I</p> <p>12 can't talk about it. That's been the biggest change for</p> <p>13 me because normally I'm a lay all the cards on the table</p> <p>14 down kind of guy.</p> <p>15 MR. GOMEZ: Stephen -- Steve, sounds like Paul</p> <p>16 has better counsel than -- very smart answer I think,</p> <p>17 Paul. You might want to stop there.</p> <p>18 MR. ELIO: Okay, thank you.</p> <p>19 MR. GOMEZ: Yeah.</p> <p>20 MR. WALSH: Can I -- you raised -- if I saw the</p> <p>21 math right you raised almost 16 million in the round and</p> <p>22 you've raised 99 million or almost 100 million total.</p> <p>23 What made you chose the size of the Reg A+ round that you</p> <p>24 ended up executing?</p> <p>25 MR. ELIO: So we had targeted 25 million. We</p>
<p style="text-align: right;">Page 87</p> <p>1 the high margin, well defined markets, and those</p> <p>2 previously disruptive companies, their incumbents got put</p> <p>3 out of business by the 5-1/4" guys. It happened again at</p> <p>4 3-1/4 with the laptop and then again at 2.2</p> <p>5 So what seems to happen is big companies are</p> <p>6 really good at sustaining technology but horrible at</p> <p>7 disruptive technology. And my experience is big funds</p> <p>8 and VCs are the same. They're looking for the high</p> <p>9 margin, well-defined market. They're horrible at</p> <p>10 identifying disruptive technologies, but the public is</p> <p>11 not.</p> <p>12 And that was the key is being able to go to the</p> <p>13 public, do the Reg A+ offering. And on the strength of</p> <p>14 that offering we were able to pick up our E series of</p> <p>15 vehicles. We're in the process of building 23 prototypes</p> <p>16 to do validation on before we kick off the hard tools.</p> <p>17 We unveiled E1a a couple of weeks ago, and I opened that</p> <p>18 event and said this is an event brought to you by Reg A+.</p> <p>19 So that was the key to getting us off the dime and</p> <p>20 now that we have gone through the process and we're a</p> <p>21 publicly traded company it's a whole new world.</p> <p>22 Institutions that didn't want to talk to us and wouldn't</p> <p>23 return our phone calls are calling us. So this has been</p> <p>24 a critical step for us.</p> <p>25 Did I answer your question? I kind of lost</p>	<p style="text-align: right;">Page 89</p> <p>1 did a test the waters campaign. We got \$46 million in</p> <p>2 indications of interest. \$6 million of that came from 12</p> <p>3 people who had reserved 500,000 shares. None of them</p> <p>4 purchased even a share, so I'm going to write those off</p> <p>5 as not serous. So we had \$40 million of actual</p> <p>6 indications of interest to raise 25.</p> <p>7 Our timing was horrible. We got qualified by</p> <p>8 the SEC right before Thanksgiving, which is not a great</p> <p>9 time to raise money, but that's okay because we had</p> <p>10 January. And then in January the markets collapsed and</p> <p>11 the first time in six years that nobody did an IPO,</p> <p>12 right, it was the first time in six years.</p> <p>13 So I think that had our timing been a little</p> <p>14 different we would have gotten through a little earlier,</p> <p>15 we would have raised the full 25. But it was enough to,</p> <p>16 you know, get the E1a series going and get us off the</p> <p>17 dime. Does that answer your question?</p> <p>18 MR. WALSH: It does, thank you.</p> <p>19 MR. YADLEY: Another -- thank you very much,</p> <p>20 Paul. I'm a lawyer in Florida, and so the same type of</p> <p>21 question. In terms of trying to decide how to raise the</p> <p>22 capital you didn't use commissioned salespeople. Had you</p> <p>23 thought about instead of doing Reg A+, a private</p> <p>24 placement using general solicitation, what lawyers called</p> <p>25 a 506(c), had you thought about that as an alternative</p>

<p style="text-align: right;">Page 90</p> <p>1 and did you not do that because you planned on trying to 2 be publicly traded and therefore this was easier? 3 MR. ELIO: Well, there's two parts to that 4 answer. So one is the underwriting piece that I would 5 like to talk to and the other one is 506(c). We actually 6 did do a 506(c) before Reg A+ was available. We raised 7 \$5 million in that effort. 8 I think the problem with 506(c), it's better to 9 be able to publicly disclose that you're trying to raise 10 money, but it's still a very cumbersome process, right. 11 One, you constrain yourself to 7 percent of the 12 population and that 7 percent is over marketed to because 13 everybody is constrained to that 7 percent of the 14 population. And two, because of the check sizes it's one 15 off meetings, right. They have to meet with management 16 in order to do a deal. 17 And so it's a very slow cumbersome process. 18 It's doable, but it's very difficult. And the nice thing 19 about Reg A+ is the pool is much bigger, people can 20 invest much less, and you can do -- you know, multiply 21 your marketing efforts by using social media and the 22 Internet, et cetera. 23 On using brokers, I wanted to use brokers in 24 addition to the portals. So we used startengine.com. 25 That was a very good experience. But I wanted to also</p>	<p style="text-align: right;">Page 92</p> <p>1 MR. YADLEY: Yes, thank you very much. 2 MS. YAMANAKA: I would like to confirm a stat. 3 You said that 68 percent of the funders actually were 4 pre-reservation holders also? 5 MR. ELIO: No, 64 percent by number, 68 percent 6 by dollar value. 7 MR. NELSON: Can you talk about what you -- 8 MR. ELIO: And that's the other thing. And 9 that's -- well, on that point, that's another thing that 10 Reg A+ did for the public is I would go to Elio events 11 and people would say, "Hey, I would love to invest in 12 Elio." 13 And I would say, "Are you accredited?" 14 "No." 15 "Well, you can't." 16 So these people who identified this is a good 17 company and I want to be a part of it and they were 18 precluded and now when -- and when we did our 506(c) we 19 marketed to our reservations. So the 6,400 people who 20 did Reg A+, assumably the majority were non-accredited, 21 wanted to be part of Elio, but couldn't and then were 22 allowed to. So -- and if we make it, you know, that will 23 be a great story. 24 MS. YAMANAKA: So you marketed to 64 -- or you 25 got 6,400 out of the 54,000 reservations that you have?</p>
<p style="text-align: right;">Page 91</p> <p>1 have brokers because when you're investing your money 2 there's a lot of people who want to talk to somebody. 3 They don't want to just click the button, right. 4 And we looked into that and the brokers that we 5 were talking to said it was going to take an extra 90 to 6 120 days for them to do their due diligence, get through 7 FINRA in order to be able to do it with us. And I was in 8 a hurry. You know, I needed to keep this company going. 9 And so although I wanted to do it that way we chose not 10 to because it was time prohibitive. 11 So we self-underwrote, and honestly self- 12 underwriting other than not having live people to talk to 13 worked pretty well. I think the one mistake that we made 14 if I had it to do over again is we did not get analyst's 15 coverage engaged until after we were on the QX. So I 16 don't know if it was three, four weeks ago Zacks finally 17 came out with an analyst's report. 18 I think there needs to be a cottage industry of 19 analysts who follow Reg A+ deals. I think the investor 20 needs that feedback from professional advisors looking at 21 companies and doing due diligence and saying I think this 22 one is good, I don't think that one is good. So 23 hopefully more and more companies will start looking at 24 Reg A+ and following them. Did that answer your 25 question?</p>	<p style="text-align: right;">Page 93</p> <p>1 MR. ELIO: Correct. At the time it was less, 2 it was probably 40 something thousand, but yes. 3 MS. YAMANAKA: Thank you. 4 MR. NELSON: Can you talk about your pitch 5 process, how many VCs, angels, different vehicles, 6 methods of trying to raise capital you went through 7 before settling on Reg A+? 8 MR. ELIO: Yeah. So, you know, we talked to a 9 lot of different institutions. We're a company that 10 doesn't -- so VCs are comfortable with pre-revenue 11 startups but they want to spend \$3 million and create 12 Facebook, and when you show them a 3 or \$400 million 13 budget their heads pop off. 14 You go to private equity guys, they're 15 comfortable with that check but when you say you're pre- 16 revenue and will be for another year their heads pop off. 17 And both of them like to specialize because their 18 concentration of wealth they get really good at a sector. 19 Hey, we invest in biotech, we invest in technology. 20 And so we needed to convince these big 21 institutions to do two things they were uncomfortable 22 with. One sector, because there's not enough new vehicle 23 startups for anybody to specialize in it and then 24 depending on whether it was a VC or a private equity we 25 had to overcome that other one. And then thirdly was the</p>

<p style="text-align: right;">Page 94</p> <p>1 whole innovator's dilemma issue that I just spoke about.</p> <p>2</p> <p>3 And it's kind of funny, the last institution I</p> <p>4 pitched like two weeks before we went live on Reg A+,</p> <p>5 about halfway through a very similar presentation to what</p> <p>6 you saw the guy interrupted me and said why would I</p> <p>7 invest in you before you build the vehicle?</p> <p>8 And I thought to myself, you know, the point of</p> <p>9 the equity markets have gotten lost. You know, in the</p> <p>10 1700's where people -- when people were trading</p> <p>11 securities underneath a tree on the corner of Broad and</p> <p>12 Wall the equity market was a place for companies to raise</p> <p>13 capital to either start or expand, not a place for VCs</p> <p>14 and private equity firms to cash out their winnings. And</p> <p>15 that kind of has gotten lost with this concentration of</p> <p>16 capital, and I think Reg A+ has a chance to bring it back</p> <p>17 to its roots, where equity is about a place for companies</p> <p>18 to find capital to start and to expand.</p> <p>19 MR. NELSON: How many of those conversations</p> <p>20 did you have roughly? Did you keep track?</p> <p>21 MR. ELIO: I did not keep track. From 2009 to</p> <p>22 today it had to be hundreds. But in fairness when the</p> <p>23 Dow is at 7,000 it didn't matter what you were pitching</p> <p>24 the answer was no, right. So there's a couple of years</p> <p>25 there where there was a lot of meetings with those types</p>	<p style="text-align: right;">Page 96</p> <p>1 the water campaign and startengine.com wanted to put a</p> <p>2 counter up on, you know, how many people have reserved</p> <p>3 and what the dollar amount was. And so internally our</p> <p>4 legal team debated whether it was allowed or not for four</p> <p>5 or five days, and finally we said, well, let's ask the</p> <p>6 SEC. We called up the SEC, asked the question. They got</p> <p>7 back to us with an answer within days.</p> <p>8 So within -- and we were told yes it was okay,</p> <p>9 and so we put the counter up. And that -- that process</p> <p>10 happened over and over and over. The SEC encouraged us</p> <p>11 to ask questions. There was a lot of things where it</p> <p>12 wasn't clear what we could and should do with a given</p> <p>13 situation and it was a very quick and easy feedback loop</p> <p>14 of question and answer to get through the process. So --</p> <p>15 MR. WALSH: Have you personally invested in any</p> <p>16 other Reg A companies?</p> <p>17 MR. ELIO: No, I'm pretty much all in in Elio</p> <p>18 Motors at the moment, so the answer is no.</p> <p>19 MS. YAMANAKA: Paul, this is Laurie Yamanaka.</p> <p>20 I had a question. When you were going through this and</p> <p>21 you said the hardest thing to do was to find capital,</p> <p>22 when you were starting this process and even all during</p> <p>23 the process did you have a lot of professional people who</p> <p>24 were coming to you and saying try this, try this, try</p> <p>25 this, and they weren't working or was it just people</p>
<p style="text-align: right;">Page 95</p> <p>1 of institutions that had -- you know, it didn't matter</p> <p>2 what you were pitching so --</p> <p>3 MS. MOTT: Paul, this is Catherine Mott. I</p> <p>4 just want to commend you on an excellent I guess job</p> <p>5 raising capital. You went along the path of least</p> <p>6 resistance in all of these situations and found capital</p> <p>7 and found successful ways to fund the growth of your</p> <p>8 company.</p> <p>9 And you correctly characterize the VC industry.</p> <p>10 I'm in that industry, so I know exactly what you're</p> <p>11 talking about. There is a tendency to follow this, you</p> <p>12 know, focus on what you know and understand and also</p> <p>13 focus on the trends. And so when something comes along</p> <p>14 that is not trendy and there's, you know, they're risk</p> <p>15 adverse like -- you know, because they're managing other</p> <p>16 people's money, the key thing that you've done is you've</p> <p>17 found people who are willing to risk their own money and</p> <p>18 you went after, you know, potential customers.</p> <p>19 And I think that's brilliant and I just want to</p> <p>20 commend you on what you've done. I have no question. I</p> <p>21 just wanted to say congratulations.</p> <p>22 MR. ELIO: Oh, thank you. And back at you.</p> <p>23 So the Reg A+ process was very -- it was a</p> <p>24 great experience for us. The SEC was incredibly</p> <p>25 cooperative, and as an example we went live on our test</p>	<p style="text-align: right;">Page 97</p> <p>1 going, well, maybe you could try this but we don't know?</p> <p>2 What kind of advice -- because I'm presuming you didn't</p> <p>3 all have -- you didn't do it out of your head.</p> <p>4 MR. ELIO: Right. So it was a combination of</p> <p>5 both. You know, I just kept trying to figure it out. So</p> <p>6 at a couple of different points we engaged different</p> <p>7 firms to go out to the private equity hedge funds and VC</p> <p>8 markets. They would say, hey, we can get this done.</p> <p>9 We're going to get you a ton of meetings, we're going to</p> <p>10 do a road show, because this is a compelling company.</p> <p>11 MS. YAMANAKA: Yeah.</p> <p>12 MR. ELIO: Right. And they're excited and they</p> <p>13 would spend, depending on the situation because I think</p> <p>14 there was three different ones that we used over the</p> <p>15 course of the years, they would spend anywhere from two</p> <p>16 to five months doing due diligence, putting together this</p> <p>17 beautiful package to send out and an enormous amount of</p> <p>18 work. And they would send it out and we would get two</p> <p>19 meetings.</p> <p>20 So we would get tied up for six or nine months</p> <p>21 and only get two meetings out of it. Because they were</p> <p>22 shocked too. And I think that dynamic, it was the three</p> <p>23 things that we talked about, the innovator's dilemma, the</p> <p>24 concentration of capital and, you know, that nobody</p> <p>25 specialized in this.</p>

<p style="text-align: right;">Page 98</p> <p>1 And I think it shocked even the professionals how</p> <p>2 difficult it was to get somebody to write a check for</p> <p>3 Elio Motors because we just don't fit.</p> <p>4 MS. YAMANAKA: Thank you.</p> <p>5 MR. WALSH: One last question. You say you</p> <p>6 don't fit and you're describing that situation. What</p> <p>7 percentage of the time was Tesla brought up as either a</p> <p>8 positive or negative example either by you or the person</p> <p>9 listening to you as an example of what you were trying to</p> <p>10 accomplish?</p> <p>11 MR. ELIO: It doesn't get brought up much but</p> <p>12 it definitely helps us. You know, I cheer Tesla every</p> <p>13 single day because if you take Tesla out of the question,</p> <p>14 out of the equation, the last American vehicle company</p> <p>15 started and still standing is Walter Chrysler in 1928.</p> <p>16 So it's been, you know, 90 years since somebody has done</p> <p>17 this successfully and that doesn't help the story either.</p> <p>18 But Tesla having done it and have a \$30 billion market</p> <p>19 cap certainly helps us, so I continue to applaud them.</p> <p>20 MR. GUTIERREZ: Hey, Paul. I have a quick</p> <p>21 question So again I want to echo the congratulations</p> <p>22 earlier. I think this is a phenomenal company and the</p> <p>23 fact that you went through the Reg A process makes it</p> <p>24 even more exciting, certainly for us as a real shining</p> <p>25 example of how this process can be successful.</p>	<p style="text-align: right;">Page 100</p> <p>1 lost the audio. Can you still hear me?</p> <p>2 MR. GUTIERREZ: Yes.</p> <p>3 MR. ELIO: Okay. So when we started this is</p> <p>4 what the map looked like. Yellow and red are bad, green</p> <p>5 is good on requiring a helmet to drive an Elio, right.</p> <p>6 Because we are technically a motorcycle. And so what</p> <p>7 we've done is go state by state and create a new category</p> <p>8 called an auto cycle. An auto cycle is an enclosed three</p> <p>9 wheel vehicle with at least three air bags, seat belts</p> <p>10 for every occupant position, et cetera, and if you're an</p> <p>11 auto cycle you don't need a motorcycle license or a</p> <p>12 helmet.</p> <p>13 This is the map as of June 27th. So there's</p> <p>14 five states left where if you're under 21 or under 18</p> <p>15 that you need a helmet, and there's only one state that</p> <p>16 over 21 that you still need a helmet and that's West</p> <p>17 Virginia. The problem there is their legislature only</p> <p>18 works 45 days a year and we missed it and so we've got to</p> <p>19 wait for a year.</p> <p>20 And then on the licensing the same story.</p> <p>21 Yellow is bad, green is good. This is where we're at.</p> <p>22 So we're about a year from production, so I suspect by</p> <p>23 the time we hit production our intent is to have both</p> <p>24 maps completely green.</p> <p>25 MR GUTIERREZ: Great, thank you.</p>
<p style="text-align: right;">Page 99</p> <p>1 I had a question about that. Did going through</p> <p>2 that process, and the notoriety, and the marketing of</p> <p>3 going through that with investors help you with your</p> <p>4 suppliers and the other partners of the company? Was</p> <p>5 there -- was there an accretive sort of value that you</p> <p>6 saw because of going through the process?</p> <p>7 MR. ELIO: Kind of but not really. So most of</p> <p>8 the supply base was already highly engaged before Reg A+,</p> <p>9 but what it did is keep them engaged, right. So you got</p> <p>10 to keep all the stakeholders engaged. And like I said,</p> <p>11 the biggest issue is attracting the capital, and so as</p> <p>12 they saw this being successful their commitment certainly</p> <p>13 deepened because now they believe that we can market it,</p> <p>14 right.</p> <p>15 And that was always the hardest part to</p> <p>16 believe. Like they know that we can pull off the stats.</p> <p>17 It's like can you find the money to build the car, and</p> <p>18 certainly Reg A+ helped that belief and depend their</p> <p>19 commitments.</p> <p>20 MR. GUTIERREZ: And another quick question.</p> <p>21 Just as someone who is now very interested in buying one</p> <p>22 of these, do I need to have a motorcycle license in order</p> <p>23 to drive or can I use -- and I live in California, so I'm</p> <p>24 assuming it's state specific?</p> <p>25 MR. ELIO: So I have a slide for that. Oh, I</p>	<p style="text-align: right;">Page 101</p> <p>1 MS. YAMANAKA: Paul, back to a non-sexy</p> <p>2 question here. Were you able to track the total costs of</p> <p>3 going through the Reg A process versus the anticipated</p> <p>4 costs for other avenues and how did it line up and did it</p> <p>5 fall into what your expectations were? I'm talking all</p> <p>6 in costs.</p> <p>7 MR. ELIO: Yes. You know, I should know that</p> <p>8 number off the top of my head and I don't. I'm kind of</p> <p>9 embarrassed that I didn't prep myself on that one.</p> <p>10 MS. YAMANAKA: That's okay.</p> <p>11 MR. ELIO: I apologize. That's something I</p> <p>12 should know. It was cheap relatively to other options,</p> <p>13 you know, to a traditional IPO with a major bank. It was</p> <p>14 certainly doable and rather inexpensive.</p> <p>15 MS. YAMANAKA: So going into the process it was</p> <p>16 obviously less expensive and actually going through the</p> <p>17 process itself it came in under -- within expectations?</p> <p>18 Even though you didn't hit your 25 million target 17 was</p> <p>19 totally fine?</p> <p>20 MR. ELIO: Right, right. So, you know, we had</p> <p>21 a minimum of 12.6 and a target of 25. And, you know,</p> <p>22 there was different plans on how to run the business</p> <p>23 depending on different funding levels. And the 17.6 like</p> <p>24 I said, or the 17 was certainly enough. I mean, it got</p> <p>25 us -- it got this whole trading moving and now being</p>

<p style="text-align: right;">Page 102</p> <p>1 publicly traded there was just a lot more tools in our 2 tool kit in order to raise capital. 3 And it's a different world. You know, I've 4 said several times I feel like Reg A+ put us over the 5 hump. Now you don't actually get a memo or an email to 6 say you're officially over a hump. It's just a sense 7 that we're over the hump. But I feel like it did that. 8 MS. YAMANAKA: Well, they're calling you, 9 right, that's the hump. So that's good. 10 Congratulations. 11 MR. ELIO: Yes. Thank you. 12 CO-CHAIR HANKS: Time for one last question. 13 MR. HAUPTMAN: Yeah, Mr. Elio, fantastic 14 company. Did you encounter people who heard about this, 15 wanted in, but have never heard of the accredited 16 investor rule, don't know whether they themselves are or 17 not? 18 MR. ELIO: Yes, I would suspect that the 19 majority of the people who invested in our Reg A+ 20 offering had never heard of the accredited investor rule 21 until they read the stuff on startengine.com. 22 MR. HAUPTMAN: Okay. If may follow up. 23 MR. ELIO: And the reason I say that is that 24 even before this was available and reservation holders 25 were asking can I invest in your company and I would have</p>	<p style="text-align: right;">Page 104</p> <p>1 you have interest credit cards pay those off, go invest 2 in Reg A+. If you don't have three to nine months of 3 savings of salary ins savings, save money, go invest in 4 Reg A+. You know, and if you do have all these criteria 5 met invest in five to ten like -- just mirroring the 6 discussion you had. 7 So we put that on both the portal startengine 8 and our website to try to -- you know, people are taking 9 a risk when they buy Elio shares, they are. You know, 10 until we're in production we're not, right. But letting 11 people go in eyes wide open I think that's really the 12 key. 13 MS. YAMANAKA: That is great. You could have 14 led off with -- you could have led off with that. That's 15 great. That's something -- you got so many hits on that I 16 bet, right, as far as people who are checking that out 17 and actually checking out the video. It's exactly the 18 kind of marketing you need. 19 MR. ELIO: Yeah. 20 MS. YAMANAKA: Thank you. 21 MR. ELIO: Yeah. So if you want I'm sure we 22 can share it with you. I'm sure Motley Fool wouldn't be 23 sad if you had their name somewhere in sharing that 24 information. 25 MS. YAMANAKA: We'll see what we can do, right.</p>
<p style="text-align: right;">Page 103</p> <p>1 that discussion with them. They were unaware of that, 2 right. I'm extrapolating. 3 MR. HAUPTMAN: Do you find the accredited rule 4 to be too stringent or not stringent enough? Do you have 5 a view on that? 6 MR. ELIO: Yeah, you know, I -- it's a fine 7 line to walk. I get you want to protect the little guy 8 who doesn't know what he's doing, but by the same token 9 you preclude him from investing in Uber, and Facebook, 10 and Elio and, you know, things that can have huge swings. 11 And so how do you determine if they really know enough 12 that they're taking the risk eyes wide open, right. It's 13 not guaranteeing that they're going to win, that they're 14 not going to lose money, but that they understand the 15 risk they're undertaking. 16 And I like some of the discussion. I think the 17 test, although it can be circumvented, was a good idea. 18 Because even if you circumvent it, if you have to 19 memorize all those answers you know enough to know that 20 you're -- the risk that you're taking. 21 And one of the things we did is we reached out 22 to Motley Fool and we asked them to create a video on or 23 a paper on how to invest in Reg A+ deals to -- specific 24 to Elio. And we put that on startengine.com and on our 25 website. And they went through and they say, look, if</p>	<p style="text-align: right;">Page 105</p> <p>1 I'm sure -- 2 MR. REARDON: One question. You say you're a 3 car person. What's the 0 to 60 time? 4 MR. ELIO: We've been targeting under ten 5 seconds. I don't know that we're going to achieve that 6 from our current stats. The target has been under 10 7 seconds. 8 MR. REARDON: That's not bad for that little 9 engine. 10 MR. ELIO: No, and you can turbo charge it and 11 then I think we can get it under five. So there's no 12 turbo plan, but in the design that I have used doing the 13 cylinder wall thicknesses and everything will accept the 14 stress, the extra stress that would be from a turbo. The 15 inner cooler packaging is protected for and Comau when 16 they designed the engine assembly line left a hole so we 17 could put a turbo in. So although no work has been done 18 on a turbo, because you got to crawl before you walk, we 19 have certainly protected for it. And I think that would 20 be a really fun product. 21 MR. REARDON: That would be. 22 CO-CHAIR HANKS: Do we have any more questions 23 in the room? Well, I don't think so. 24 Paul, thank you very much for doing this, and I 25 am so glad that the video held up. I was worried about</p>

<p style="text-align: right;">Page 106</p> <p>1 that one. So thank you very much for presenting and good 2 luck.</p> <p>3 MR. ELIO: And thank you for having me and 4 thanks for accommodating the virtual appearance. I do 5 appreciate it.</p> <p>6 CO-CHAIR GRAHAM: Okay.</p> <p>7 CO-CHAIR HANKS: Do we have any questions on, 8 general questions on that?</p> <p>9 CO-CHAIR GRAHAM: I guess we can -- we're going 10 to pick this up after lunch, right?</p> <p>11 CO-CHAIR HANKS: Yeah. We've got Reg A after 12 lunch.</p> <p>13 CO-CHAIR GRAHAM: So unless anyone wants to 14 just kind of toss in a comment or two and then we're 15 going to pick up the Reg A conversation after lunch so --</p> <p>16 Greg, you just seem itching to --</p> <p>17 MR. YADLEY: No, I've been theoretically 18 feeling positive about Reg A+, and as I mentioned last 19 time our firm did one, got it qualified, ended up not 20 having enough investor interest, spent a lot of money but 21 felt the SEC and the states were very cooperative. Now 22 we had a baseline of information, raised money privately, 23 and may try something else again in another year.</p> <p>24 And I think what I heard Mr. Elio say in answer 25 to his question about why Reg A+ and 506(c), those</p>	<p style="text-align: right;">Page 108</p> <p>1 What I have observed not only here but my sense 2 of, it let's put it this way, and also in very successful 3 crowd funding campaigns is they manage to reach the 4 audience that would be passionate about that product or 5 service and capture them as investors. So they found 6 their community so to speak.</p> <p>7 So he was able to tap into that community, 8 which I think would be the question for those who are 9 interested in this is, and I think we already talked 10 about it is outreach, you know, how do you -- how do you 11 inform the public that there's another way to support 12 something. And, you know, social media, I mean I'm sure 13 that we've seen communities come together to invest 14 because there's a social influencer or influencers, 15 things like that that are happening.</p> <p>16 So, you know, I'm definitely excited about this 17 and intrigued on how he was able to build a company, 18 tapping into the community. And it's a capital intensive 19 business. It's not one of those that it's a small, you 20 know, it's a -- it's a cool, one off, you know Sphero, 21 you know what I mean, you know, a little toy. This is a 22 big -- this is a big deal and I think it's going to have 23 implications on the economy. I mean, you could see how 24 it ripples through various suppliers. I mean, this is -- 25 so that's going to impact, you know, employment. I mean,</p>
<p style="text-align: right;">Page 107</p> <p>1 answers made a lot of sense. I mean he's really 2 exponentially using his own time and the market out there 3 and cutting through a lot of the I guess rigmarole, and 4 the one-on-ones, but he clearly also wanted to be public.</p> <p>5 And that's always been sort of a dilemma with me because 6 I think IPOs are a great idea if that's your plan, and if 7 that's your plan why would you do a Reg A+.</p> <p>8 So he's an example of somebody that sort of 9 said I could do it quicker within the anticipated budget.</p> <p>10 His comment about the analysts is something that we 11 talked about really in the first iteration of this 12 committee as a reason why the IPOs aren't there, so 13 hopefully more will come.</p> <p>14 CO-CHAIR GRAHAM: I have a similar bias, but 15 I'm becoming more and more intrigued. It's -- I think it 16 was -- I think it was a great example.</p> <p>17 MS. MOTT: So when I think about this in a big 18 picture, so I'm like you, Greg, I want to say something. 19 When I think about the big picture is he was spot on 20 about the industry, the tendency for, you know, the VCs 21 to, you know, to be trend oriented. And of course, you 22 know, to some extent, you know, you could say they're 23 managing other people's money so there's some -- you 24 know, they have to be to that extent. So he found 25 another avenue.</p>	<p style="text-align: right;">Page 109</p> <p>1 there's just a lot to be said about it. I'm just excited 2 about it.</p> <p>3 CO-CHAIR GRAHAM: And I still worry a little 4 bit about liquidity and how realistic additional capital 5 raises are.</p> <p>6 CO-CHAIR HANKS: On the liquidity issue, I mean 7 just playing devil's advocate for a moment here, a lot of 8 the guys who are buying the car they're not selling those 9 shares. I mean, they love that company, they want to 10 hold. They're buy and hold investors, they're not 11 looking for a flip.</p> <p>12 And I think a lot of it's the same in a lot of 13 this affinity play. I've seen a couple of -- there's a 14 crowd funding company out there that is addressing type 15 one diabetes in children. The people who are investing 16 in that really don't care about liquidity. They care 17 about this thing happening and that company succeeding.</p> <p>18 So I think to a certain extent let's not -- I 19 mean, we're going to talk about liquidity this afternoon, 20 but let's not say that liquidity is driving the 21 investors. If you're -- if liquidity is a precondition 22 to an investment in Reg A then I think that might not be 23 the ideal investor for that company because this is a 24 kind of buy and hold affinity play.</p> <p>25 So that's my take on the affinity, on the</p>

<p style="text-align: right;">Page 110</p> <p>1 liquidity issue, and this may be somewhere where we just 2 totally disagree.</p> <p>3 CO-CHAIR GRAHAM: No, I think if you have -- if 4 it really is a buy an hold affinity play then of course 5 it works. If you're debating whether you should go this 6 route or the traditional IPO route I think one of the 7 things you think about are attracting the kind of 8 investors who are concerned about liquidity and at the 9 same time they're concerned about as you know, you know, 10 building their own interests in companies. And so 11 therefore they want enough stock out there so that you -- 12 so that they can build a position.</p> <p>13 But, you know, liquidity is all part of the 14 equation. And so it just -- this will probably be part 15 of the conversation this afternoon but it's -- and this 16 is -- this is one reason why we're doing what we're doing 17 and thinking about the things that we're thinking about 18 is because one size doesn't fit all and we've got -- and 19 that's part of -- that's part of expanding the toolbox, 20 and that's part of -- it's part of the outreach efforts 21 that are required. So it's -- I think it all fits.</p> <p>22 CO-CHAIR HANKS: There's just one thing I 23 wanted to mention before we wind up and I just wanted to 24 remind everybody, especially everyone watching out there 25 in Internet land, Regulation A changed certain exemptions</p>	<p style="text-align: right;">Page 112</p> <p>1 is -- we do need to focus on what the channels for 2 liquidity are.</p> <p>3 This is why we're pleased to have Dan Zinn from 4 OTC Markets here to discuss some of these issues. The 5 OTC Markets Group runs three marketplaces, OTCQX, OTCB 6 and OTC Pink based on the quality and quantity of 7 information that the companies make available. They also 8 have an alternative trading system, OTC Link, and as we 9 heard this morning Elio is one of the companies that 10 trades on the OTCQX.</p> <p>11 Dan joined OTC Markets Group as general counsel 12 and corporate secretary in November of 2010. Prior to 13 joining OTC Markets he was partner at the Nelson Law Firm 14 LLC. And thank you very much for being here, Dan.</p> <p>15 MR. ZINN: Thank you so much for having me. I 16 really appreciate it and very much enjoyed the morning 17 session as well.</p> <p>18 I certainly don't want to overpromise and under 19 deliver, but my very patient wife has listened to a 20 number of these Reg A type presentations over the past 21 couple of years and this is the first one that has kept 22 her awake from beginning to end, so I think we may be in 23 for a treat.</p> <p>24 I like Paul Elio could talk about this sort of 25 thing for hours and hours, but in the interest of time</p>
<p style="text-align: right;">Page 111</p> <p>1 under 33 Act. Let's not forget that the broker/dealer 2 registration rules have not changed and Section 17(b), 3 which addresses stock touts for want of a better word, 4 those things have changed. So make sure you talk to your 5 lawyers before doing any of this stuff.</p> <p>6 CO-CHAIR GRAHAM: I thought we changed that, 7 Greg. MR. YADLEY: Still working on it.</p> <p>8 CO-CHAIR GRAHAM: Okay. Let's break for lunch, 9 reconvene at 1:30.</p> <p>10 (Whereupon, at 11:52 a.m., a luncheon recess 11 was taken.)</p> <p>12 A F T E R N O O N S E S S I O N</p> <p>13 CO-CHAIR GRAHAM: Okay. Can I ask everyone to 14 take their seats. I would like to get started.</p> <p>15 For this afternoon as you know we're going to 16 continue on with our Reg A discussion, and I'm going to 17 hand it back to Sara.</p> <p>18 CO-CHAIR HANKS: Well, thanks. As you probably 19 saw towards the end of this morning's session the issue 20 of liquidity is one that interests this committee a great 21 deal and the issue of liquidity and Regulation A is not 22 necessarily sort of cut and dried.</p> <p>23 We've always focused on the idea of liquidity 24 in general. People aren't going to put money into a deal 25 if they can't see some way of getting out of it. And it</p>	<p style="text-align: right;">Page 113</p> <p>1 I'm going to focus on what I think are a few key points 2 to note, and then very much looking forward to all of 3 your questions.</p> <p>4 I'm going start with some background on OTC 5 Markets. I think Sara set the stage for me nicely there. 6 I want to talk more specifically about, you know, what 7 we do and how that relates to Reg A, and why I'm the one 8 who is here talking to you about secondary trading for 9 Reg A securities ad how we interplay with that.</p> <p>10 I want to talk a little bit more broadly about 11 issues generally facing Reg A issuers. You get the 12 impression from Paul and all of the entrepreneurs that 13 I've spoken to that the focus, as it should be, is on the 14 offering, is on getting capital in the door. People want 15 to understand how they're going to fund their company and 16 take that to the next level. But with Reg A's there's 17 this entirely new process for a lot of these companies 18 and entrepreneurs of developing a secondary market and 19 interacting with investors. And there are a lot of steps 20 in that process that need to be considered, and improving 21 the way that works will I think lead to a little bit more 22 success in terms of Reg A offerings going forward.</p> <p>23 I will touch on some of my company's 24 initiatives. Sara and Sebastian talked a little bit about 25 our petition for rulemaking as it relates to Reg A, so</p>

<p style="text-align: right;">Page 114</p> <p>1 I'll touch on that a little bit and of course take any 2 questions that you all have. 3 And I will close briefly with a discussion of 4 the type of market that makes sense for a Reg A company 5 or other similarly situated companies, kind of venture 6 stage companies, which has been a big topic of 7 conversation both at the SEC and on Capitol Hill. 8 So who are we? OTC Markets as Sara mentioned 9 operates an SEC registered alternative trading system 10 known as OTC Link that brings together about 110 FINRA 11 member broker/dealer subscribers that use our system to 12 publicly quote and message one another for the purposes 13 of ultimately trading a group of about 10,000 over-the- 14 counter securities. So that's for the most part 15 securities that are not otherwise traded on a listed 16 exchange, like the New York Stock Exchange or NASDAQ. 17 Sara mentioned our market structure. We've 18 separated companies into three markets based largely on 19 the disclosure aspect of their interaction with 20 investors, so the timelines and sufficiency. At the top 21 levels there are some quantitative or qualitative 22 qualifications as well. Just for context, OTCQX out of 23 the 10,000 securities has about 450 or so. OTCQB, which 24 is the next market down, it's what we consider really our 25 venture market, has a slightly different set of</p>	<p style="text-align: right;">Page 116</p> <p>1 companies that are ready to really engage with investors 2 and build a much larger potential market for their 3 securities. 4 The way we've conceived of OTCQX all along has 5 been to allow issuers to leverage whatever other 6 disclosure requirements they might have and best use that 7 in an efficient manner to interact with investors to meet 8 current requirements. So OTCQX companies can certainly 9 be SEC reporting and current, current in their reporting 10 to a banking regulator, or an insurance regulator, or to 11 their home country to the extent it's a foreign company. 12 We've also built rules to accommodate Reg A 13 issuers. So you take the tier two ongoing disclosure 14 that a company is required to provide and add a few extra 15 components that bring that disclosure up to the standard 16 of the remaining OTCQX companies that we have, things 17 like quarterly reporting and the annual audit being done 18 by a PCAOB registered auditors, and that company can 19 qualify with the ongoing requirements for OTCQX. We did 20 this fairly far in advance of OT -- excuse me of Reg A 21 becoming effective with the idea that we wanted companies 22 to start to understand what their trading market might 23 look like. 24 You can see on the slide some of the key 25 qualifications, and I'm happy to talk about this more if</p>
<p style="text-align: right;">Page 115</p> <p>1 quantitative requirements that are maybe more in line 2 with what we think of as a venture company starting out, 3 getting their feet wet in public trading, using this as a 4 springboard to build and grow a public market. So there 5 are about 900 securities on the OTCQB market. 6 The remaining securities trade on pink, which 7 I'm not going to focus on all that much for purposes of 8 our discussion, but it exists as a broker quoted market. 9 So our subscribers have -- customers have potentially 10 proprietary interest in quoting and trading these 11 securities. They have best execution obligations. You 12 know, they have -- they have to provide good, efficient 13 service to their customers in terms of trading these 14 securities. 15 A lot of them are quoted on our pink market. 16 We will indicate on pink whether a security or a company 17 is publishing current information as it relates to their 18 company, a listed set of information or no information, 19 which actually appears with a stop sign next to the stock 20 symbol on our website. So we do offer the kind of 21 investor background and whatever information is made 22 available is obviously there for investors to review. 23 Diving in a little bit more to how this 24 interacts with OTCQX and Reg A. So OTCQX is for more 25 established over-the-counter companies. So these are</p>	<p style="text-align: right;">Page 117</p> <p>1 there's interest. Some of the things I'll highlight are 2 just no penny stocks, and we use penny stocks as that's 3 defined under the Securities Act, no shell or blank check 4 companies. OTCQX really is for operating companies. 5 The other statistic that I will note from the 6 slide is the \$58 million median market cap of OTCQX 7 securities. As you look at other venture markets around 8 the world, the smaller company markets, and I'll touch on 9 this towards the end, something like the TSX Venture in 10 Canada has a 5 or \$10 million median market cap. So it's 11 a different kind for security. 12 You see a little bit more of a one-to-one 13 correlation with OTCQB, which I'll describe in a moment. 14 But I just want to make sure everyone has the 15 appropriate kind of picture of what an OTCQX company is. 16 We have of course done some studies on what 17 happens with OTCQX companies. This was an independent 18 study through Oxford Metric that we commissioned. The 19 general counsel in me feels obligated to say that there 20 is no guarantee that anybody will trade in any given way 21 on OTCQX or otherwise, but in a broad based study it's 22 nice to see that there are benefits that most companies 23 realize from trading on a market that has standards, that 24 requires this kind of disclosure, that allows investors 25 and regulators and other market participants to</p>

<p style="text-align: right;">Page 118</p> <p>1 understand the steps a company is taking to establish its</p> <p>2 public market.</p> <p>3 Things like narrower bid ask spreads and more</p> <p>4 broker/dealers coming to the market are the result of</p> <p>5 education and a comfort level, and that's a common theme</p> <p>6 that I think is going to help drive Reg A securities and</p> <p>7 make people comfortable with how that process works. If</p> <p>8 you understand what the marketplace is as a broker, or a</p> <p>9 clearing firm, or an advisor you're going to be much more</p> <p>10 likely to engage in that kind of offering or advise your</p> <p>11 client to do so.</p> <p>12 I'll touch on OTCQB. Again the thing to note</p> <p>13 here a \$12 million median market cap. So that's much</p> <p>14 more in line with some of the other venture markets round</p> <p>15 the world. Here because of the types of companies that</p> <p>16 really would make up the OTCQB profile we've allowed</p> <p>17 companies to take their tier two ongoing disclosure and</p> <p>18 just use that as their qualifying disclosure for OTCQB.</p> <p>19 So there is no additional quarterly filing requirement.</p> <p>20 As long as they are following the rules set forth by the</p> <p>21 SEC in relation to Reg A they're permitted to quote on</p> <p>22 OTCQB.</p> <p>23 This is one of my favorite slides. One of the</p> <p>24 things that we think about in terms of the role that our</p> <p>25 market plays and the role of the venture market generally</p>	<p style="text-align: right;">Page 120</p> <p>1 their depositors, they can focus on their regulatory</p> <p>2 requirements. Because, you know, as banks they have</p> <p>3 their plates full with those kinds of things and they use</p> <p>4 our markets as a way to continue to engage investors and</p> <p>5 show that they're providing current information.</p> <p>6 I won't get too deep into the weeds unless</p> <p>7 people are interested, in which case I'll have to book a</p> <p>8 hotel room for tonight, about how trading actually works,</p> <p>9 you know, kind of the behind the scenes market structure.</p> <p>10 But I think it's instructive just to note the</p> <p>11 differences between the way our market operates versus</p> <p>12 what most people are familiar with, a traditional</p> <p>13 exchange.</p> <p>14 Our market is a network model, so it is what I</p> <p>15 described earlier. It is a group of FINRA member</p> <p>16 broker/dealers that post attributable quotes, meaning the</p> <p>17 people on the bid side can see who the people on the</p> <p>18 offer side are. They use our facility to communicate.</p> <p>19 They can negotiate trades and ultimately it's the broker,</p> <p>20 it's the end point, not us, that is executing the</p> <p>21 transaction. It really helps facilitate communication</p> <p>22 between liquidity seekers and liquidity providers.</p> <p>23 The exchanges operate in a central limit order</p> <p>24 book, a matching engine function where a broker/dealer</p> <p>25 submits an order to the exchange. That order gets</p>
<p style="text-align: right;">Page 119</p> <p>1 is what's happening to companies after they trade there.</p> <p>2 We celebrate when companies what we call graduate from</p> <p>3 our markets and move to the New York Stock Exchange or</p> <p>4 NASDAQ. We've had over 200 of those events over the past</p> <p>5 few years and as much as it is in most cases a good, a</p> <p>6 strong company leaving our markets to go somewhere else,</p> <p>7 it inevitably leads to two or three phone calls from</p> <p>8 companies in a similar industry or similar geographic</p> <p>9 location saying that's a great story. That's my end</p> <p>10 goal. How does -- how do you do that? Can I work with</p> <p>11 your markets in order to achieve that result?</p> <p>12 And we view that as a key component to what we</p> <p>13 do, and so we're very proud of the way that that's</p> <p>14 developed over time. We cite the similar statistics for</p> <p>15 the LSE's AIM and the TSX Venture Market, which are much</p> <p>16 lower numbers of graduates.</p> <p>17 All of this for our markets is not to say that</p> <p>18 OTCQX or OTCQB can't be a home. I think banks, and our</p> <p>19 constituent group of about 75 community banks on OTCQX</p> <p>20 provide a great example of an industry group that really</p> <p>21 seems to be comfortable finding a home on OTCQX. A lot</p> <p>22 of those companies, those banks were exchange listed,</p> <p>23 used -- excuse me -- some of the provisions of the JOBS</p> <p>24 Act to deregister and trade on our markets in a less</p> <p>25 costly, less complex manner so that they can focus on</p>	<p style="text-align: right;">Page 121</p> <p>1 executed. The broker does not know who is on the other</p> <p>2 side of it. For the most part they don't care. When</p> <p>3 you're trading Apple, and Google and Microsoft that is a</p> <p>4 perfectly fine way to trade, probably the best model</p> <p>5 that's been developed. You pay a little fee to the</p> <p>6 exchange for the privilege of executing the transaction</p> <p>7 and you're on your way.</p> <p>8 Where companies need a little bit more support,</p> <p>9 need the dealer support either with their customer base</p> <p>10 or the dealer proprietary interest, a dealer market</p> <p>11 allows for that kind of optionality and has proven --</p> <p>12 I'll get into some academic studies towards the end, but</p> <p>13 has proven to be a better model for smaller company</p> <p>14 trading.</p> <p>15 You see the bottom of the slide here it's just</p> <p>16 a view of what level two quotes look like just to give</p> <p>17 you a sense of what I mean by attributable quoting. So</p> <p>18 you can see the market makers and all of the information</p> <p>19 related to their quotes there. One of the goals with OTC</p> <p>20 Link and the way we operate is to give investors a</p> <p>21 comparable trading experience as if they were trading an</p> <p>22 exchange listed security. So being able to go on your E</p> <p>23 Trade or your TD Ameritrade account, your Schwab account,</p> <p>24 type in a stock symbol, click buy or click sell, have</p> <p>25 that transaction executed.</p>

<p style="text-align: right;">Page 122</p> <p>1 It's done across our market behind the scenes</p> <p>2 in this way, but the investor experience is similar if</p> <p>3 not identical. And that's a big driver not only for the</p> <p>4 companies that currently exist on our market but for how</p> <p>5 we perceive Reg A companies trading in the future.</p> <p>6 Now on to some more broad based considerations</p> <p>7 as it relates to secondary trading for Reg A's. Again</p> <p>8 this is that next step after the offering that I think a</p> <p>9 lot of businesses have not focused on. Sebastian towards</p> <p>10 the beginning talked about some of the components</p> <p>11 generally of Reg A and, you know, what the SEC changed in</p> <p>12 this version of the rule. One of the key things for a</p> <p>13 market operator is the free trading aspect of shares once</p> <p>14 they're in the hands of non-affiliates following the</p> <p>15 offering.</p> <p>16 But just because there's an SEC rule that</p> <p>17 permits for that doesn't mean it automatically happens.</p> <p>18 There are number of regulatory steps that have to take</p> <p>19 place. The most prominent of those is what's called the</p> <p>20 FINRA Form 211. So in order for a broker to be able to</p> <p>21 quote a security, and think about Elio as the prime</p> <p>22 example as it is for many of these things, before Elio</p> <p>23 could be quoted and traded on our market FINRA had to</p> <p>24 tell a broker/dealer, okay, we allow you to do that.</p> <p>25 That's the rule if you're not an exchange listed</p>	<p style="text-align: right;">Page 124</p> <p>1 minds asks a number of questions that go well outside of</p> <p>2 just what kind of information is publicly available. The</p> <p>3 way that impacts secondary trading and particularly for</p> <p>4 Reg A's is that first of all FINRA is not obligated to</p> <p>5 clear a 211 at all. So there's no guarantee that they're</p> <p>6 going to say, okay, go ahead and quote. They're</p> <p>7 certainly not obligated to do it in line with when the</p> <p>8 offering closes.</p> <p>9 So again thinking about Elio their offering</p> <p>10 closes, they distribute shares to investors, investor has</p> <p>11 a share in his or her hands that they would like to</p> <p>12 trade, there's nobody permitted to quote it. You know,</p> <p>13 that's a very conceivable result from this.</p> <p>14 Qualification for our OTCQX or OTCQB markets or</p> <p>15 potentially other markets that may develop for these</p> <p>16 kinds of securities is often also at least partially</p> <p>17 based on the bid price, you know, how much -- is this</p> <p>18 going to be a tenth of a penny security or is this going</p> <p>19 to be a \$2 or \$12 security. And until FINRA clears that</p> <p>20 Form 211 you don't know what the bid price is going to be</p> <p>21 and you can't necessarily qualify it for a particular</p> <p>22 market.</p> <p>23 So it's a lot of dominoes that have to fall in</p> <p>24 line in order for this to be a smooth process. With all</p> <p>25 211's, not just Reg A's, once the form has been approved</p>
<p style="text-align: right;">Page 123</p> <p>1 security.</p> <p>2 The FINRA Form 211 is based off of an SEC rule</p> <p>3 called 15c211 that basically requires a broker/dealer to</p> <p>4 have in its possession and to verify that it is publicly</p> <p>5 available certain information about a company before it</p> <p>6 can quote on a system like ours publicly. The way the</p> <p>7 FINRA rules operate, it acts on its members, on the</p> <p>8 brokers, and it's written as a notice filing. So brokers</p> <p>9 would submit this form to FINRA, indicate that they had</p> <p>10 the required information, and then wait at least three</p> <p>11 days before publicly quoting.</p> <p>12 In practice the 211 process is a little bit</p> <p>13 more of a merit review. It's almost what you would see</p> <p>14 in an S-1 qualification process with the SEC. There are</p> <p>15 comments back and forth. Under the SEC version of the</p> <p>16 rule one of the things that qualifies as enough</p> <p>17 information for quoting to begin is a Reg A offering</p> <p>18 statement. So in theory the Form 1A, a Reg A offering</p> <p>19 statement, should just be linked to in a broker's filing.</p> <p>20 They should say here's where it is, it's publicly</p> <p>21 available. We have it as does everybody else. FINRA</p> <p>22 could theoretically say, okay, that sounds great,</p> <p>23 commence quoting.</p> <p>24 That's not at all how it works. FINRA, you</p> <p>25 know, I think trying to do the right thing in their own</p>	<p style="text-align: right;">Page 125</p> <p>1 there's a single broker/dealer that can quote that</p> <p>2 security for 30 days. In theory multiple broker/dealers</p> <p>3 could file a 211. That very rarely happens.</p> <p>4 But for the first 30 days you don't see the</p> <p>5 depth of book, you don't see additional market makers</p> <p>6 coming because they're not permitted to. Then after that</p> <p>7 30 day period you'll see a little bit more of a market</p> <p>8 develop.</p> <p>9 I talk here about Blue Sky laws. I'm going to</p> <p>10 put that off for a moment because I talk about that in a</p> <p>11 few slides.</p> <p>12 DTC eligibility really just refers to make sure</p> <p>13 that the shares are available for electronic transfer at</p> <p>14 DTC. The role of the transfer agent is kind of tied in</p> <p>15 with that. There's a transfer agent that has to help</p> <p>16 process the transaction, indicate who the owners of all</p> <p>17 the securities are, work with the issuer, work with the</p> <p>18 investors, work with potentially their brokers to</p> <p>19 transfer those shares so that trading can ultimately take</p> <p>20 place.</p> <p>21 With Elio that was one of the big impediments</p> <p>22 early on, it was how are shareholders going to deposit</p> <p>23 their shares into their brokerage accounts. You had a</p> <p>24 number of excited shareholders who said this is great,</p> <p>25 I'm ready to deposit, I hold at any number of brokers.</p>

<p style="text-align: right;">Page 126</p> <p>1 And brokers were saying, no, you can't deposit. We're 2 not accepting that. We're not going to take a Reg A 3 share. 4 So through a lot of work from Elio, their 5 advisors, from OTC Markets, we contacted a number of 6 brokers, a number of clearing firms and their compliance 7 teams approached it probably as they should, which is to 8 say they really didn't know what Reg A was. And so they 9 said, no, I'm not going to -- I don't know what the 10 security is, I don't know what this means, I'm not going 11 to let it in. 12 With a little bit of an education process and, 13 you know, thankfully people like Paul Elio are willing to 14 go through this and kind of push the boundaries a little 15 bit, most of those brokerage firms said, okay, we get it, 16 we understand, free tradeable share. This is how it's 17 going to work and they put their processes in place. 18 But trading was able to commence at a more 19 normal level. You know, brokers look at these kinds of 20 deals and maybe their first instant is to think it's a 21 pipe or an equity line financing or something else that 22 may have terms that are not necessarily either apparent 23 in favor of the issuer or the shareholder, and so 24 differentiating Reg A from those kinds of offerings was a 25 big part of this.</p>	<p style="text-align: right;">Page 128</p> <p>1 out into the market for new shareholders. It's also been 2 used in M&A activity and that should, you know, go to the 3 credit of what Reg A has been able to accomplish. 4 So I cited here an example of an OTCQX company, 5 Coastal Banking, that completed a Reg A offering, used 6 that as part of an acquisition, and I gave you some of 7 the trading statistics there. Again I could probably 8 disclaim all of these slides. I can barely help myself. 9 But I'm looking at it but none of you are. 10 But you see a nice pattern of trading. People 11 understood what the use of this tool was, what the 12 acquisition was, and things were able to kind of move in 13 a natural direction. 14 Back to the topic of Blue Sky, and I'll spend a 15 couple of minutes here because this is another important 16 component of what people need to understand in terms of 17 the Reg A secondary market and really the secondary 18 market more generally. 19 One of the big things that people talked about 20 around Reg A's adoption was the Blue Sky preemption at 21 the offering stage, which certainly got its own -- its 22 own fair share of press. Secondary trading, there are 23 also Blue Sky rules that act on secondary trading. So 24 it's a set of state laws, and Mike Picciak can probably 25 explain it even better than I can, that act on what</p>
<p style="text-align: right;">Page 127</p> <p>1 You see this is just a little bit more insight 2 into Elio's trading activity since they joined OTCQX. As 3 Paul noted they closed their offering at \$12. Their 4 initial bid price on OTCQX was actually \$14. That spoke 5 -- you see very early on was due -- it could be due to a 6 number of factors, but it was due I think in part to the 7 amount of interest that Elio generated at the beginning 8 of the process and that supply/demand shortage created by 9 the fact that brokerage firms were not accepting these 10 shares. 11 So if you were an interested and motivated 12 buyer you had to pay from one of the very few, you know, 13 accounts that was offering freely tradeable shares. As 14 that smoothed out over time you see a much more normal 15 trading partner. They trade give or take at around \$20 a 16 share now, which is nice growth. And there are eight 17 market makers, at least as of June 30th there were eight 18 market makers in Elio holding themselves out as able to 19 buy or sell the shares. So some of that goes to the 20 liquidity concerns I think that Stephen was expressing 21 earlier. 22 I want to briefly note some of the other uses 23 for Reg A without using the term mini IPO, which I now 24 understand is frowned upon. I think the traditional Reg 25 A is a method of getting equity shares, new equity shares</p>	<p style="text-align: right;">Page 129</p> <p>1 brokers can and can't do with respect to advising 2 investors in their state about a certain company. 3 So if a company is not Blue Sky exempt or 4 compliant in a given state brokers are prohibited from 5 taking certain actions, things like distribution of 6 research, which is considered advice. Again this is 7 general. The state laws are very unique and things will 8 vary state to state, but generally research is 9 prohibited, which impacts not only research directed to 10 people in a specific state but anybody who is thinking 11 about distributing national research will not do so 12 because no OTC company has Blue sky qualification or 13 exemption in every state. 14 No transactions in managed accounts. You're 15 never going to stop -- none of the Blue Sky laws to my 16 knowledge stop self-directed investors from buying or 17 selling a security. So an investor calls their broker 18 and says I'm interested in purchasing Elio Motors or OTC 19 Markets or selling my shares, that's always going to be 20 okay. It's the broker/dealer advice and interaction with 21 their customer that's impacted. 22 We talk here about no advice or solicitation 23 relating to the security, and I think people focus a lot 24 on the solicitation aspect of that and maybe think good, 25 you know, you want to limit the opportunity for brokers</p>

<p style="text-align: right;">Page 130</p> <p>1 to solicit, which is a separate discussion in and of</p> <p>2 itself. The advice portion is just as important.</p> <p>3 So when that self-directed broker calls or a</p> <p>4 self-directed investor calls their broker and says I</p> <p>5 would really like to buy shares of OTC Markets, the</p> <p>6 broker is not permitted to say actually I watched a</p> <p>7 webcast of their general counsel and I think that's a</p> <p>8 terrible idea. This is not going to work out well for</p> <p>9 you. They have to just take direction. They can't say</p> <p>10 yay or nay. That's considered advice, that's outside the</p> <p>11 scope of the law.</p> <p>12 Rescission risk I note is just the possibility</p> <p>13 that even an unsolicited transaction, an investor that is</p> <p>14 self-directed is going to come back to their broker and</p> <p>15 say, when the trade goes sour of course, and say you did</p> <p>16 actually provide me advice there. Whether they choose to</p> <p>17 fight it out the broker has to account for the</p> <p>18 possibility that they're going to be held responsible,</p> <p>19 they're going to have to rescind the trade, take the</p> <p>20 loss, which chills activity by some brokers in these</p> <p>21 securities and also obviously adds an additional cost</p> <p>22 factor that they have to think about.</p> <p>23 On the positive side of all of this there are a</p> <p>24 number of exemptions and qualifications that Reg A and</p> <p>25 other companies can go through to be able to trade, to be</p>	<p style="text-align: right;">Page 132</p> <p>1 all in one spot. And to their immense credit NASAA has</p> <p>2 been supportive of the effort. Many of the states have</p> <p>3 gotten on board.</p> <p>4 We certainly -- OTC Markets loves all the</p> <p>5 states, but the four that we'll call out here as the</p> <p>6 first movers in this endeavor, Vermont, which is Mike's</p> <p>7 state, Wyoming, Iowa and Washington. It's never easy as</p> <p>8 I'm sure Paul Elio would tell you, it's never easy to be</p> <p>9 the first mover but these four have done that and that</p> <p>10 will help the market for Reg A and other securities.</p> <p>11 I want to touch on the petition for rulemaking</p> <p>12 that was noted earlier. I think Sara and Sebastian did a</p> <p>13 nice job of kind raising the points there. In the</p> <p>14 initial adopting release for Reg A the Commission noted</p> <p>15 that the reason that they didn't want to include Exchange</p> <p>16 Act reporting companies was that they hadn't been</p> <p>17 included in the prior iteration of Reg A. And really I</p> <p>18 think they just wanted to see what would happen, how were</p> <p>19 the new rules going to impact this exempt offering type.</p> <p>20 As we approached and now have passed the one</p> <p>21 year anniversary we thought it made sense to start</p> <p>22 considering how you really expand the pool and Exchange</p> <p>23 Act companies, Exchange Act reporting companies in</p> <p>24 particular have been in touch with us about their desire</p> <p>25 to access Reg A and also seem to be the least</p>
<p style="text-align: right;">Page 131</p> <p>1 able to allow brokers to engage in some of these</p> <p>2 activities in a given state. The most prominent among</p> <p>3 those is the manual exemption, meaning the way NASAA has</p> <p>4 framed it in their uniform Securities Act for companies</p> <p>5 that meet a certain set of qualifications as long as a</p> <p>6 certain amount of information is published in a</p> <p>7 nationally recognized securities manual, the theory being</p> <p>8 give investors enough information availability you're</p> <p>9 able to trade that security or it's exempt from Blue Sky</p> <p>10 rules, limited broker behavior in that state.</p> <p>11 The most prominent manual, which was operated</p> <p>12 by Standard & Poor's, ceased publication earlier this</p> <p>13 year, in May. We've taken that opportunity to -- you</p> <p>14 know, all of this goes to how do you inform issuers what</p> <p>15 the trading market is going to look like. We've taken</p> <p>16 that opportunity to work with NASAA, with Mike Pieciak</p> <p>17 and others to establish OTCQX and OTCQB as manuals so</p> <p>18 that a company like Elio can say, all right, I'm making</p> <p>19 all of this disclosure available on OTCQX, not just a set</p> <p>20 of audited financials that are going to sit in a</p> <p>21 published book in a library somewhere.</p> <p>22 But this is dynamic information. It's the</p> <p>23 annual audited financials, its quarterly reports, timely</p> <p>24 disclosure of material news and all of the trading</p> <p>25 information that we have because we operate the market</p>	<p style="text-align: right;">Page 133</p> <p>1 controversial of the additional issuer types to</p> <p>2 potentially gain access to Reg A.</p> <p>3 These are companies that are already current in</p> <p>4 their SEC reporting requirements, so they're providing</p> <p>5 more information than is required under Reg A already.</p> <p>6 They are, you know, again current so they're kind of</p> <p>7 active good citizens already. They are permitted of</p> <p>8 course to do more traditional offering types, S-1 and S-</p> <p>9 3. Those are more costly avenues in many cases. They</p> <p>10 don't have the Blue Sky preemption at the offering stage</p> <p>11 that Reg A offers. Even S-3, which is obviously a more</p> <p>12 streamlined process, has some public float requirements,</p> <p>13 75 million in public float.</p> <p>14 So there are issuers who are kind of left out</p> <p>15 who might otherwise be able to use this financing tool</p> <p>16 not only to kind of raise money as a traditional capital</p> <p>17 raise but also get that marketing impact, the additional</p> <p>18 impact that Paul Elio was describing of engaging with</p> <p>19 their potential customer base, all the things that Reg A</p> <p>20 does very well or allows for very well.</p> <p>21 Sebastian touched on it briefly, but the</p> <p>22 additional part of our petition is to allow for at the</p> <p>23 market offerings, which more or less means allowing the</p> <p>24 offering to adjust to the current trading price of a</p> <p>25 company. So if you have securities that are already SEC</p>

<p style="text-align: right;">Page 134</p> <p>1 registered theoretically there's a market, a trading 2 market that exists for them already. And so an at the 3 market offering would allow any Reg A offering to be 4 priced accordingly.</p> <p>5 And there's -- I noted some public support 6 here. I got an email just before I sat down here that 7 there are now a dozen comment letters in support in the 8 SEC file. As Sebastian did I encourage everyone to take 9 a look at it, come back with any questions. Obviously 10 submit comments through the process, and we're looking 11 forward to working with the SEC more on that going 12 forward.</p> <p>13 I will end, I promise I will end on a couple of 14 slides just discussing the type of market that may work 15 best for Reg A companies and others that are similarly 16 situated. There's been a lot of discussion, a lot of it 17 started at the SEC and Commissioner Gallagher was a big 18 proponent of this kind of conversation. It's moved to 19 the Hill. There have been some legislative proposals 20 talking about venture markets or what's really been 21 venture exchanges.</p> <p>22 I think there's sometimes a lack of 23 understanding about what exists now in terms of OTC 24 Markets and just what the current regulations would allow 25 for in development, things that are not OTC Markets but</p>	<p style="text-align: right;">Page 136</p> <p>1 done in that way. That doesn't allow for the dealer 2 market model that OTC Markets and potentially others may 3 find more useful.</p> <p>4 Our point in all of our discussions about this 5 has been you want to allow for competition, particularly 6 where you have a tool that is clearly useful, like Reg A. 7 It clearly has a lot of applications. You don't want to 8 start prescribing the kind of trading market that needs 9 to develop around it. Allow these companies to trade in 10 a number of different markets. Resources will flow to 11 the ones that work. The market will actually figure this 12 out.</p> <p>13 Some of the reasoning, at least that we've 14 heard behind directing these types of discussions towards 15 exchanges specifically are that exchanges get Blue Sky 16 preemption for secondary trading, they get things like 17 margin eligibility. I think when you're talking to a 18 regulatory or legislative crowd that has a little bit of 19 control over how these things work the better model, at 20 least I submit the better model, is to establish what you 21 think of as venture company.</p> <p>22 What are the companies that you're trying to 23 help with this? I indicate what factors those companies 24 need to meet to qualify, and then say, all right, those 25 companies they get Blue Sky preemption, or margin</p>
<p style="text-align: right;">Page 135</p> <p>1 that may develop over time.</p> <p>2 I promised academic studies and here you go. 3 There was a study done by Professors Aggarwal and Angel 4 that was really exploring why the AMEX small company 5 market, small company marketplace in the 90's failed and 6 it talked about some of the common characteristics of 7 successful small company markets. They grew out of the 8 preexisting over-the-counter markets. They operated as 9 dealer markets and they were separate from the existing 10 exchanges.</p> <p>11 That really is what OTC Markets has built. It 12 is certainly an available path for others that may hop 13 into the market that may find some sort of market 14 structure that works best for these companies. All of 15 those things are possible.</p> <p>16 The current proposals have focused specifically on the 17 exchange model and said we need to have a venture 18 exchange, meaning a national -- a registered securities 19 exchange.</p> <p>20 So going back to that market structure 21 discussion from earlier, an exchange has to operate with 22 that central limit order book, that fast kind of speed of 23 execution based model for the volume. For the trading to 24 be considered exchange, done on the exchange, it has to 25 be done where the exchange controls it. So it has to be</p>	<p style="text-align: right;">Page 137</p> <p>1 eligibility, or whatever other treatment the regulator or 2 Congress thinks is appropriate, but don't mandate where 3 they have to trade. That's -- it's a roundabout way of 4 dictating what's going to happen and potentially 5 foreclosing options that could be a lot more useful.</p> <p>6 Again competition is the key. I will close on 7 a slide that I will fully attribute in the spirit of 8 transparency to our CEO, Cromwell Coulson. This is one 9 of his favorites. And it's just an image to kind of take 10 away about why the auction model, the exchange model is 11 not always right for companies that don't have a deep 12 order book.</p> <p>13 This was Joan Rivers dog's bowl I suppose that 14 sold at auction for about 30 times the low estimate on 15 Christie's, a specialty item like you might think of a 16 company, a Reg A kind of company that appeals to a 17 certain kind of investor or consumer base that traded a 18 little bit out of whack because the model available to it 19 was auction. If you could have some competing dealers 20 that maybe bring a little more sense to the market you 21 might not have wound -- although the Rivers' estate is 22 not complaining, you might not have wound up with a 23 \$14,000 dog bowl.</p> <p>24 With that I will end the presentation and 25 certainly I'm happy to answer any questions you all have.</p>

<p style="text-align: right;">Page 138</p> <p>1 CO-CHAIR GRAHAM: Before you ask questions</p> <p>2 could we get copies of the slides?</p> <p>3 A PARTICIPANT: They're up on the website.</p> <p>4 CO-CHAIR GRAHAM: They're on the website.</p> <p>5 Okay.</p> <p>6 MR. ZINN: I can certainly send them around</p> <p>7 too, to the extent people are interested. I'll make sure</p> <p>8 they get distributed to the group.</p> <p>9 MR. GOMEZ: Steve, would you like copies now,</p> <p>10 is that what you --</p> <p>11 CO-CHAIR GRAHAM: No, I should have asked</p> <p>12 before but it's -- I'm fine.</p> <p>13 MR. ZINN: If there's anything you want me to</p> <p>14 reference I'll make sure I get to it.</p> <p>15 CO-CHAIR GRAHAM: Okay. Questions, comments.</p> <p>16 Patrick.</p> <p>17 MR. REARDON: You referenced these brokers as</p> <p>18 market makers but they are -- I think I heard you say</p> <p>19 that they're really matching orders is what they're</p> <p>20 doing, they're not making a market in these securities.</p> <p>21 MR. ZINN: Oh, you mean on OTC Link? No, they</p> <p>22 are acting as market makers.</p> <p>23 MR. REARDON: So they buy for their own</p> <p>24 account?</p> <p>25 MR. ZINN: Yes, they buy for their own account</p>	<p style="text-align: right;">Page 140</p> <p>1 company, whether they're going to quote it on our system</p> <p>2 or another system out there.</p> <p>3 The kinds of questions that can come back, and</p> <p>4 just to focus it on Reg A, are sometimes the nature of</p> <p>5 the purchaser. They want to see subscription agreements</p> <p>6 from each individual purchaser of the securities. They</p> <p>7 want to know from a broker mind you things that really</p> <p>8 even the issuer is not necessarily permitted to provide.</p> <p>9 So you have this competition between a broker</p> <p>10 who's not allowed to receive compensation for performing</p> <p>11 the service, this has to be of their own accord, and so</p> <p>12 really can't have that kind of close relationship with</p> <p>13 the issuer, being asked to answer questions about</p> <p>14 insiders and about, you know, where the money came from</p> <p>15 to purchase shares. It becomes a very sticky process.</p> <p>16 And some of that is FINRA going through the</p> <p>17 same process as the brokers and clearing firms I've</p> <p>18 described before and really learning what it is to be a</p> <p>19 Reg A security and trying to figure out how they can</p> <p>20 handle that. So they are -- they are open to our</p> <p>21 outreach in terms of trying to improve the process a</p> <p>22 little bit. We try to work with them.</p> <p>23 MS. MOTT: Can you help me understand. I</p> <p>24 probably got -- it's probably in one of your slides, but</p> <p>25 if there -- if they're filed with Reg A do they -- are</p>
<p style="text-align: right;">Page 139</p> <p>1 or for the account of customers, but they stand ready to</p> <p>2 buy or sell.</p> <p>3 MR. REARDON: So like a trading balance or</p> <p>4 something like that they've got to buy into it or --</p> <p>5 MR. ZINN: Right. So all the brokers that</p> <p>6 subscribe to our system are required to be FINRA members.</p> <p>7 So they're subject to the entire FINRA rule book, which</p> <p>8 gives certain consideration to brokers that act as market</p> <p>9 makers in certain capacities.</p> <p>10 And so not every broker is required. We would</p> <p>11 allow an agency broker to participate in the market. But</p> <p>12 to the extent they are holding themselves out as market</p> <p>13 makers for treatment under the FINRA rules they act as</p> <p>14 market makers on our system.</p> <p>15 MR. REARDON: Okay, thank you.</p> <p>16 MR. ZINN: Sure.</p> <p>17 MR. YADLEY: Can you just talk a little bit</p> <p>18 more about the initial quotation dialogue between you all</p> <p>19 and FINRA and what kind of questions they ask and where</p> <p>20 they give you grief probably in your view?</p> <p>21 MR. ZINN: Right. So it's not a process that</p> <p>22 we go through. We kind of sit on the sidelines and watch</p> <p>23 as the process unfolds. But a broker will file this Form</p> <p>24 211, which is a fairly simply form, it's just a few pages</p> <p>25 long, indicating what information they have about the</p>	<p style="text-align: right;">Page 141</p> <p>1 they under the QX or the QB? I mean, which is it -- is</p> <p>2 it --</p> <p>3 MR. ZINN: So it can be either.</p> <p>4 MS. MOTT: Okay.</p> <p>5 MR. ZINN: So for QX and QB, you know, an</p> <p>6 issuer is applying to achieve that designation. At the</p> <p>7 end of the day what -- QX is the same thing as NASDAQ or</p> <p>8 New York. It's not the mechanism by which you're raising</p> <p>9 money, it's just kind of the advertisement for lack of a</p> <p>10 better word of I've met this standard, I qualify for this</p> <p>11 club, and this is where I'm going to trade.</p> <p>12 So somebody like Elio determined to try to meet</p> <p>13 the OTCQX requirements. So there are -- this is why I</p> <p>14 could have done this for hours, but there are a whole set</p> <p>15 of OTCQX rules, not exactly the same but similar to what</p> <p>16 you would see on a NASDAQ or New York rule set, based</p> <p>17 largely on the NASAA Uniform Securities Act with some</p> <p>18 other bells and whistles in there.</p> <p>19 So companies can choose to qualify for either</p> <p>20 of those markets. If they chose to -- if they don't</p> <p>21 chose to go through the process at all and maybe decide</p> <p>22 that they don't want to engage investors or they don't</p> <p>23 want to continue to provide information, you know,</p> <p>24 brokers can still trade them on the pink market. But</p> <p>25 there may be a stop sign or a yield sign or whatever</p>

<p style="text-align: right;">Page 142</p> <p>1 appropriate investor indication is necessary based on how 2 much they're putting out into the world.</p> <p>3 MS. MOTT: Okay. Back to Greg's question, I 4 think it was Greg that asked about the -- or Patrick, 5 market maker. So you said they were sort of acting like 6 market makers. Can you talk about the big picture of 7 what happens on the OTC, the velocity, how much is 8 traded, you know, that kind of thing? Can you give us -- 9 I don't think it was one of your slides, but can you give 10 us a big picture of that?</p> <p>11 MR. ZINN: Sure, and I'll do it a little bit 12 through a slide. So over on the -- in the little text 13 box there on the right for the OTCQX Market year to date, 14 that second number down is \$17.5 billion in dollar volume 15 traded. We look at dollar volume traded as the better 16 metric. Shares are what they are.</p> <p>17 So that's a picture of OTCQX. For OTCQB it's 18 significantly different. Even though there are more 19 companies it's \$4.3 billion in dollar volume. That 20 speaks in some way to the, you know, the types of 21 companies on each market and the trading prices.</p> <p>22 But to the earlier part of your question, it's 23 an electronic market. So our biggest participants are 24 the same market makers that work with the New York Stock 25 Exchange and NASDAQ. So KCG and Citadel and firms like</p>	<p style="text-align: right;">Page 144</p> <p>1 of you know are often not necessarily correlated to 2 record, you know, Dow results, it's a different 3 calculation. So as volumes ebb and flow in the listed 4 markets we follow a fairly similar pattern.</p> <p>5 So we've seen -- for many years we experienced 6 growth, upon growth, upon growth as, you know, our 7 electronic capacity expanded a little bit and brokers 8 were able to quote more securities and do it faster with 9 us. There's still distance to be covered there. There 10 are more things that we're constantly introducing that I 11 think will be accretive to these kinds of numbers.</p> <p>12 But we're at a point where trading happens at 13 the speed that brokers want it to happen and quoting is 14 available for as many securities as they want. You know, 15 our capacity and our consistency is there. So we will 16 probably just continue to move more or less with the 17 listed markets. Sure.</p> <p>18 MR. NELSON: The internet is failing me and so 19 I was wondering how the daily or annual traded volume 20 number wise, in absolute numbers, compares to like the 21 ASX, or the AIM, or the London Stock Exchange, or some of 22 the other kind of comparable smaller markets.</p> <p>23 MR. ZINN: So we're a little bit bigger than 24 some of those markets. In part, you know, 10,000 25 securities is more than you see on NASDAQ as well. So</p>
<p style="text-align: right;">Page 143</p> <p>1 that are also operating in our markets. We also allow 2 for some smaller brokers.</p> <p>3 You know, there are brokers that specialize in 4 community banks, which is always an example that I use 5 that maybe don't have the algorithmic trading capacity, 6 maybe it's a person clicking a button. So trading can 7 take place incredibly quickly when you have two 8 electronic participants matching off against each other 9 or working with each other to ultimately execute a trade 10 through us. And that's an important distinction because 11 we -- at no point do we match for them, which is why you 12 see a little bit of a time difference.</p> <p>13 So the speed of trading is there for the most 14 part. Again if it was Apple or Google it's probably not 15 where you would want it to be, but for these kinds of 16 companies, for those that trade, you know, less than a 17 million times a year it's that kind of market.</p> <p>18 Ms. MOTT: Okay. So tell me about how does 19 that -- the market volume trading, how has that been 20 trending? So talk about the previous three years and how 21 does this look, you know, today</p> <p>22 MR. ZINN: Sure. And I had a slide, I took it 23 out, that had the 2015 numbers. It's a little bit 24 slower. You know, we trend as the markets trend more or 25 less. So as volumes go down, and volumes as I'm sure all</p>	<p style="text-align: right;">Page 145</p> <p>1 it's a larger number. I don't have the specific data in 2 front of me, but I can certainly get it for you.</p> <p>3 But, you know, we look at it both from I 4 mentioned the market cap aspect of it, but also from the 5 depth of book, the number of market makers involved, 6 which is generally greater on our markets than you see 7 there. But some of those are very comparable markets, 8 and so to the extent anybody else is interested as well, 9 and honestly in those numbers or anything else, we can 10 turn those things around pretty quickly.</p> <p>11 CO-CHAIR GRAHAM: Laura, I think did you have a 12 comment?</p> <p>13 CO-CHAIR HANKS: Actually I've got a question 14 which is kind of off topic. But one of the things that 15 came up in discussions among the committee with respect 16 to accredited investors and is a continuing theme of this 17 committee is lack of data about anything. So it seems to 18 me that somebody whose market demographic consists of a 19 whole bunch of companies who have recently raised money 20 privately might keep some records on people who might be 21 potential issuers on the OTC. Do you got anything?</p> <p>22 MR. ZINN: I don't have anything offhand. I 23 have a feeling we can get it for you. We call that 24 process a slow PO, what you're describing, which is a Reg 25 D or a traditional private offering held for the</p>

<p style="text-align: right;">Page 146</p> <p>1 appropriate amount of time under Rule 144. They are six 2 months for a reporting company or a year for a non- 3 reporting company, and then a public market developing 4 often through the 211 process. It's not always an issuer 5 that is conscious of that and is creating that public 6 market, it is sometimes an investor who says I now have 7 this security that's publicly available for trade. They 8 call their broker, the process kind of proceeds from 9 there.</p> <p>10 So I'll see what we've got and I'll get you 11 anything that we have.</p> <p>12 CO-CHAIR HANKS: That would be great. Because 13 I think, you know, as we're trying to pull data together 14 it's a number of tiny little mismatched jigsaw pieces and 15 the more jigsaw pieces we can get we can see how it works 16 together.</p> <p>17 MR. ZINN: I can look at -- if I could find the 18 camera I'll look directly into it and ask our data 19 reporting team to send me that information.</p> <p>20 CO-CHAIR HANKS: Thanks.</p> <p>21 MR. YADLEY: As a follow up to that, liquidity 22 as Sara said is something that we're interested in. 23 Since research can't be disseminated, I mean what are 24 some -- what are some of the constraints to a company 25 being able to get more of a following? I mean, so you've</p>	<p style="text-align: right;">Page 148</p> <p>1 At some point prior to NASDAQ becoming an 2 exchange they basically said, all right, every NASDAQ 3 company is on the OTC margin list. Then NASDAQ became an 4 exchange and they never picked up the OTC margin list, so 5 there were no OTC companies that are eligible for margin. 6 So we have engaged the Fed to the extent we can on that, 7 but would love to see something like that happen.</p> <p>8 What companies want for the most part is a 9 comparable experience to what you see on an exchange 10 based on them -- their ability to meet certain 11 requirements, not necessarily just the market on which 12 they trade. So we have talked to the IRS and Treasury 13 about employee stock ownership plans and the way OTC 14 securities are viewed and the obligations of an employer 15 or a company when developing an employee stock ownership 16 plan it works differently for OTC companies than it does 17 for exchange listed companies and those are, you know, 18 you want to help your employees, you want to be able to 19 run that in an approximate fashion, not always just doing 20 a 701 offering.</p> <p>21 We look at international designations. So, you 22 know, this may be a little far afield in terms of what 23 the committee focuses on, but there are a number of 24 designations in Canada, in Europe, in South America and 25 others for what markets they deem qualified for certain</p>
<p style="text-align: right;">Page 147</p> <p>1 now done an offering, you have a bunch of investors, you 2 have a market, your sole purpose is to have activity in 3 your market, right, and you're trying to be hospitable to 4 the brokers. So there's the SEC, FINRA and the states. 5 So what are the sort of top five things that even 6 understanding that there are issues to work through based 7 on the jurisdictional issues and the mandates of those 8 organizations on your wish list, what are five things 9 that you would change so that a company that's just 10 raised money can have liquidity quicker?</p> <p>11 MR. ZINN: That's a great question. This is 12 fantastic.</p> <p>13 MR. YADLEY: Isn't that what you asked me to 14 ask earlier, right?</p> <p>15 MR. ZINN: Yeah, exactly. The check is in the 16 mail as they say.</p> <p>17 So some of the things are what I touched on at 18 various points in the presentation. So Blue Sky either 19 exemption and state level qualification, that's kind of 20 across the board, or preemption to the extent that's the 21 ultimate solution if necessary. Margin eligibility, I 22 didn't get into it all that much other than a passing 23 reference, but the Fed used to keep an OTC margin list 24 where they would indicate which OTC companies were margin 25 eligible.</p>	<p style="text-align: right;">Page 149</p> <p>1 interactions with investors in these countries. It is 2 consistently an uphill battle for us to get recognition 3 for these markets in some of those jurisdictions. Again 4 a lot of these is largely due to education, people not 5 necessarily knowing what the market is now, what OTC 6 markets is, and maybe only having a picture of what it 7 was 20 years ago.</p> <p>8 I put it on the slide but didn't mention it. 9 We're the NASDAQ of the 90's with today's technology. 10 And you see going back through a lot of the securities 11 laws things are permitted to be done or happen on an 12 exchange or NASDAQ because those things were written at a 13 time when NASDAQ was what we are now. So looking at that 14 kind of treatment is really the overall answer.</p> <p>15 MR. HAHN: You had mentioned toward the end 16 there the ATM vehicle. Was that tone of the wish list 17 items?</p> <p>18 MR. ZINN: That's in the petition for 19 rulemaking. Because if you're going to allow Exchange 20 Act reporting companies to participate who have this 21 market it's kind of the next logical step.</p> <p>22 MR. HAHN: That would be great.</p> <p>23 CO-CHAIR GRAHAM: Anyone else? Okay. Well, 24 thank you, Dan.</p> <p>25 MR. ZINN: All right. Thank you very much. I</p>

<p style="text-align: right;">Page 150</p> <p>1 really appreciate the opportunity.</p> <p>2 (Applause.)</p> <p>3 CO-CHAIR GRAHAM: Okay, onto smaller reporting</p> <p>4 companies. For our final agenda item we will turn to</p> <p>5 this as it's the -- we're going to hear about the recent</p> <p>6 proposal put out by the Commission regarding that</p> <p>7 definition.</p> <p>8 The SRC definition is of significant interest</p> <p>9 to this committee as it determines which companies are</p> <p>10 eligible to use scale disclosure requirements. Last year</p> <p>11 the prior iteration of this advisory committee</p> <p>12 recommended to the Commission that it revise the SRC</p> <p>13 definition to include companies with a public float of up</p> <p>14 \$250 million, an increase up from the current cap of \$75</p> <p>15 million, and we were certainly pleased to see this action</p> <p>16 on this front.</p> <p>17 Amy Reischauer, who first and foremost is one</p> <p>18 of my former colleagues, and she's also special counsel</p> <p>19 from the Office of Small Business Policy, one of the</p> <p>20 primary duties of -- well, I guess she's one of the</p> <p>21 primary drafters of this particular rule and she's here</p> <p>22 to kind of explain it to us and just kind of bring us up</p> <p>23 to speed.</p> <p>24 So Amy, want to give us an overview?</p> <p>25 MS. REISCHAUER: Thanks, Steve. As we've</p>	<p style="text-align: right;">Page 152</p> <p>1 SB had been modeled after an old form S-18, adopted in</p> <p>2 the late 70's as an option for non-reporting companies to</p> <p>3 conduct small offerings without incurring the full range</p> <p>4 of reporting and disclosure obligations. Interestingly</p> <p>5 enough while From S-18 was intended to serve small</p> <p>6 business, it's eligibility was based on the offering size</p> <p>7 rather than the issuer size. So small issuers and SRCs</p> <p>8 have focused again on the size of the company that you're</p> <p>9 talking about.</p> <p>10 So bringing us back to the current definition,</p> <p>11 as Steve mentioned SRCs are generally companies with less</p> <p>12 than \$75 million in public float as of the last business</p> <p>13 day of their most recently completed second fiscal</p> <p>14 quarter. For companies with zero public float, either</p> <p>15 because they have no public equity outstanding or because</p> <p>16 no market price exists for their equity, they would be</p> <p>17 companies with annual revenues of less than \$50 million</p> <p>18 during the most recent fiscal year.</p> <p>19 As a reminder, public float is computed by</p> <p>20 multiplying the aggregate number of shares of the</p> <p>21 company's voting and non-voting common by the price at</p> <p>22 which it was last sold, or in the case of an IPO it would</p> <p>23 be the estimated offering price in contrast to market cap</p> <p>24 attempts to capture the value of a company's equity held</p> <p>25 by all holders, whether they're affiliates or not</p>
<p style="text-align: right;">Page 151</p> <p>1 heard on June 27th the Commission proposed amendments to</p> <p>2 the Smaller Reporting Company definition using the</p> <p>3 Commission's rules and regs. For purposes of your</p> <p>4 discussion today I thought I would take a few minutes to</p> <p>5 provide a brief background on the SRC definition and how</p> <p>6 we got to the current definition to identify generally</p> <p>7 the accommodations available to SRCs and to walk through</p> <p>8 the proposed amendments, both what they propose to change</p> <p>9 and what they don't propose to change.</p> <p>10 So as background, the Smaller Reporting Company</p> <p>11 definition was established in 2007 in an effort to</p> <p>12 provide general regulatory relief and to simplify the</p> <p>13 regulatory framework for smaller companies. Previously</p> <p>14 smaller companies had looked to Regulation SB, which was</p> <p>15 the prior integrated reporting and registration system</p> <p>16 for small businesses. SB had been created in 1992 as</p> <p>17 part of a larger effort, again to facilitate capital</p> <p>18 formation and to reduce compliance burdens for small</p> <p>19 businesses.</p> <p>20 SB catered to what they called, what were</p> <p>21 called small business issuers, which were issuers with</p> <p>22 both annual revenues and public floats of less than \$25</p> <p>23 million. So the SRC definition replaced that small</p> <p>24 business issuer definition.</p> <p>25 For those of you that are still interested, Reg</p>	<p style="text-align: right;">Page 153</p> <p>1 affiliates.</p> <p>2 So under the current definition a reporting</p> <p>3 company that doesn't qualify as an SRC wouldn't qualify</p> <p>4 again unless or until it had less than \$50 million on</p> <p>5 public float or zero public float and annual revenues of</p> <p>6 less than \$40 million. So a lower threshold would apply</p> <p>7 for companies transitioning from non-SRC to SRC in part</p> <p>8 to limit the fluctuations back and forth.</p> <p>9 SRCs are eligible to rely on a variety of scale</p> <p>10 disclosure accommodations. These are all available a la</p> <p>11 carte if you will. They can pick and choose which ones</p> <p>12 they wish to comply with, with the caveat that if an SRC</p> <p>13 disclosure requirement is more stringent than a non-SRC</p> <p>14 requirement the SRCs must comply with the more stringent</p> <p>15 standard. And the prime example of this is related party</p> <p>16 disclosure transactions where the transaction size</p> <p>17 threshold is lower for an SRC than it would be for other</p> <p>18 companies.</p> <p>19 Other accommodations that I'm sure you're aware</p> <p>20 of include business disclosure that would cover three</p> <p>21 years versus five, and it's slightly less detail than the</p> <p>22 enumerated requirements. Things like selected financial</p> <p>23 data, supplemental financial data aren't required.</p> <p>24 Financial statements and MD&A are required to cover two</p> <p>25 versus three years generally and there's a reduced comp</p>

<p style="text-align: right;">Page 154</p> <p>1 disclosure. There's no MD&A, reduced tables, no pay 2 ratio disclosure, things like that.</p> <p>3 I would note that the SRCs like all companies 4 are required to provide, along with the specifically 5 required information they must provide any other material 6 information that would be necessary to make the required 7 statements not misleading. So there's still a bit of a 8 catchall even for those eligible for scaled disclosure.</p> <p>9 So turning to the proposed amendments, again 10 these changes are intended to promote capital formation 11 and reduce compliance costs for smaller companies by 12 expanding the pool of companies that qualify as SRCs and 13 that therefore are eligible to rely on the scale 14 disclosures, while at the same time maintaining the 15 investor protections of the disclosure system.</p> <p>16 Under the definition or the proposed definition 17 SRCs would be companies with less than 250 million in 18 public float as we heard, or if they have zero public 19 float it would be annual revenues of less than 100 20 million. And then companies that don't qualify as an SRC 21 would not qualify until they had less than \$200 million 22 in public float or zero public float and annual revenues 23 of less than 80 million.</p> <p>24 So thresholds obviously sound a bit familiar as 25 they're fairly consistent with the recommendations of the</p>	<p style="text-align: right;">Page 156</p> <p>1 any increase in the SRC definition into the large 2 accelerated filer definition.</p> <p>3 So the Commission's proposal wouldn't change 4 the thresholds in those definitions, but in addition to 5 avoid that effectively indirect increase the proposed 6 amendment would eliminate that interlocking provision. 7 So as proposed there could be companies with public 8 floats between 75 million and 250 million what would be 9 both a smaller reporting company and eligible for 10 disclosure, but they would also be an accelerated filer 11 with everything that comes along with that, including the 12 SOX 404(b) obligations unless they're emerging growth 13 companies who are already exempt. So there's that 14 disclaimer.</p> <p>15 I would reiterate, though, that while the 16 Commission did not propose to extend the 404(b) exemption 17 it did specifically request comment in this area, so we 18 of course look forward to seeing those comments come in.</p> <p>19 I think those are the highlights from the proposal but 20 I'm happy to take questions or stand by and just answer 21 them as they come up.</p> <p>22 CO-CHAIR GRAHAM: You know, I think intuitively 23 at least I for one thought that eliminating 404(b) would 24 have a greater economic impact and it would appear from 25 the study that it's marginal at best.</p>
<p style="text-align: right;">Page 155</p> <p>1 committee, which the Commission considered. The 2 Commission could consider recommendations from the Small 3 Business Forum, which again were fairly consistent, as 4 well as comments received in response to the disclosure 5 effectiveness initiative.</p> <p>6 I also wanted to walk through what the 7 Commission did not propose to change, but where it has 8 requested comment. So if you've read it you'll see that 9 the proposal would not increase the accelerated filer 10 threshold, or large accelerated filer threshold, or 11 extend the exemption from SOX 404(b) requirement to 12 provide an auditor attestation.</p> <p>13 So only accelerated and large accelerated 14 filers as you know are required to comply with SOX 15 404(b), and those definitions like the SRC definition are 16 based on public float, so 75 million in the case of an 17 accelerated filer or 700 million in the case of a large 18 accelerated filer. But each definition also contains a 19 provision that excludes SRCs however they're defined.</p> <p>20 So under the current definition SRCs are 21 generally non-accredited investors, so I don't want to 22 say that provision is moot but it's not heavily effective 23 because as non-accelerated filers they would already not 24 be subject to 404(b). However this interlocking 25 provision as I've been calling it would effectively pull</p>	<p style="text-align: right;">Page 157</p> <p>1 MR. GOMEZ: So the release has a lengthy 2 discussion with respect to 404(b). In 2011 the staff did 3 a study on the impact of the 404(b) attestation 4 requirement and came to certain findings with respect to 5 the question as to whether the threshold should be raised 6 to a higher amount. And in essence the study looked at 7 on the one side the cost versus the investor protection 8 that comes from the 404(b) and the staff concluded that 9 there wasn't evidence to support raising the threshold as 10 to where the 404(b) would need to apply.</p> <p>11 Subsequent to 2011 DERA has been looking at 12 academic research in this area and the academic research 13 has been mixed, some research coming with some 14 conclusions while other research coming with conclusions 15 that don't support necessarily a change there. So the 16 Commission looking at all that did not propose changing 17 the 404(b) threshold, but it did ask for questions. And 18 I think there's a number of requests for comments in the 19 release. We encourage people to comment on all aspects 20 of the release.</p> <p>21 Quantitative data is of course extremely 22 helpful, so any information that commenters provide on 23 that would help DERA and the Commission to consider how 24 or whether to move forward.</p> <p>25 CO-CHAIR GRAHAM: It's -- I don't know what the</p>

<p style="text-align: right;">Page 158</p> <p>1 right answer is. Again as I've said intuitively I just 2 assumed that that would ease a significant burden. It 3 would appear that the burden is less than I assumed it 4 was. But the fact does remain that it's seen as a -- as 5 a significant enough burden to give the exemption to 6 emerging growth companies for five years. Is that right? 7 MR. GOMEZ: So keep in mind that the HEC 8 exemption was statutorily mandate by Congress 9 CO-CHAIR GRAHAM: Understood, right. 10 MR. GOMEZ: But -- and I'm not sure what the 11 consideration there was. I think the Commission as it 12 was considering the 404(b) was considering on the one 13 hand the dollar costs, which some of you -- I know Brian 14 you may have some ideas as to dollar costs itself on the 15 one hand versus on the other hand what's the cost from an 16 investor protection standpoint. So for example does the 17 fact that you have a 404(b) auditor at the station does 18 it result in less restatements, and if so that it's a 19 benefit that you counter to the cost. 20 So in considering this investor protection -- 21 but Brian I see your light on, you -- 22 MR. HAHN: So my question was we talked earlier 23 is less restatements. But is that broken out by company 24 size? So, you know, we've got about two more exempt -- 25 two more years of 404(b) exemption through the JOBS Act</p>	<p style="text-align: right;">Page 160</p> <p>1 Now again, you know, I know that I'm not alone 2 in this. There's a lot of biotech companies and other 3 small companies that are in the same boat. I just don't 4 know what those numbers are. 5 MR. REARDON: I would observe that you probably 6 could buy a lot of insurance to cover the risks that the 7 404(b) certification is intended to address. Those risks 8 could be covered for insurance costs a lot less than 9 \$100,000. 10 MR. HAHN: I think I've said this at past 11 meetings too. I know throughout the whole IPO process 12 and everywhere else all the investors, you know, as far 13 as it relates to the financial statements in the biotech 14 world the only question is how much cash do you have and 15 how long it's going to last. That's the only two 16 questions. So -- 17 CO-CHAIR GRAHAM: Other thoughts? 18 CO-CHAIR HANKS: I've got a question for 19 clarification. Tell me if I've got this right or wrong. 20 The point at which a company, a Reg A issuer loses the 21 conditional protection form Section 12(g)(4) registration 22 is currently set at the smaller reporting company, right. 23 And so I think one thing that I find this very welcoming 24 right now is if a Reg A issuer were to prosper, as we 25 hope they all do and eventually have more than 10 million</p>
<p style="text-align: right;">Page 159</p> <p>1 when we went public and I know that in two years from now 2 -- you know, we're going to -- we've done the research 3 with our audit firm. It's going to cost us about 4 \$100,000 more a year just to have them sign off on the 5 404(b). Audit fees went from \$40,000 a year as a private 6 company to \$450,000 now. 7 And in two years noting is going to change in 8 our company. We still cut 125 checks a month. The CEO 9 and I are the only two check signers. So for \$100,000 a 10 year -- and that's just to the auditors, not including 11 the time that my staff have to spend, you know, with, you 12 know, the added -- getting all the information to the 13 outside audit firms. So in two years nothing will 14 change, so it's not worth \$100,000. There's no more risk 15 to the investors as it is today. 16 We also talked, you know, as an internal policy 17 that because the CEO and I have to sign off on the 18 filings, and we have to report to our audit committee, we 19 do do some outside third party testing on our internal 20 controls to kind of report internally there, and that's 21 about 10 to \$15,000 a year. So for 10 to 15,000 it gives 22 us comfort, it gives our audit committee comfort, and I 23 think, you know, that goes a long way. And I can't 24 really justify spending \$100,000 plus a year just to have 25 an auditor sign off on 404(b).</p>	<p style="text-align: right;">Page 161</p> <p>1 in assets, more than 2,000 -- or 500 shareholders plus 2 \$50 million in revenue, then they are going to have to 3 become a fully reporting company. 4 Instead of leapfrogging from the relatively 5 less burdensome Reg A regime straight into the big 6 grownup company policy this would give them the ability 7 to be a smaller company with a lighter regulatory lift, 8 right? 9 MR. GOMEZ: That's right. So just for everyone 10 else's -- although I'm not sure I can explain it any more 11 clearly than Sara did. So currently if you are a Reg A 12 company that is doing a tier two offering, so you are 13 providing the ongoing reports required by the rules, 14 there is a -- there is an exemption form, the requirement 15 that that company would have to register the class of 16 securities under the Exchange Act, meaning an exemption 17 from the company becoming a reporting company, it's a 18 conditional exemption and it phases out when the company 19 reaches a certain size. 20 Currently the way that it's set up in Reg A the 21 threshold happens to coincide with the threshold for 22 losing the SRC status. So I think what Sara is pointing 23 out is currently in the Reg A a company is going on on 24 their reporting obligations and the Reg A pursuant to 25 this conditional exemption. If they grow into a</p>

<p style="text-align: right;">Page 162</p> <p>1 reporting company they will grow into a reporting company 2 that is no longer a smaller reporting company. 3 The Commission asks the question in the release 4 as to whether that threshold should change or not, but it 5 did not propose a change to that threshold. So if the 6 Commission were to adopt the rules as currently proposed 7 a company that is doing a reporting under Reg A and gets 8 to a certain size when it has to actually become an 9 Exchange Act reporting company, that company will then 10 still have the bandwidth from the current SRC threshold 11 until the proposed \$250 million public float is set as 12 the threshold to report using the scale accommodations of 13 the SRC definition before they grow once again out of SRC 14 into being a full-fledged reporting company without the 15 ability for that scale disclosure. 16 MR. HAHN: I also think it's important to note 17 -- so right now we would fall in that -- my company would 18 fall in that bucket where we would be below that 200 19 million for the scaled back reporting. But from our 20 standpoint I know that some of the cost savings, I thank 21 it was 20 to \$40,000 of that personally we would not 22 scale back. We would -- we would stick with the same 23 disclosure that we currently have. 24 So if you think about it it would be kind of 25 moving forward with companies that go into that</p>	<p style="text-align: right;">Page 164</p> <p>1 and you had the ability to voluntarily check that box and 2 say I'm going to take advantage of the SRC scale 3 disclosure and save the 20 to \$40,000 in disclosure, is 4 it a penalty from the market standpoint because of the 5 fact that you had put yourself in the box of the smaller 6 reporting company? 7 MR. HAHN: Again, you know, in all the meetings 8 we've had not that I'm aware of. I have never had an 9 investor anywhere in any follow up meetings and anywhere 10 else that it's questioned how much disclosure we end up 11 doing. We also had a conservative law firm on our IPO 12 and our S-1, so we kind of went a little bit beyond, you 13 know, on some of the disclosures. That was more of a, 14 you know, a choice from the company's standpoint. 15 But at no time did we ever think, oh, you know, 16 we're going to do this because we think we'll get more 17 credit from the investors for it. It was just kind of 18 our practice and our decision for that. 19 CO-CHAIR GRAHAM: I think that would be 20 consistent with my experience. I mean, it's nice to have 21 the option. There are some things like I think primarily 22 dealing with the financial statements for people who want 23 to make sure there's more not less. But it's -- 24 generally speaking it's not a subject that comes up. 25 MS. YAMANAKA: Yeah, I don't think people</p>
<p style="text-align: right;">Page 163</p> <p>1 threshold. I don't think, personally I don't think you 2 would see many companies scale back their disclosures 3 because the cost -- we already have everything in place, 4 so we're not going to save that money. You know, now 5 it's just -- it's a quick box. You know, we've already 6 got that in there. We have the auditors review it, so I 7 don't think we would, again we wouldn't realize those 8 savings if we were to scale back. 9 CO-CHAIR HANKS: Would that be -- just because 10 of the issues of cost or non-cost, or to follow up on 11 what Commissioner Stein said earlier, would you see an 12 advantage to that additional disclosure which is only 13 costing you a little bit of extra money? 14 MR. HAHN: I don't see that much of an 15 advantage. My concern would be if I scale back now 16 hopefully sometime in the future we'll go back up above 17 the 150 threshold and it's going to cost me more money to 18 reinstate that than it is just to maintain it between now 19 and then. 20 MR. GOMEZ: If I may ask a question. Your 21 point, Brian, piqued my curiosity as to something in -- 22 and I don't know maybe from your standpoint or anyone 23 else on the investment banking side, is there a negative 24 perception tied to the idea of smaller reporting 25 companies? So for example if the rules were to change</p>	<p style="text-align: right;">Page 165</p> <p>1 traditionally go, oh, I'm going to increase my market 2 value of my company by having these three additional 3 disclosures. 4 I did want to make a comment on -- about audit 5 costs and -- because I come out of that world 6 historically. And, you know, there used to be a time, 7 and times were very different, where you could get an 8 audit and you were going to do an IPO and the cost 9 differential between a, you know, audit of a privately 10 held entity versus a publicly traded company was 11 significant, but not like this. And now days when you 12 look at the cost, if you look at the cost of -- or the 13 gap between what it is for a privately held company, just 14 for banking, you know, requirements or whatever, and what 15 you're going to have to have -- pay and actually have the 16 infrastructure in place for a company to be able to 17 survive an audit and get a good opinion, it's 18 significant. 19 So I think that it probably does make a little 20 bit of sense to kind of up the ante because, you know, if 21 you're leaving the numbers as is, you know, 25 million is 22 -- would cover a lot of audit costs before and it's not 23 going to in the future. And the gap keeps growing. 24 Because in my mind and I should, you know, speaking as an 25 ex-auditor, it's all insurance, right. It's a different</p>

<p style="text-align: right;">Page 166</p> <p>1 level of insurance that's being paid as opposed to an 2 insurance company and an auditor is assuring or insuring, 3 I know that -- I know -- to all the auditors out there I 4 know it's really not that case, but in effect the market 5 is different. I have to say that. I'm going to get all 6 this email from all -- 7 MR. YADLEY: Small A assurance. 8 MS. YAMANAKA: Small assurance, correct. That 9 given all these procedures that are done your risk is 10 going down theoretically, that anything you would -- you 11 would still want to make the investment based on the 12 information that you have available, but it's not an 13 assurance that the value of the company is there. People 14 aren't going to -- it's really a gatekeeper, right, it's 15 not a value enhancer in my opinion, and the cost of that 16 is tremendous. 17 So I think that when we're talking about audit 18 costs, which are tremendous, but in order to -- we have 19 to look at what the cost is for the company to be able to 20 support a clean opinion on the other side and that ends 21 up being just as expensive if not more so having the 22 properly trained people, the different processes and 23 procedures in place, the attention of the CFO to make 24 sure we're in compliance. It's not just the audit fees 25 that are that expensive.</p>	<p style="text-align: right;">Page 168</p> <p>1 that's a zinger that might get you. 2 And, you know, I think we were talking about 3 earlier we don't -- you know, we're still a pre-product, 4 pre-revenue company. So we don't have inventory, we 5 don't have a lot of transactions going in and out. We're 6 conducting clinical trials and so we just have cash 7 disbursements. So I think it just needs to be a balanced 8 approach. 9 CO-CHAIR GRAHAM: You know, it's -- going back 10 to the cost of 404(b) again, if I remember right the 11 proposal, though, indicated that the studies were such 12 that it was -- it was a measurable cost savings but it 13 wasn't monumental and doesn't necessarily outweigh the 14 investor protection benefit. 15 I just find that hard to believe. And if that 16 -- is that -- if I'm looking at this way, the -- if you 17 bumped the number from -- if you bumped the threshold 18 from 75 to 250 in terms of, you know, how that affects 19 shares that are being traded it's a relatively low 20 percentage I think. 21 MR. GOMEZ: That's right. When you look at -- 22 so it impacts a relatively large number of companies. 23 CO-CHAIR GRAHAM: That was my other point. 24 MR. GOMEZ: But as far as the total market 25 value for the shares of those companies we're talking</p>
<p style="text-align: right;">Page 167</p> <p>1 MR. HAHN: It's also an operational issue. So, 2 you know, I've spent 18 of the last 20 years at five 3 different -- all startup companies, emerging growth 4 companies, and the way you think about it is, you know, 5 what processes and procedures do we need in place to let 6 the business operate. And if we put too many on right 7 away I don't have enough staff to have, go through all 8 these controls and the company is just going to slow down 9 and just not operate, not work. 10 So any time you start thinking about, okay, 11 what controls do we put in place, does it make sense, 12 what's the cost, what's the benefit of out of it, and I 13 think, you know, going through right now with 404(b) 14 exemption, you know, I think we're in a good spot. We 15 got to the point about two years ago where we said, okay, 16 we want to give comfort to management and to the audit 17 committee, so we went outside of this. 18 But again I think going to, forcing us to be 19 404(b) with the attestation, I think that's just too much 20 cost and would kind of clog it down. I don't want to get 21 too much in the weeds here but, you know, some of the 22 things that will catch you up is, you know, if you've 23 got, you know, three way matching on payables and here 24 somebody doesn't initial something here, although it's 25 been reviewed and it's, you know, we signed the check,</p>	<p style="text-align: right;">Page 169</p> <p>1 about currently less than 1 percent and it will go up to 2 a little bit more than 1 percent. 3 CO-CHAIR GRAHAM: Right. So for the overall 4 market that will invest all in public if you will, that's 5 kind of the number I think. But in terms of the number - 6 - in terms of the companies involved that's -- it's a 7 large number. 8 MR. GOMEZ: It's a large number of companies. 9 We're talking about almost half of companies currently 10 qualifying and a little more than -- actually 40 percent 11 of them are qualifying. 12 CO-CHAIR GRAHAM: And so if you take that 13 number and you multiply it, both the cost that each one 14 of them would incur, the additional cost each would incur 15 because they are complying with 404(b), I can't imagine 16 that that's not a big number. 17 MR. GOMEZ: So, Steve, I think the -- so the 18 question -- like I said, it's not just on the dollar 19 savings of the 404(b), there's a cost to the investor of 20 not having the 404(b) attestation. What our comments in 21 previous studies and some academic research have noted is 22 the fact that other costs, that is not what you're paying 23 out of pocket it's what counters the cost of the 24 restatement and -- 25 CO-CHAIR GRAHAM: Of the restatement and blah,</p>

<p style="text-align: right;">Page 170</p> <p>1 blah, blah.</p> <p>2 MR. GOMEZ: -- paying for it. Restatement,</p> <p>3 there's some academic research that have noted that there</p> <p>4 is a potential lower cost of capital for the company that</p> <p>5 has the 404(b) attestation versus a company that doesn't.</p> <p>6 I think when you look at the costs of not doing 404(b)</p> <p>7 it's harder to put them in the scale compared to just</p> <p>8 looking at how much you're paying the auditor because</p> <p>9 that's one bill that you could go back and say, well, it</p> <p>10 would cost me an extra \$100,00 to do it.</p> <p>11 The cost from -- on the investor side of not</p> <p>12 having that comes from academic literature of looking at</p> <p>13 what those potential costs can be, some of it</p> <p>14 qualitative, some of it quantitative. So I think it's</p> <p>15 hard for me but, I mean, I encourage everyone to not just</p> <p>16 look at the Commission's release but take a look at the</p> <p>17 studies because the academic literature has been mixed</p> <p>18 since that staff study.</p> <p>19 And don't take my word for it, but hopefully</p> <p>20 what the studies will do is highlight additional data</p> <p>21 that the Commission could consider in making this</p> <p>22 determination.</p> <p>23 MR. HAHN: So this cost what five years ago?</p> <p>24 Because I remember the last five years auditors have been</p> <p>25 -- have tried to come down on increasing the fees, so I'm</p>	<p style="text-align: right;">Page 172</p> <p>1 another staff or two. It's those costs and it's just the</p> <p>2 time for, you know, for my department to talk to clinical</p> <p>3 group, to talk to manufacturing group. It's just the</p> <p>4 meetings, just to document, you know, the added burden</p> <p>5 there.</p> <p>6 MR. NELSON: Was going public the cap of the</p> <p>7 last resort for you guys?</p> <p>8 MR. HAHN: Yeah, so that was the only avenue.</p> <p>9 So we were -- we had -- we were -- our lead asset was in</p> <p>10 phase 2 and we were funded to complete that phase 2, and</p> <p>11 basically there was no way to raise money until we had</p> <p>12 gotten the results from that.</p> <p>13 So we had talked to some folks. We ended up</p> <p>14 doing a partnership with Pfizer to help fund some of that</p> <p>15 to extend our runway. But after we got positive results</p> <p>16 off that phase 2 there it is, what do we do. We talked</p> <p>17 about a crossover round but it ended up falling right</p> <p>18 into the IPO was the only avenue we had.</p> <p>19 MS. MOTT: Brian, I bet your colleagues could</p> <p>20 speak, other colleagues in the biotech industry can speak</p> <p>21 to the difficulty of finding capital, you know, to invest</p> <p>22 in a company, particularly biotech because it's very</p> <p>23 capital intensive and it's a long tail, so it's very</p> <p>24 challenging to find investors. So often this is the only</p> <p>25 option, right?</p>
<p style="text-align: right;">Page 171</p> <p>1 just interested what the updated numbers are on that.</p> <p>2 MR. NELSON: Brian, can I ask how much the</p> <p>3 regulatory burden actually went into your decision</p> <p>4 whether to IPO or not?</p> <p>5 MR. HAHN: So just to go public between</p> <p>6 lawyers, accountants was about \$2.4 million. And just to</p> <p>7 kind of put it into perspective, my payroll back then was</p> <p>8 about \$3-1/2 million a year. Payroll now is about \$5</p> <p>9 million. So 2.4 actually just to go public and then it's</p> <p>10 probably an added 1.5, 1.6 million a year just to operate</p> <p>11 as a public company. MR. REARDON: Is that with</p> <p>12 the underwriters discount?</p> <p>13 MR. HAHN: No, no, it doesn't. That's on op of</p> <p>14 it. And it's funny, back to our earlier discussions. You</p> <p>15 know, I talked to a few people on the break here. We</p> <p>16 went public in January of 2014 but in 2012 and 2013 we</p> <p>17 were looking at all different avenues and Reg A+ would</p> <p>18 have been huge for us. We definitely would have utilized</p> <p>19 that when we were looking at crossover rounds, a way to</p> <p>20 do that stepping stone. So, I mean, that's a great</p> <p>21 vehicle now.</p> <p>22 But, yeah, just the cost of a public company.</p> <p>23 And, you know, to your point to add 404(b) it is 100,000</p> <p>24 at the outside potentially but, you know, we may find</p> <p>25 something in there that, you know, I may have to add</p>	<p style="text-align: right;">Page 173</p> <p>1 MR. HAHN: Right.</p> <p>2 MS. MOTT: Well, now we have Reg A. But, I</p> <p>3 mean, how many, though, of your colleagues would you say</p> <p>4 have chosen this route or --</p> <p>5 MR. HAHN: So bio represents about 1,200</p> <p>6 different companies. Now I'll state that large to small,</p> <p>7 but I do know, you know, there is -- I belong to the</p> <p>8 Association of Bio Financial Officers. So we -- you</p> <p>9 know, our annual conference we have our meetings, and it</p> <p>10 is a very similar conversation. You know, our -- we had</p> <p>11 raised \$65 million as a private company in three rounds</p> <p>12 from VCs. Our IPO was \$65 million and we just completed</p> <p>13 a follow on last month for, you know, \$20 million.</p> <p>14 So where we have -- some of the other</p> <p>15 industries can utilize crowd funding or angel investors.</p> <p>16 It's not -- it doesn't work for biotech. You know, it's</p> <p>17 a billion dollars in ten years to get an asset to market.</p> <p>18 Our company was founded in 2003. Our first compound</p> <p>19 went in the clinic in late 2007, and where we are now</p> <p>20 it's midway through a phase 3. So it's not going to be</p> <p>21 on the market until 2019, 2020.</p> <p>22 Our second compound now is in a phase 2 and</p> <p>23 it's going to be probably 2021 before it's on the market.</p> <p>24 MS. MOTT: I think that it's important to take</p> <p>25 a look at your industry and how that -- I mean, I think</p>

<p style="text-align: right;">Page 174</p> <p>1 this impacts your industry more so than others I guess is 2 the point I was trying to make. 3 So -- and the need -- so Stephen, the reason I 4 wanted to bring this up was the need for that extra 5 \$100,000 right now goes towards clinical trials or, you 6 know, new toxicity studies or, you know, something like 7 which is going to be more value, much more valuable to 8 the I guess the accretive exit value of the company than 9 \$100,000 in a 404(b). That's just -- 10 MR. YADLEY: So Brian, I hate to pick on you, 11 but you're a great example of this. Companies that I've 12 worked with and taken public that have been able to 13 access capital from the public markets later have been 14 happier than companies that just sort of went public and 15 then, well, now we're public. You know, why did we do 16 it, we're not getting as much value. 17 So you had a follow on round within two years 18 it sounds like, and I'm sure that was costly, but leaving 19 aside underwriters you did have -- you had the baseline 20 of financial information and disclosure. Could you talk 21 about that and then assuming you have to go back to the 22 market sometime soon how does all that play in? 23 MR. HAHN: We actually had a couple of 24 different things here. So we had -- you know, our market 25 cap -- so our VCs, our main VC backer still owns about 45</p>	<p style="text-align: right;">Page 176</p> <p>1 MR. HAHN: I put down about 39 percent. 2 MR. YADLEY: Okay. But from their viewpoint 3 maybe, and this really is a question, that's not bad as 4 opposed to them doing another round perhaps? 5 MR. HAHN: Like any VC they never want to be 6 looted. So that's always a big major discussion before 7 you start to go out and talk about raising more funds. 8 MR. REARDON: Could I ask a question and then I 9 want to make a comment. 10 If you're small reporting company you have two 11 year's balance sheets and one year P&L and cash flows; is 12 that right? 13 MS. REISCHAUER: Two years. I'm sorry, two 14 years of each. 15 MR. REARDON: Two years of each. And so you 16 have -- okay. So -- and then with the full-fledged 17 you've two -- you've got three years of P&L? 18 MS. REISCHAUER: Right. 19 MR. REARDON: And I would like to kind of think 20 about this in perspective. Last meeting we were talking 21 about the -- and it was some of the -- it was the 22 Commissioners who really were talking about this, who 23 were saying that they're concerned that we -- there's not 24 good information or the quality of the information in 25 private placements and exempt transactions is not the</p>
<p style="text-align: right;">Page 175</p> <p>1 percent of the company. So last year after we filed the 2 K we actually fell below the -- we filed the S-3 and we 3 fell below that. 4 So we were baby shelf rules, so -- which 5 meaning, you know, we were only able to raise in a 12 6 month period 1/3 of our public float. So it limited us 7 to about \$20 million a while back. 8 And then, you know -- so we put an ATM in place 9 saying, hey, we can try to bring a little bit of money 10 into that. So that cost legal fees, accountant's fees. 11 That was probably 200, \$250,000 just to put the ATM in 12 place. Drew down about \$3 million worth of that. 13 Luckily markets came back up, some good news. We 14 actually closed one day above the threshold price, so we 15 are now out from under the baby shelf rules, full S-3 16 eligible. 17 And then once again, you know, go through all 18 the underwriter meetings, you go through two weeks of the 19 diligence calls. You know, we ended up doing a CMPO, but 20 again it was in legal, accounting fees, everything all in 21 about \$300,000 for those fees before the underwriters 22 discount. So, you know, it's -- 23 MR. YADLEY: And you're -- okay, which maybe 24 sounds, maybe it doesn't, and your primary owner is the 25 VC. Which percentage do they own after --</p>	<p style="text-align: right;">Page 177</p> <p>1 quality that registered deals have. 2 And I think, you know, in fairness that's 3 probably right. I think you don't get information, you 4 may or may not get periodic reports. But -- and now 5 we've got Reg A+, which I'm really shocked that it's got 6 the features it's got. I mean, the selling stockholders 7 I think is an important feature. I think some of the 8 other things are out there make that attractive. 9 And I think -- I think the Commission has got 10 to do a little marketing to get the word out that -- I 11 know marketing is something government is not usually 12 used to doing, but I tell my -- I told my children when 13 they were growing up, I said there are two types of 14 people, those who know they're in marketing and those who 15 don't. But they are -- we all have to market a little 16 bit. But -- and I can give you some ideas about some 17 conferences to go, and Sebastian get you some face time 18 with some of my colleagues -- or Julie. 19 But -- so let's look at the continuum here. 20 We've got private placements, we've got Reg A, which now 21 has -- which has audited financial. So the quality of 22 information there is better. So then we get to a stage 23 at which we're talking about the small business filer and 24 whether you're going to do that, and how big we're going 25 to make that window, and then over here is the real big</p>

<p style="text-align: right;">Page 178</p> <p>1 boys. And so -- or big girls.</p> <p>2 And it seems to me that -- and I made the point</p> <p>3 last time that I would like to see more easier to do</p> <p>4 public offerings. And if you can get your costs down,</p> <p>5 your compliance costs down, then that is, that's a big</p> <p>6 step. I mean, it's a big step and keeping those</p> <p>7 compliance costs down is a big step toward making public</p> <p>8 offerings more attractive. You know, costs, nobody -- I</p> <p>9 doubt -- well, there's somewhere somebody hates having</p> <p>10 the 404(b) certification done, but if I'm a CEO I'm</p> <p>11 delighted to have it done because it protects me that</p> <p>12 I've had it done. But, I mean, it becomes an item of</p> <p>13 cost and for a small company a cost item of \$100,000 is</p> <p>14 significant, just sticking with Brian's number.</p> <p>15 So it seems to me that if you want to pull</p> <p>16 people out of the exempt transactions and maybe get them</p> <p>17 either directly through IPOs or through Reg A offerings</p> <p>18 that you make these compliance costs as low as you can</p> <p>19 and expand the window, and then maybe even do some</p> <p>20 marketing on this. But that's my sense of it. I would</p> <p>21 say that I don't know what the incremental cost is to be</p> <p>22 an accelerated filer. I don't have any idea if it's more</p> <p>23 expensive or not.</p> <p>24 But, you know, it seems counterintuitive that</p> <p>25 you would be a small business filer yet you would be an</p>	<p style="text-align: right;">Page 180</p> <p>1 and all of a sudden they're going after bank money and</p> <p>2 they're saying we have to have a compilation. It just</p> <p>3 changes their mentality. Oh, my gosh, we have to have a</p> <p>4 review and now we have to have a journal of controls, and</p> <p>5 they haven't seen nothing yet, right.</p> <p>6 And then, oh, my gosh, you know, we're getting</p> <p>7 some outside money and they want an audited financial.</p> <p>8 Okay. And then, oh, my gosh, we all have to do filings.</p> <p>9 Each one of those is a systematic increase that has</p> <p>10 value, because you can't expect somebody to go from here</p> <p>11 to here overnight I don't care how much money you can</p> <p>12 throw it at, right, because it's not just buying the new</p> <p>13 people and the accounting company.</p> <p>14 So I think it's good that we have this staged</p> <p>15 level. The questions becomes in between. You don't want</p> <p>16 to put the regulatory burden on them that crushes them</p> <p>17 prematurely, but on the other hand they got to start</p> <p>18 doing their, you know, exercising their controls and</p> <p>19 starting to say, oh, what do you mean we have to have a</p> <p>20 PO that we can't back date, right. Or, oh, I'll get you</p> <p>21 the documentation before year end, right, which is -- or</p> <p>22 after year end but before the audit.</p> <p>23 So those kinds of things I think -- I know</p> <p>24 people are going, oh, my gosh, but in reality when you're</p> <p>25 a privately held company and it's just yours it really</p>
<p style="text-align: right;">Page 179</p> <p>1 accelerated filer. It seems like inconsistent thoughts,</p> <p>2 but I guess that's -- that's just me.</p> <p>3 But anyway, those are my thoughts on that.</p> <p>4 CO-CHAIR GRAHAM: Thank you, Patrick. Laura.</p> <p>5 MS. YAMANAKA: One last comment I think, an</p> <p>6 observation. Nobody denies the value of an audit, right.</p> <p>7 And when you look at a company that's publicly traded</p> <p>8 and has the routine in process and procedure for an</p> <p>9 audit, and then you look at the company first starting</p> <p>10 out, you know, they're a startup, they've got seven</p> <p>11 people, processes and procedures between what's going to</p> <p>12 go -- start here and get here is huge and it doesn't</p> <p>13 happen overnight. They could triple, quadruple,</p> <p>14 gazillion sales.</p> <p>15 But that mentality of that company to get all</p> <p>16 the way through as far as the things you do when you've</p> <p>17 got three people and you're signing your own checks still</p> <p>18 versus what you do when you're going to have to be an</p> <p>19 SEC, you know, publicly traded company is totally</p> <p>20 different.</p> <p>21 So it's partly -- it's partially the cost of</p> <p>22 the CPA, but to me it's more the cost of the company</p> <p>23 culture in which you're building. And so whether -- and</p> <p>24 it's painful, I know it's really painful, but we take</p> <p>25 companies that are -- they've never been audited before</p>	<p style="text-align: right;">Page 181</p> <p>1 doesn't matter as much as -- and people don't understand</p> <p>2 that. People have been working there from the beginning</p> <p>3 maybe don't understand that.</p> <p>4 So I think it's good to have a staged</p> <p>5 approached to the reporting. I think it's excellent. As</p> <p>6 far as where the cutoff comes, you know, I think it's a</p> <p>7 little onerous. That could go either way.</p> <p>8 CO-CHAIR GRAHAM: I think I understand what</p> <p>9 you're saying, but bear I mind that just because you're</p> <p>10 exempt from 404(b) doesn't mean that you aren't doing</p> <p>11 your audited financial statements.</p> <p>12 MS. YAMANAKA: No, absolutely. Yeah,</p> <p>13 absolutely.</p> <p>14 CO-CHAIR GRAHAM: Any other comments?</p> <p>15 CO-CHAIR HANKS: I have just a question. How</p> <p>16 many different layers do we have now, different</p> <p>17 variations of reporting flavors? Because, you know, it's</p> <p>18 getting super confusing.</p> <p>19 MR. GOMEZ: So you have the large accelerated</p> <p>20 filers, the accelerated filers, and in essence everyone</p> <p>21 below that it's not defined, but everyone who is not an</p> <p>22 accelerated filer. That in many ways primarily goes to</p> <p>23 when your reports are due and whether 404(b) auditor</p> <p>24 attestation is required or not.</p> <p>25 You then have the smaller reporting layer that</p>

<p style="text-align: right;">Page 182</p> <p>1 goes to what disclosure accommodations you have. And now</p> <p>2 you also have the emerging growth companies that applies</p> <p>3 to companies from their time -- or their initial public</p> <p>4 offering and it has a number of requirements as to when</p> <p>5 that phases out. It could be because of growth of the</p> <p>6 company, it could be because of the amount of time the</p> <p>7 company has been public. So I don't think I missed --</p> <p>8 MS. REISCHAUER: I think that's it. Julie just</p> <p>9 reminded me there's, for visual, folks, there's actually</p> <p>10 a chart in the April 2016 concept release that maps out</p> <p>11 the various buckets, if that helps.</p> <p>12 CO-CHAIR GRAHAM: Okay.</p> <p>13 MR. NELSON: I was actually going to suggest a</p> <p>14 blog post where it's explained like I'm nine years old.</p> <p>15 And this is one of the things, exercises that we actually</p> <p>16 take our CEOs through is when they're actually doing</p> <p>17 marketing is if you as a CEO can't really explain your</p> <p>18 idea and your product to a nine year old and get them</p> <p>19 excited about it chances are you're probably not going to</p> <p>20 raise money. Because the people just need to understand</p> <p>21 what you're doing in plain English.</p> <p>22 I think I'm fairly intelligent. I still kind</p> <p>23 of struggle to keep up with some of you guys who are in</p> <p>24 this from day-to-day. I would love it explained like I'm</p> <p>25 nine years old kind of, you know, the exemptions for Reg</p>	<p style="text-align: right;">Page 184</p> <p>1 So we do have a document on the small business</p> <p>2 page. If the committee decides to take outreach we can</p> <p>3 look at that and you guys can tell us how legalese it is,</p> <p>4 and then I encourage you to provide feedback as to how we</p> <p>5 can make it more readable.</p> <p>6 CO-CHAIR GRAHAM: Okay. Well, thank you all.</p> <p>7 I think as far as comments to this particular proposal we</p> <p>8 should kind of keep them -- keep thinking about this, and</p> <p>9 I think Amy will be receptive to your individual comments</p> <p>10 and will consider whether it makes sense for something to</p> <p>11 come from the committee as a whole.</p> <p>12 The recommendation that we adopted this morning</p> <p>13 is good to go. Does -- so everyone take one last look at</p> <p>14 the new language.</p> <p>15 And our next meeting we're thinking of October</p> <p>16 5. Does that work in terms of -- okay, right -- at least</p> <p>17 tentatively put down October 5 for the next meeting.</p> <p>18 So the new language is paragraph 3. If you</p> <p>19 could take a quick look at that.</p> <p>20 (Draft document distributed.)</p> <p>21 CO-CHAIR HANKS: Is that a could or a would?</p> <p>22 CO-CHAIR GRAHAM: Would.</p> <p>23 CO-CHAIR HANKS: That's would</p> <p>24 CO-CHAIR GRAHAM: Would. Okay, Sara changed</p> <p>25 could in the last line to would. Any other wordsmithing?</p>
<p style="text-align: right;">Page 183</p> <p>1 D, the, you know, A+ small reporting company and that</p> <p>2 sort of stuff just so I can see the smorgasbord of</p> <p>3 options available to me as an entrepreneur of how to</p> <p>4 actually raise money and what I have to do to raise that</p> <p>5 money. If that exists I would -- please someone point me</p> <p>6 to it.</p> <p>7 CO-CHAIR HANKS: I'm trying to find that.</p> <p>8 CO-CHAIR GRAHAM: If there was one I think this</p> <p>9 relates to our outreach. If there isn't one we can</p> <p>10 certainly do one. And of course every prospectus we</p> <p>11 draft we draft that with that in mind.</p> <p>12 (Laughter.)</p> <p>13 MR. GOMEZ: There is -- there is a document on</p> <p>14 the small business page that describes the different</p> <p>15 capital -- the different exemptions that are available.</p> <p>16 I wonder whether my six year old daughter that would be</p> <p>17 able to hold her interests.</p> <p>18 I think -- John, you make a good point. I mean,</p> <p>19 often we live in this area and for us 506(b) versus (c)</p> <p>20 versus Reg A, it all makes sense. But when I got to</p> <p>21 events to talk about the different capital raising</p> <p>22 options you do realize at that point that we may not be</p> <p>23 the example for what's typical out there. People who are</p> <p>24 very good at making widgets, but they don't know the</p> <p>25 securities laws.</p>	<p style="text-align: right;">Page 185</p> <p>1 MR. AGUILAR: What's the Series 82? I'm not</p> <p>2 familiar with that.</p> <p>3 CO-CHAIR GRAHAM: Series 82 anyone? It was one</p> <p>4 of the -- one of the tests mentioned in the proposal.</p> <p>5 A PARTICIPANT: 82 is what's listed -- I mean,</p> <p>6 what is in the steps on page 95.</p> <p>7 A PARTICIPANT: Just make sure that you use</p> <p>8 the mike.</p> <p>9 CO-CHAIR GRAHAM: I'm seeing 7, I'm seeing 7</p> <p>10 and 82 and 96. 95 as well. I'm not seeing where 65 is</p> <p>11 mentioned.</p> <p>12 MS. TIERNEY: It was a combination of two other</p> <p>13 exams. Wasn't -- is -- 63 and something else, wasn't it?</p> <p>14 MR. AGUILAR: Yeah, the 65 is the registered</p> <p>15 investment advisor exam.</p> <p>16 CO-CHAIR HANKS: It's appropriate. I have that</p> <p>17 one.</p> <p>18 CO-CHAIR GRAHAM: Okay.</p> <p>19 MS. TIERNEY: If Sara has it we're good.</p> <p>20 CO-CHAIR GRAHAM: Okay. Well, we'll make sure</p> <p>21 that's right.</p> <p>22 MR. GOMEZ: We put it up on the screen, the</p> <p>23 description of the Series 82.</p> <p>24 MR. AGUILAR: Yeah, it looks like it's a</p> <p>25 private securities offering.</p>

<p style="text-align: right;">Page 186</p> <p>1 CO-CHAIR GRAHAM: Okay. Thanks. Is that your 2 app? You just find everything instantly on it like that? 3 MR. GOMEZ: Julie does. 4 CO-CHAIR GRAHAM: Oh, okay. So she's your app? 5 Okay. 6 Okay, any other changes? Okay, then I'll 7 entertain a motion to adjourn. No one -- 8 MS. MOTT: Before we do, please. 9 CO-CHAIR GRAHAM: Yes. 10 MS. MOTT: One thing. I know that recently in 11 May the tick mark pilot started. I wondered if we could 12 get an update on that study, right. Didn't that pilot 13 study start in May? Right? 14 MR. GOMEZ: Not my area, but I'm happy to 15 follow up with the appropriate people. 16 COMMISSIONER STEIN: Trading and markets kind 17 of -- 18 MS. MOTT: Yeah, I think we -- 19 COMMISSIONER STEIN -- maybe have them come 20 brief you. 21 MR. GOMEZ: I would be happy to. 22 MS. MOTT: Because that was something we took 23 up, I think the first group took up the first time. 24 CO-CHAIR GRAHAM: It's on the list. 25 MR. YADLEY: I also ask that you confirm the</p>	<p style="text-align: right;">Page 188</p> <p>1 PROOFREADER'S CERTIFICATE 2 3 In The Matter of: ADVISORY COMMITTEE ON SMALL 4 AND EMERGING COMPANIES MEETING 5 File Number: OS-0719 6 Date: July 19, 2016 7 Location: Washington, D.C. 8 9 This is to certify that I, Nicholas Wagner, 10 (the undersigned), do hereby swear and affirm that the 11 attached proceedings before the U.S. Securities and 12 Exchange Commission were held according to the record and 13 that this is the original, complete, true and accurate 14 transcript that has been compared to the reporting or 15 recording accomplished at the hearing. 16 17 _____ 18 (Proofreader's Name) (Date) 19 20 21 22 23 24 25</p>
<p style="text-align: right;">Page 187</p> <p>1 October 5th date as soon it is finalized. We should at 2 least make sure that's okay with everybody here. And I 3 guess our next meeting would then be in January? I know 4 advance planning is hard, but the earlier the better. 5 CO-CHAIR GRAHAM: You remind me of my wife who 6 starts talking about dinner halfway through lunch. 7 MR. YADLEY: And your point is? 8 (Laughter.) 9 CO-CHAIR GRAHAM: Okay. If nothing else, 10 meeting adjourned. 11 (Whereupon, at 3:16 p.m., the meeting was 12 adjourned.) 13 * * * * * 14 15 16 17 18 19 20 21 22 23 24 25</p>	

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