

U.S. SECURITIES AND EXCHANGE COMMISSION

SEC SMALL BUSINESS CAPITAL FORMATION  
ADVISORY COMMITTEE MEETING

Thursday, April 2, 2020  
12:00 p.m.

U.S. Securities and Exchange Commission

1 PARTICIPANTS:

2 Jay Clayton, SEC Chairman

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4 Allison Lee, SEC Commissioner

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6 Hester Peirce, SEC Commissioner

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8 Gregory J. Dean, Senior Vice President Office of

9 Government Affairs, FINRA

10

11 Robert Fox, National Managing Partner, Grant Thornton

12 LLP

13

14 Carla Garrett, Corporate Partner, Potomac Law Group

15 PLLC

16

17 Stephen Graham, Co-Chair, Fenwick & West LLP's Life

18 Sciences Practice

19

20 Sara Hanks, CEO and Co-Founder, CrowdCheck, Inc.

21

22 Youngro Lee, CEO and Co-Founder, NextSeed

23

24 Martha Legg Miller Office of the Advocate for Small

25 Business Capital Formation

1 PARTICIPANTS (CONT.):

2 Brian Levey, Chief Business Affairs and Legal Officer,  
3 Upwork, Inc.

4

5 Melanie Lubin

6

7 Sapna Mehta, General Counsel & CCO, Rise of the Rest  
8 Seed Fund

9

10 Karen Mills, President, MMP Group, Inc.

11

12 Catherine Mott, Founder and CEO of BlueTree Capital  
13 Group

14

15 Poorvi Patodia, CEO and Founder, Biena Snacks

16

17 Jason Seats, Chief Investment Officer, Techstars

18

19 Marc Sharma, Chief Counsel of the Office of the Investor  
20 Advocate

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1 PARTICIPANTS (CONT.):

2 Jeffrey M. Solomon Chairman and Chief Executive  
3 Officer, Cowen, Inc.

4

5 Hank Torbert, President, AltaMax, LLC

6

7 Gregory Yadley, Partner, Shumaker, Loop & Kendrick, LLP

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P R O C E E D I N G S

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2 MS. GARRETT: Good afternoon. This is Carla  
3 Garrett, the Chair of the SEC Small Business Capital  
4 Formation and Advisory Committee.

5 I would like to welcome members of the  
6 committee, Chairman Clayton, and Commissioners Peirce  
7 and Lee to this ad hoc meeting. I hereby call the  
8 meeting to order.

9 I also want to welcome members of the public  
10 who are tuned into the today's meeting and thank you for  
11 recognizing the importance of addressing access to  
12 capital issues faced by small businesses in the current  
13 Covid-19 environment.

14 Jeff at Cowen, the Vice Chair of the  
15 committee, and I felt that it was important to have a  
16 committee meeting as soon as possible to recognize the  
17 extreme situation facing small businesses nationwide.

18 During this meeting, members of the committee  
19 will share observations from their areas of their  
20 marketplace and discuss how the committee and the  
21 Commission can help small businesses address their  
22 short-term capital needs.

23 Before we get started, I would like to state  
24 some ground rules for the call, to maximize the  
25 efficiency of this virtual environment. All members'

1 microphones are currently muted. We ask that you mute  
2 and unmute your microphone when you speak to reduce  
3 background noise. You may do so by clicking the  
4 microphone icon at the bottom of the video screen. And  
5 when you do speak, please first state your name so that  
6 everyone, including the court reporter and members of  
7 the public listening to it on sec.gov can know who is  
8 speaking.

9           If any members have any tech issues during the  
10 meeting, please email Malika or Julie, and they will  
11 help you get in touch with tech support.

12           Martha?

13           MS. LEGG MILLER: Thank you very much, Carla.  
14 And thank you again, to everybody, for being available  
15 on such short notice. With everything going on, it is  
16 very timely that this group is meeting. We've had a  
17 number of members of our team that are live and on the  
18 phone, including Julie Davis and Jessica McKinney, who  
19 worked very hard behind the scenes to make this meeting  
20 happen.

21           And as with each meeting, I have the pleasure  
22 of reminding everyone that the views that are expressed  
23 today are our own and do not necessarily reflect the  
24 views of the Commission, any Commissioner, or the  
25 collective views of the staff on the Commission. And

1 with that, we can move into the more exciting content  
2 for today, and substantive discussion. Thanks, Carla.

3 MS. GARRETT: Thank you, Martha. Oh, Julie,  
4 do we have a quorum for the meeting today?

5 MS. DAVIS: Yes, we do.

6 MS. GARRETT: Thank you. I'd like to note  
7 that the NASAA has appointed a new representative to the  
8 committee, following Mike Pieciak's completing his term  
9 as President of NASAA. We wish him well. We are  
10 pleased to welcome to the committee NASAA's new  
11 designee, Melanie Lubin, the Maryland State Securities  
12 Commissioner.

13 I believe that we have Chairman Clayton  
14 participating via audio. Chairman Clayton, would you  
15 like to say some words to start us off?

16 CHAIRMAN CLAYTON: Thank you, Carla, and  
17 thanks to all the committee members for convening this  
18 very timely meeting, that we hope to gain a lot from  
19 your perspective and expertise.

20 We're facing an unprecedented national  
21 challenge, a health and safety crisis that requires us,  
22 all of us, for our own sake, for the sake of our  
23 families and friends, and for the sake of everyone else  
24 in our society, to significantly change our daily  
25 behavior.

1           Many of us are making difficult personal  
2 sacrifices, and I would be remiss not to note that there  
3 have been many heroes in our collective fight against  
4 the coronavirus, including our first responders,  
5 healthcare professionals, and those who support them,  
6 and those who come to work every day and make sure our  
7 shelves are stocked and the goods get there on time. I  
8 think we all recognize that and we continue to do so.

9           Small businesses are part of this, and they've  
10 been significantly impacted by our collective fight and  
11 the sacrifices that we all need to make. I think what  
12 is most, most helpful today in our area of expertise and  
13 involvement is to talk about the financial challenges  
14 that small businesses are facing and how our capital  
15 markets and our rule sets can be used to assist them and  
16 facilitate capital formation for them in this time.

17           Over the past several weeks, I've shared more  
18 detailed personal views on the functioning of our  
19 capital markets. And I'll refer you to those views  
20 online.

21           In short, to most effectively respond to  
22 Covid-19, parts of our economy have been asked to  
23 function at full throttle. Other parts have been asked  
24 to function quite differently. For example,  
25 teleworking. And other parts have been asked to just

1 stand down. And this, for individuals and small  
2 businesses, involves hardship and uncertainty. Many  
3 people are going to need assistance, need rent, payroll,  
4 and many other cash needs.

5 What we've done so far at the SEC is to try  
6 and respond to this. For example, in the area of small  
7 business, last week we provided relief to companies with  
8 respect to filing obligations under Regulation A and  
9 Regulation Crowdfunding.

10 We've provided targeted relief in other areas  
11 to try and assist companies in coming to market, raising  
12 capital, and communicating with their investors. Being  
13 able to freely communicate with their investors so that  
14 we can all understand the position they're in.

15 With those thoughts in mind, and other actions  
16 we might take, I welcome your perspective and I thank  
17 you for your assistance to us. Carla, back to you.

18 MS. GARRETT: Thank you, Jay. Commissioner  
19 Peirce, would you like to make any remarks?

20 COMMISSIONER PEIRCE: Sure. Thanks, Carla,  
21 and thanks to the committee for having this meeting  
22 today. Covid-19 has upended everything in our lives,  
23 the last month. The temporary shut-down of the economy  
24 I think is particularly difficult for many small  
25 businesses, which are being forced to shut their doors,

1 let employees go, and perhaps even completely cease  
2 operations.

3 Cooperation, creativity and flexibility can  
4 help us get through the current crisis and to transition  
5 back to normal activity. I'm pleased that we're  
6 beginning that process today by hearing directly from  
7 the committee on their ideas of how the Commission can  
8 help small businesses address their short-term capital  
9 needs to maintain long-term viability.

10 Bold action will be necessary, so in  
11 brainstorming solutions, we ought not to tether  
12 ourselves to our existing regularly frameworks. For  
13 example, I have previously advocated for a micro-  
14 offering exemption for entrepreneurs to raise small  
15 amounts of capital from the people that know them best.

16 Could a micro-offering exemption assist hundreds of  
17 thousands of restaurants and other local businesses  
18 that, while beloved by their communities, are not  
19 currently allowed to operate? Would getting such an  
20 exemption up and running on a pilot basis make sense at  
21 a time like this?

22 Last month, the Commission proposed a number  
23 of amendments designed to harmonize, simplify and  
24 improve the framework for private offerings. In light  
25 of the current environment, do those proposals go far

1 enough to make exemptions such as Reg A and Reg  
2 Crowdfunding attractive to small businesses? Could we  
3 make temporary adjustments to these regulations to make  
4 them more useful in meeting pressing needs that cannot  
5 wait for the full rulemaking process to happen?  
6 Allowing businesses and investors to engage in capital-  
7 raising over the internet is just another way of  
8 practicing social distancing. So Crowdfunding may have  
9 a bigger set of potential users now than it did a couple  
10 months ago.

11 We should think not only in terms of  
12 preserving existing businesses, but about fostering  
13 entrepreneurial tendencies during a time when other  
14 opportunities are dwindling. As the ranks of unemployed  
15 swell and the prospects for working outside the home  
16 shrink, people may turn their time and talents toward  
17 building small businesses.

18 I just heard, for example, about an Uber  
19 driver who is now making his income by producing hand-  
20 crafted masks.

21 In the midst of so much uncertainty, this  
22 committee's work has only become more relevant. I'm  
23 eager to hear your observations, and for the members of  
24 the public who are listening or watching online, to the  
25 extent your ideas -- that you have ideas that you would

1 like to share, I can't say my door is open, but I will  
2 urge you to reach out to me by email or phone and to my  
3 fellow Commissioners, and of course to Martha Miller's  
4 office as well. Thank you so much.

5 MS. GARRETT: Thank you, Commissioner Peirce.  
6 Is Commissioner Lee on the phone?

7 COMMISSIONER LEE: Yes, I am. Thank you. I  
8 don't really want to have any remarks to make, other  
9 than to just thank the staff for moving quickly to help  
10 put this together, and very much thank the committee for  
11 taking the time in the middle of the crisis to meet. And  
12 I'm very -- looking forward to hearing from everyone, so  
13 thank you.

14 MS. GARRETT: Thank you very much. Okay,  
15 committee members. We'd like to give each of you up to  
16 three minutes to share your experiences on the following  
17 topics: We set up this agenda so that everybody would  
18 have a chance to speak. And we'll see if we have time,  
19 you know, left over at the end to talk about some --  
20 kind of the big picture ideas. But we do want to make  
21 sure that everybody has a chance to speak.

22 The three topics that had mentioned were:  
23 number one, the primary operational challenges that your  
24 business and small businesses that you work with are  
25 facing. And please note that this topic number one is

1 not limited to capital formation.

2 Number two, challenges that you are seeing  
3 small businesses face accessing capital from investors.

4 And number three, trends, expectations or  
5 predictions that you may have in changes in raising  
6 capital or investing as a result of the current  
7 situation.

8 There's no need for every member to speak on  
9 every topic, or at all. In addition, if one member has  
10 raised an issue that is similar to an issue that you are  
11 seeing, in order to save time, you can state you would  
12 reiterate what the other member has said.

13 In order to help with the logistics, the order  
14 of speakers was provided to you before the call. There  
15 is one change, as we will have Karen Mills speak  
16 earlier, since she is only available to attend the  
17 meeting for the first 30 minutes of the call. And Karen  
18 is the former administrator of the Small Business  
19 Administration and is a committee member.

20 I will start off, as Chair. I, my background  
21 is a corporate attorney, and I advise small businesses,  
22 and I am also the owner of a small family business,  
23 Garrett Book Company. That has been in operation for  
24 over 50 years.

25 I'm going to talk briefly about the

1 operational challenges that my small business has faced.  
2 The Garrett Book Company sells children's books to  
3 school libraries. As a result of the nationwide  
4 shutdown of schools, our company sales have obviously  
5 been reduced. We have employees that have worked for us  
6 for 20, 30, 40 years, and we do not want to lay off any  
7 of our employees during this period of time. Therefore,  
8 we are applying for the federal assistance programs  
9 under the CARES Act. We've already submitted an  
10 application for the Economic Injury Disaster Loan  
11 Program, and we have completed our application for the  
12 Paycheck Protection Program, which will be submitted  
13 tomorrow.

14 Both -- as everybody knows, both of these  
15 programs are designed to enable employers to retain  
16 employees and cover overhead costs during this crisis.  
17 And that will be the goal for my company, is that we  
18 will not need to make any cuts or lay off any people  
19 during this period of time.

20 Now, as an attorney that advises small  
21 businesses, what I've heard from many small businesses  
22 is that they're having questions about how to apply for  
23 these federal programs. That seems to be the most  
24 prevalent question that I'm getting from my small  
25 business clients. And one issue in particular that has

1 come up is whether venture-backed and private equity-  
2 backed companies are eligible for the programs. And I'm  
3 interested in hearing from other committee members about  
4 this issue.

5 With respect to number two, accessing capital,  
6 in -- for me, personally, I've seen some M&A deals that  
7 have been put on hold due to the crisis. And we'll see  
8 if they are back up after the crisis gets better.

9 And with respect to number three, predictions,  
10 I am interested in hearing from other members, their  
11 predictions on the future and what we might expect.

12 One thing I would like to note is that in  
13 addition to the federal assistance programs, there are  
14 many large companies, foundations, state and local  
15 agencies and nonprofits that are offering various forms  
16 of assistance and grants to small businesses during this  
17 crisis. That is all I have to say. Jeff Solomon, the  
18 Vice Chair of our committee, will speak next. Jeff, are  
19 you there?

20 MR. SOLOMON: Yes. And when I sit down here,  
21 that will be helpful. I was -- for the first five  
22 seconds. It's good to be together with everybody. I  
23 think, you know, any time we have an opportunity to  
24 reach out to the people, that maybe we took for granted  
25 seeing you in person. And I think a lot of us have been

1 doing a lot of Zoom calls and WebEx calls. And it's  
2 been effective, but you know, you do take the time -- I  
3 do cherish the time of actually being in person. I look  
4 forward to when we get this group together again. It's  
5 a good group of people that I enjoy spending time with.

6           So real quick, I think from our standpoint,  
7 operationally we were early in recognizing some of the  
8 challenges. Unfortunately for us, we did have a  
9 conference at the beginning of the month of January --  
10 I'm sorry -- the beginning of the month of March, in  
11 which we had 2,300 attendees. And then by March 6th,  
12 which was that Friday, we found out that we had two  
13 Biogen executives that were at that conference in  
14 Boston, who went to our conference in Boston at the  
15 beginning of the week, test positive, or that we thought  
16 they were going to test positive.

17           So, we had to swing into action pretty quickly  
18 to make some decisions around whether or not we were  
19 going to have people work from home. We had 150 counter  
20 employees at that conference, including myself. So --  
21 and we made a decision that weekend to actually shelter  
22 in place, as now we call it.

23           So I've been working from home for like a  
24 month at this point. The good news is, as hard as it's  
25 been, we now have 90 -- north of 98 percent of our

1 people are working from home. And it's really  
2 fortunately that we had business continuity plans that  
3 we've been able to adjust and continue to conduct our  
4 business. Particularly our trading business, which is  
5 an equity trading business, which has been pretty robust  
6 during this timeframe. And it's amazing that we're  
7 actually able to do it from home.

8 I have to -- you know, a lot of us do business  
9 continuity planning, and we're mandated from a  
10 regulatory standpoint by FINRA and the SEC to have  
11 robust business continuity plans in place. It's that  
12 kind of leadership from the regulatory authorities that  
13 have helped our industry to by and large function during  
14 this very difficult time. And I've talked to a number  
15 of my compatriots. If this had happened during the  
16 financial crisis, none of us would be able to be working  
17 remotely. So we made great strides. And at least -- so  
18 when the Fed came in and did what it did in terms of  
19 providing liquidity and when the fiscal stimulus  
20 happened, we were all capable of actually being able to  
21 execute.

22 On that front with capital formation, you  
23 know, our clients, our smaller clients are definitely  
24 struggling as they figure out their business models.  
25 The biotech industry, which is a big industry for us,

1 continues to function. There's something eerily odd  
2 about, you know, dealing with a business that never  
3 seems to have certainty around revenues.

4           So, ironically, that industry is probably more  
5 equipped to handle low revenues than just about every  
6 other industry. We did a deal last night for a tools  
7 and diagnostics company. We've got a bunch of biotech  
8 companies, that as long as the markets are functioning  
9 they're planning to continue to raise capital.

10           Outside of that, it gets pretty thin, and  
11 certainly I would agree with Carla that the M&A  
12 pipeline, it -- M&A deals are close to closing, and  
13 we're just waiting for regulatory approvals or between  
14 signing and closing those -- it'll probably get done,  
15 because material adverse change outs are not being  
16 implemented or invoked yet. But you know, if you're  
17 about to launch a process to sell a small business,  
18 you're probably going to wait. I will say though that a  
19 lot of family-owned businesses that we talked to are  
20 probably less price-sensitive than they were a month  
21 ago. And if there's a window of opportunity here where  
22 capital can take a breather and start to look at new  
23 opportunities, I think there's going to be a lot of  
24 sellers and they're probably going to be at prices that  
25 are way more attractive than what people have seen.

1           And like Carla, I'm curious to hear, you know,  
2     some of the things that you think we all could be doing.

3     I know I've spoken to a number of people on this call  
4     and we've spent some time with the staff, and I've spent  
5     some time with a few of the Commissioners talking about  
6     some of the things that would make it easier for us to  
7     continue to do the things that we do at Cowen and for  
8     our clients. And so, I'll cede the rest of my time to  
9     everybody else.

10           MS. GARRETT: Okay. Thank you very much,  
11     Jeff. Karen Mills, would you like to speak next?

12           MS. MILLS: Thank you very much, and thank you  
13     to all the Commissioners, and to you, then, the  
14     Chairman, and to everyone to getting together on short  
15     notice. This is really an unprecedented crisis for  
16     small business owners. I have been thinking a lot about  
17     January 2019. When I was in my job, the first quarter,  
18     we lost 1.8 million small business jobs. But already  
19     we've seen unemployment records at record highs, and  
20     most of that is probably for small business owners. So  
21     I just want to take a minute and frame what I think is  
22     going on out there and how the land of small business  
23     feels and looks right now. There are 30 million small  
24     businesses. This is almost half of the American  
25     workforce. So about half the people who work in this

1 country own or work for a small business. 24 million of  
2 those small businesses are sole proprietorships. We  
3 work really hard to get them covered in the recent bill.

4 And in fact they are able to collect benefits and take  
5 advantage of the small business provisions in that bill,  
6 so that's a good thing.

7 Of the six million who have employees, about  
8 four million are main street small businesses. May or  
9 may not be able to access some of the things we'll talk  
10 about in this committee, but certainly need help. And  
11 the reason they need help is that on average those  
12 businesses have 27 days of cash buffer. And that means  
13 as you turn off the revenue spigot for so many of them  
14 who are shut down, that they are at this time running  
15 out of cash.

16 So what we are trying to do is think about  
17 programs that will get cash into their hands to allow  
18 them to stay the course and pay their employees. And as  
19 you described, Carla, these are like family members.  
20 These are people who you want to have in your business.  
21 And have them be able to be there at the end of this, so  
22 the small business can, you know, pick up where it left  
23 off, and our economy can keep going.

24 The two parts of the bills that have been  
25 passed that are most likely to be accessed by these

1 small business owners are the SBA Disaster Loans, the  
2 Economic Injury Disaster Loans. \$7 billion of those  
3 loans were approved in about two weeks ago in the very  
4 first bill, and the SBA is getting those up and running.

5 And once -- you know, they're going to be overwhelmed.

6 We used those bills, those loans very effectively in  
7 the BP oil spill. But of course, that was only one  
8 region of the country. Now the whole country is  
9 affected.

10 The second part of the program is, of course,  
11 the \$349 billion in the small business provisions in the  
12 recently-passed CARES Act. And those provisions have a  
13 great many positive things for Main Street small  
14 businesses. They have provisions that some of those  
15 loans can be turned into grants if you use them for  
16 permitted activity which is to pay your people. Which is  
17 of course what we want. And to pay your rent, to pay  
18 your mortgages and to pay other permitted expenses like  
19 interest on loans and utility bills.

20 So the problem with that, those funds, is that  
21 we have not yet gotten them flowing and deployed. And as  
22 everyone knows, tomorrow is the day that they will open,  
23 but I am talking to banks and hearing from banks that  
24 they are having a lot of trouble figuring out the  
25 answers to some of the questions that you raised

1 earlier, Carla. What are the affiliate roles? Who  
2 actually is eligible? The bill has tried very hard to  
3 take out some of the impediments to the usual 7A lending  
4 process, but if still people say banks are saying it's  
5 too complicated, and the rules about how the 100 percent  
6 guarantee will work are not -- it's not comfortable yet  
7 for the banks that they are going to be not held  
8 accountable if they try to get this out very quickly.

9           Now, time is of the essence. So another thing  
10 that we're working very hard on is to get some of the  
11 Fintechs, the new technology companies like PayPal and  
12 Square and Stripe and Cabbage and QuickBooks from  
13 Intuit, have all come to the table and say they want to  
14 provide some piping and access. PayPal has 10 million  
15 small businesses that they interact with that they know  
16 are actually real, identifiable small businesses and  
17 therefore, you know, won't be fraudulently funded. But  
18 they are not banks. So we need to figure out how to  
19 connect them up. So I would say at this very moment one  
20 of the primary concerns I think is to get cash into the  
21 hands of these small business owners.

22           We can think about micro activity, but that  
23 might be more applicable for middle-sized businesses,  
24 middle-sized small businesses in supply chains. So just  
25 one last thing, for supply chain businesses, a really

1 important activity that's going on is to ask people to  
2 pay their bills. Large companies tend to hoard cash in a  
3 time like this. And what we want to make sure is that  
4 they pay their bills quickly. And of course they hoard  
5 their cash because markets are going to look at their  
6 cash balances and say, you know, will you be able to  
7 survive this crisis? But if they step forward and pay  
8 their small businesses quickly -- and I would ask also  
9 the government to pay their bills to small businesses  
10 quickly. Any bill that the government has for a small  
11 business contractor, pay it today. Don't wait 15 days  
12 or 30 days or 60 days.

13           We proved in a quick-pay program that was  
14 later analyzed by some economists, Rajan Anandan, that  
15 paying quickly or in when immediately the invoice is  
16 issued, puts that cash in the hands of small business  
17 owners and gives them liquidity that they need. This is  
18 really a critical time. Because if we don't help some  
19 of these small businesses survive, it will be very hard  
20 to restart the economy. And at that point I think we  
21 should look at other kinds of funding for startups,  
22 which we can leave the conversation on to a different  
23 day. But then we're going to be talking about helping  
24 new small businesses raise money in more innovative  
25 ways.

1                   So hopefully we'll get a lot to survive, and  
2 we'll be able to come out of this if we all pull  
3 together. Thanks for the time.

4                   MS. GARRETT: Thank you very much, Karen. We  
5 appreciate those thoughts. Greg Yadley, you are next on  
6 our list to speak.

7                   MR. YADLEY: Thank you, Carla. Thank you,  
8 Chairman Clayton, Commission Peirce, and the other  
9 Commissioners. Of course, Martha and Julie, for all  
10 you're doing at this critical time in the Office of the  
11 Small Business Advocate. I'm a lawyer at Shumaker, Loop  
12 and Kendrick. We have offices in Florida, the Carolinas  
13 and Ohio. Primarily a middle market firm, representing  
14 smaller public companies, private businesses, family-  
15 owned concerns.

16                   And it's been amazing that the impact on all  
17 of our clients is similar. There's a fundamental focus  
18 on worker safety, how to operate virtually. How to  
19 stretch cash. So, I would say that almost everybody in  
20 our firm has become an employee, employee benefits, and  
21 banking over the last two weeks as a result of the  
22 legislation and finance concerns about how to deal with  
23 people.

24                   The questions that have been asked, I'll just  
25 focus on the second one and the third one. The first

1 was challenges that I'm seeing accessing capital from  
2 investors. There's definitely been delays in people  
3 making decisions. If deals are as Jeff said not close  
4 to the finish line, they are getting postponed. People  
5 want more visibility, report committing, the timeline  
6 for when that will be seems to have stretched at least  
7 until May. So I think this is going to be a very quiet  
8 month. Liquidity is an issue for most companies, so  
9 they're hunkering down. There is much more focus on the  
10 short-term imperatives.

11           A number of deals where we've even had a  
12 signed term sheet people have put pencils down or asked  
13 to renegotiate. There's, as you would expect, I think  
14 others are seeing skepticism regarding many traditional  
15 sectors that have been quite active. Hospitality, real  
16 estate, retail, deals are slowing. The focus, at least  
17 in terms of future planning as opposed to doing anything  
18 right now are on investments that address technology  
19 improvements that can be made in areas such as  
20 healthcare and communications, startups, high tech  
21 without or with minimal supply chain risk. Those are  
22 things that investors that we work with are talking  
23 about.

24           The third question had to do with trends,  
25 expectations, predictions on capital raising as a result

1 of the current situation. People are clearly being  
2 conservative. No matter how frequently people say, I'm  
3 not really looking at the stock market, they are --  
4 every day they're checking, and the climb in net worth  
5 has caused people to be more conservative.

6           So I think that even after the crisis  
7 subsides, valuations are going to remain low. I think  
8 uptake is going to be slower. And M&A is going to  
9 decrease, at least for a couple of quarters. The  
10 private equity firms that we work with are telling their  
11 portfolio companies first that they're there to help  
12 them. They've been very active as a paternal as  
13 possible.

14           The common message seems to be to weather this  
15 uncertainty you have to save cash and extend your  
16 ability to have a cash runway, decrease the burn rate.  
17 Growth is secondary now. Valuations are secondary. You  
18 really need to survive. Many people are saying that  
19 without a sense of panic, but just a clear, practical  
20 message that we'll get through this. But that's the  
21 first and second and third goal.

22           Another thing we're spending a lot of time on,  
23 our contractual obligations, and what does Force Majeure  
24 mean in our language and what decides Force Majeure?  
25 May we rely on it in terms of either to not perform

1 ourselves, or how do we react to the refusal of vendors  
2 or service providers to perform?

3           Some of these things are going to have lasting  
4 repercussions because they're not going to get resolved,  
5 and litigation may not be the best approach. And even if  
6 it is, that's going to take time. So I would say it's  
7 not a great time for investments.

8           And so people are looking to the government  
9 programs that have been mentioned in order to pay rent,  
10 pay employees, and capital spending has decreased to the  
11 minimum. This will -- certainly among many of our  
12 manufacturing clients, for example, with plants being  
13 shut down or facilities being closed, maintenance is  
14 about all that's happening. Thank you, Carla.

15           MS. GARRETT: All right. Thank you, Greg, for  
16 bringing that perspective and those insights. Youngro  
17 Lee, you're next.

18           MR. LEE: Hi. Thank you all. My name is  
19 Youngro Lee. I'm the founder and CEO of NextSeed. We  
20 are a FINSAC platform that are leveraging the  
21 Crowdfunding rules that the SEC had released over the  
22 past few years. And specifically, we have been focusing  
23 on our entire duration on small businesses, brick-and-  
24 mortar Main Street businesses, and to just be direct and  
25 candid, this is very bad. I know that's a very clear

1 understatement. But given our role working with sort of  
2 Main Street businesses -- so to be clear, we don't do --  
3 we don't do technology companies. This is literally  
4 restaurants, bars, gyms, you know, you name it.

5 We had a front role, a front seat to this  
6 whole thing happening since, let's say, in early March.  
7 We are based in Houston, but we were having business  
8 across the country, including New York and California.  
9 Most people don't understand the actual devastation  
10 that's happening right now in small businesses.

11 Virtually every single business that we work  
12 with on our platform, which we do consider to be the  
13 best in their industry -- we accept less than 2 percent  
14 of all applications coming in to even list in our  
15 platform -- every single have either shut down their  
16 business, laid off all their employees, and are  
17 literally trying to survive. The reality is if small  
18 businesses fail, the entire economy fails. I don't  
19 think people realize that when they just look at the  
20 mainstream media or just kind of trying to look at it  
21 statistically in models. This is the vacuum of the  
22 economy that is literally extinguishing or being  
23 extinguished in front of our eyes. The only way this is  
24 going to be fixed -- and "fixed" is probably not the  
25 right word. So the damage control is massive government

1 intervention. And thankfully the government has been  
2 very proactive, especially compared to you know, prior  
3 situations like this in our industry.

4           However, that's just not enough. So  
5 specifically on the stimulus and the SBA package, the  
6 centralized way of these loans are being organized and  
7 distributed, for all the reasons that you guys can  
8 imagine, is not efficient, especially for small  
9 businesses.

10           For example, if you're a new business, if  
11 you're a business without that much history in the last  
12 couple of years, one you're not going to get that much  
13 PPE loan.

14           The EIDL loans are centralized. As you know,  
15 there's also various different kinds of limitations and  
16 restrictions, you know, processes and bureaucracy. The  
17 SBA is hiring, you know, inexperienced individuals,  
18 necessarily -- not in a bad -- but they have to do this,  
19 to get this out. So the, you know, understanding the  
20 specific businesses, at that rate. What that's going to  
21 result -- and this is what we've seen in real life --  
22 there are two situations, basically. If a small  
23 business has not been successfully, or frankly, theirs  
24 is not a good business, they are going to go out of --  
25 they're going to fail. There's just no denying that.

1           My estimate is, unless things change  
2 dramatically, you know, something like 25 percent to 50  
3 percent business failure. I don't think that's  
4 exaggeration. It's from actually seeing what's  
5 happening.

6           The businesses that are actually good  
7 businesses, because of the government mandates, they're  
8 done too, right? So there's actually two things that  
9 are happening. One is business owners that are trying  
10 to keep at least some jobs alive for their employees.  
11 They are just running at cost or minimum losses to  
12 maintain food deliveries and such as that. There are  
13 also the smart -- depending on your perspective, but  
14 there are some businesses owners, they don't want to get  
15 additional SBA EIDA loans, all right? Like, even if  
16 they can get it, they don't want to take out more debt  
17 in this crisis. Those will shut the business down. And  
18 when the government, when the economy recovers, they  
19 will probably open up again and then restart their  
20 process.

21           But the reality is, given the lack of ability  
22 to distribute cash immediately to businesses, there is  
23 going to be not a perfect solution from the SBA or  
24 otherwise. That leads to the final point. The private  
25 market is really the only way this can be solved,

1 because the local people, the individuals who know who  
2 these businesses are know exactly what the -- or at  
3 least a better sense of what businesses are good  
4 businesses versus maybe they're just not going to be  
5 able to make it.

6           There are so many different ways, obviously,  
7 this can be approached, but it's also unreasonable to  
8 assume that business can react very rapidly. One  
9 suggestion I had, if it is possible to get emergency  
10 relief or emergency orders or No Action Letters,  
11 specifically for let's say -- would you say the  
12 compliance regulations, the need to get an audit or  
13 review for financials for a capital raise over a hundred  
14 -- right now the limit is \$107,000. If we just cap  
15 that, for example, at \$250,000 or \$300,000, that alone  
16 would make it so much easier for businesses to tap the  
17 private markets on the Regulation Crowdfunding, which is  
18 the only mechanism that can get this out to private  
19 businesses, to non-accredited investors, really the  
20 community members. If we have that mechanism, I think  
21 it would be possible for at least some of these  
22 businesses to tap the private markets for their capital  
23 needs in ways that is impossible to get through  
24 centrally-processed SBA loans or otherwise.

25           There is a lot of different areas of this, and

1 we can talk about this forever, but I just want to make  
2 that, that point. One way that we're helping as a firm  
3 is, because we can't rely on the securities laws to  
4 securities offerings, we have a fund called LIFE --  
5 Local Impact Food and Entrepreneurship. But we  
6 basically partner with a nonprofit to get donations from  
7 community members. Non-taxable basis. Using that fund  
8 we've been placing orders to local restaurants to make  
9 food deliveries to local healthcare professionals and  
10 public safety workers. And that raised about \$10,000 in  
11 less than seven days. We hope to run that through the  
12 course of the program.

13 But to summarize, I think the SEC actually has  
14 tremendous possibilities here, if we can make some sort  
15 of emergency action to liberalize Regulation  
16 Crowdfunding limits to enable the private markets to  
17 actually work in this environment for at least some  
18 businesses. Because we cannot -- there is no way that  
19 everybody is going to be able to be helped. Thank you.

20 MS. GARRETT: Thank you, Youngro. I  
21 appreciate that. Bert Fox, you're up next. Thank you.

22 MR. FOX: Thank you, and again, thanks to the  
23 Commissioners and the staff for setting this up. I am a  
24 partner in the accounting firm Grant Thornton. I think  
25 I'll add to the comments about the damage of the Covid

1 virus on the economy. My firm was on track to probably  
2 our best year ever. In the last months, I think we were  
3 the first major accounting firm to get it to fully  
4 working from home. You know, we've kind of thrown out  
5 all of our internal -- and we pivoted to just simply  
6 preservation of the firm, capital, and all of our trying  
7 to you know, save all of our employees and everything  
8 else. I think we're already starting to see a number of  
9 our clients extend payment terms, looking for fee  
10 reductions and a number of other things. You know, even  
11 though we're still continuing to stay busy, we're  
12 already starting to see a lot of ripple effects, both  
13 large and small clients throughout the economy.

14           And so, I -- you know, clearly this is a large  
15 economic shock. You know, in terms of you know, what  
16 we're -- we're seeing, in terms of capital raising, I'll  
17 echo what everybody else is seeing. Deals are being put  
18 off. There's a lot of things being sniffed around. But  
19 you know, the lack of ability to forecast, the lack of  
20 ability to really come to a price and price certainty is  
21 clearly there. I talked to a lot of bankers recently.  
22 I think most of our clients have been tapping lines of  
23 credit to go ahead and have cash in the bank, because I  
24 think they're being advised by their bankers right now  
25 that credit may dry up in the future. And so I think

1 that to me tells you that if you already don't have  
2 lines of credit it may be harder to get in the future,  
3 which makes me worried about, you know, the smaller  
4 businesses that don't already have that sort of stuff.

5           As it relates to -- and it goes back to one of  
6 the points I wanted to make to the Commissioners.  
7 You've got a lot of times when companies are scrambling,  
8 they don't always dot the I's and cross the T's. And so  
9 one of the things that you may want to think about is  
10 some sort of way for companies to have a safe harbor to  
11 go back and do that sort of stuff, you know, post hoc,  
12 if you will, or to go back and sort of do that sort of  
13 stuff after the fact, where they can you know, after the  
14 crisis has abated, to go back and you know, take care of  
15 some of the paperwork and stuff. And don't let some of  
16 the paperwork get in the way of getting much needed  
17 funds right now.

18           And then, in terms of predictions, I think  
19 we're all hoping for some sort of V-shaped recovery. But  
20 as you start looking at the damage being done, you start  
21 looking at the unemployment reports and all that sort of  
22 stuff, I think we're starting to not -- you know, start  
23 basing our forecast not on a V-shaped recovery but a  
24 much more flattening coming out of this than the -- I  
25 think what we may be, were hoping for even a couple

1 weeks ago. So Carla, I'll go ahead and let some of the  
2 others speak, because I know we're taking a lot longer  
3 than our three minutes per speaker, so.

4 MS. GARRETT: Thank you, Bert. I actually  
5 think we're doing pretty well. I am going to have one  
6 change-up in the schedule. We're going to have Steve  
7 Graham, who's next, and then we're going to have Brian  
8 Levey go, because he needs to leave at 1:00. So Steve,  
9 would you like to go next?

10 MR. GRAHAM: Sure. Thank you, Carla. Thanks,  
11 everybody else. I'm a partner in the technology and  
12 life sciences law firm of Fenwick & West. And much of  
13 what I would have to say has been said by Greg and --  
14 and others. But currently we're in strange and  
15 difficult times. But when you look at my world, which  
16 is the world of biotechnology companies primarily, that  
17 are focused on developing products and engaged --  
18 engaging in clinical trials, they are not relying on  
19 revenue. A couple with service providers that are used  
20 to sitting at a laptop and sitting on cell phones, and  
21 things have not ground to a halt. I think there's some  
22 -- there are some M&A transactions that have been placed  
23 on pause. And that pause is likely is to be a long  
24 pause. But you know, business -- business is going  
25 forward.

1 Deals are -- you know, again, they're  
2 currently -- currently being upended, and there are  
3 complexities and lots of questions with respect to --  
4 with respect to the loan programs that are being put in  
5 place. But again, for the most part, I see -- I do see  
6 business, business happening.

7 You know, I'm not going to take any more time.

8 I think a lot of good ideas have been placed on the  
9 table that I would support. I think that, that this is  
10 going to give us an opportunity to really -- I think  
11 really -- I mean, this is a chance to really be creative  
12 with respect to what we can do with things like  
13 Crowdfunding and the micro-offering solutions, and that  
14 sort of thing. And so I'm looking forward to working  
15 with everybody to try to get something done. And done  
16 quickly. Thank you.

17 MS. GARRETT: Thank you, Steve. I appreciate  
18 that. Brian?

19 MS. LEVEY: Hi, this is Brian Levey, Chief  
20 Legal Officer of Upwork, which is a publicly-traded  
21 company that enables remote knowledge work, for  
22 companies of all sizes. Especially, small businesses or  
23 SMBs, both in the U.S. and abroad. I will say these are  
24 my personal views, not those of the company. And what  
25 we're seeing is just, you know, small businesses, no

1 surprise, are in survival mode right now. There was a  
2 Goldman Sachs survey last week that I think said 51  
3 percent of small businesses say that they will not  
4 survive the first 90 days of this crisis.

5 So I think in light of that, how can  
6 regulators make it as frictionless for small businesses  
7 to raise, you know, essentially subsistence capital  
8 right now and throughout the crisis, and beyond? You  
9 know, what is the new normal?

10 As was mentioned earlier, I think in the CARES  
11 Act there is currently a restriction on startups that  
12 are affiliated with VCs and private equity firms that  
13 have collectively more than 500 employees. That is one  
14 area where I think they should remove that restriction,  
15 so whatever regulators can do to help remove that or  
16 waive that would be helpful.

17 I think another key right now is just  
18 educating SMBs about the SBA loans that I think become  
19 available for the first time tomorrow. And a lot of  
20 these small businesses are deciding, do I apply for a  
21 loan or do I apply for unemployment insurance? Those  
22 are just really important decisions that small  
23 businesses I think are thinking about right now.

24 The way I look at things, we're currently in a  
25 relief phase of things. It really is just stimulus,

1 stimulus, stimulus. And there are likely to be one or  
2 two more relief phases of this cash stimulus. And then  
3 I think it'll move hopefully to the recovery phase. And  
4 I'm not sure that it's going to be an automatic  
5 recovery. It's likely to be in my mind some waves  
6 taking place, where everyone may return to a little bit  
7 more normal. But then there could be a period of time in  
8 the fall when things come back. So I think regulators  
9 need to keep in mind this could be a new normal. And  
10 what is changing, you know, sort of a personal behavior  
11 as well as corporate behavior in light of it.

12 Commissioner Peirce mentioned, you know,  
13 attitudes and you know, towards remote communications.  
14 Thinking about that, I think that's really important  
15 right now. There's -- how do we increase people's  
16 comfort, you know, and does online reputation and  
17 signals become much more important now and in the future  
18 than what had heretofore been human relationship and  
19 trust base? Also it's likely that the recovery plans  
20 and government efforts are going to be focused a lot  
21 more on providing broadband capacity to hopefully more  
22 depressed and less economically-advantaged areas of the  
23 country. So again, more digital focus when thinking  
24 about the securities laws and regulations, perhaps.

25 And then just, as Jeff mentioned, for

1 investors right now, how do they look for companies that  
2 are going to have resilient, you know, plans and  
3 business continuity plans? Because those are going to  
4 be as important as ever. And how do new investors focus  
5 on businesses with, you know, a renewed focus on  
6 flexibility and cost management. So those are just some  
7 of my quick thoughts. Thank you so much.

8 MS. GARRETT: Brian, thank you very much.  
9 Sara Hanks?

10 MS. HANKS: Thanks. Yeah. I wanted to start  
11 by saying thank you to the staff, the SEC Small Business  
12 Policy staff especially, and Martha's team. Thanks for  
13 getting the relief out for reporting for Reg A and Reg  
14 CF. And thanks for the guidance. I mean, people, when  
15 we have questions, they call us back. And we really  
16 appreciate it. And another thing I think we should all  
17 be thankful for, is one of the things that Youngro  
18 mentioned, which is the way that the Fintechs in general  
19 are trying to step in and help however they can, by  
20 reducing fees, by providing alternative funds, methods  
21 of fundraising or whatever. So we're all pulling  
22 together.

23 Not surprisingly, when you think about  
24 concrete measures that we can take, I'm heading along  
25 the same lines as Youngro. I was thinking that one

1 really useful thing that the Commission could do is to  
2 remove the need for GAAP financials for the sub-107k  
3 offerings under Regulation CF. I think that -- I mean,  
4 I would go as far as Youngro and say put it up to  
5 something like \$500,000. For some companies right now,  
6 historical financial statements, whether they're  
7 reviewed or audited or just formatted, are absolutely  
8 useless. They provide no useful information whatsoever.  
9 History has passed. You know, maybe you were raising  
10 loads of money, maybe you were producing loads of  
11 revenues before. It's absolutely irrelevant at this  
12 point. So companies could be allowed to disclose what  
13 their debt position is. Who do they owe money to? And  
14 then not have to put together financial statements, for  
15 a temporary period.

16 As I say, limit it to offerings, say, under  
17 \$500,000. And if there is something that you can do --  
18 and I know that the way that the regulation works with  
19 the statute may be problematic. But letting companies  
20 take money as soon as they hit their targets, as opposed  
21 to having to wait 21 days before disbursement might be  
22 very useful. I mean, as we know, many of the small  
23 companies, and I'm thinking particularly of restaurants  
24 here, have enough cash on hand for 16 days, and we're  
25 pretty much there now. So if there is a way to do that,

1 that would be brilliant.

2 As far as predictions go, I'm where Youngro  
3 is. I don't think people realize how bad this is. This  
4 is going to be -- yeah, this is terrible. We will get  
5 through it, but it's going to take longer than anyone  
6 thinks. Sorry.

7 MS. GARRETT: Thank you, Sara. Sapna?

8 MS. MEHTA: Hey, everyone. I appreciate the  
9 willingness to have this meeting and to hear from us and  
10 the perspectives that we have. I don't -- for purposes  
11 of recording this call. But you know, we have seen a  
12 lot of our portfolio companies just devastated by this.

13 And obviously, anyone in retail, hospitality, co-  
14 working, a variety of companies, a lot of our  
15 fundraising rounds have fallen apart, and now the  
16 companies are, you know, in desperation mode. Not all  
17 of our companies. There are, you know, other companies,  
18 I think Stephen mentioned biotech, health. There's AI,  
19 and certain SAS companies that it's not affecting as  
20 much. But the ones that it has affected, I mean, we've  
21 seen a lot of our companies have to lay off or furlough  
22 over half, you know, to all their employees.

23 And now, it'll be interesting to see the way  
24 that will interact with the PPE loans; if they'll need  
25 to hire back some of these employees in order to, to get

1 the loans. You know, we've just seen some questions.  
2 We've got -- and I'd rather that our portfolio companies  
3 be based on their questions, you know, which programs  
4 preempt the use of another program or credit. You know?

5           And we've got -- we've seen, you know, Ron  
6 Klain, who works at Revolution. He's gotten advice and  
7 he's advised that it's best for companies to apply as  
8 soon as possible for the PPE loans, given that we don't  
9 know how long the funds will be spoken for, dispersed.  
10 And just, you know, before there's the next stage of the  
11 stimulus package, even if you're not sure that you would  
12 qualify for it, you know, under the affiliate rules,  
13 best to apply for it.

14           And there were some questions whether it's  
15 best to use the SBA form, their template, or go directly  
16 to the company's own bank. There might be a little bit  
17 more flexibility there with the banks interpreting  
18 "affiliate" and the affiliate rules and all of that. So  
19 we are, you know, we've gotten some advice that it might  
20 be more efficient to go directly to the bank. But I'm  
21 not sure if that is accurate.

22           There's also -- you know, and I am curious as  
23 to where the affiliate definition -- what has happened.

24 I know there are lots of groups that have written  
25 letters and dozens of members of the Senate and House

1 who have submitted letters. I'm just curious if any of  
2 the Chairs have any updates on where that sits.

3           And then the last thing, you know, this is --  
4 a lot of our companies have asked us what our view is  
5 of, you know, letting their employees have a piece of  
6 equity of the company in lieu of taking a salary. And  
7 it's just a messy area with deferred comp issues.

8           You know, I keep telling them they need to  
9 speak to their counsel and see how other equity plans  
10 are set up. But maybe if there's some flexibility, you  
11 know. I know it's not totally within this range. A lot  
12 of is IRS and between ordinary income, capital gains and  
13 when taxes are due on that, et cetera. But they're just  
14 trying to think creatively of how to keep their  
15 employees when their revenue streams have dried up.

16           So hopefully, you know, some of the programs,  
17 the loan programs available, will help ease that pain.  
18 But it certainly won't ease all of it, so we need to  
19 think a little more creatively as to how we can make it  
20 easier for these companies to keep some of their  
21 employees. And otherwise I would just echo what  
22 everyone else has already articulately said who has gone  
23 before me.

24 So thank you.

25           MS. GARRETT: Thank you, Sapna. We appreciate

1 that. Catherine?

2 MS. MOTT: Can you hear me now?

3 MS. GARRETT: Yes, we can. Thanks.

4 MS. MOTT: Thanks. Many have said -- probably  
5 a lot of the things are shared; they're sentiments which  
6 are similar to mine. Some -- I have a BlueTree Venture  
7 Fund. And the BlueTree Allied Angels. So I speak on  
8 behalf of both of those right now. The trend we're  
9 expecting is colored by two of our portfolio companies  
10 that have been asked to be accelerated into Covid-19  
11 clinical trials.

12 So hearing the feedback from those companies  
13 changed our perspective on how we coach and mentor our  
14 portfolio companies. We're asking them to think more  
15 long-term rather than short-term. We're telling them to  
16 think as they conserve cash, they should be thinking  
17 about 18 to 24 months out. And so that, that colors how  
18 we're seeing, you know, the cash needs and cash  
19 conservation practices.

20 Where we're spending some time right now as an  
21 industry, the National Venture Capital Association and  
22 the Angel Capital Association is communicating clearly  
23 to the SBA and to our elected officials that the  
24 affiliation rule in the CARES Act is limiting many, many  
25 companies that are under 500 employees. And you know,

1 it has been making traction and doing well. We'll need  
2 this lifeline of support and can't be excluded from  
3 applying for these loans. That's really very critical.

4 We're talking to our Limited partners and  
5 changing how we are -- related funds, how we're planning  
6 to allocate the funds. Typically we're looking at 60 to  
7 70 percent of those funds invested in new companies, and  
8 then 30 to 40 percent in follow-on capital. We're  
9 switching that around. It's 70 percent to be focused on  
10 previous portfolio companies, and then the remaining may  
11 be for new companies. Companies in our portfolio right  
12 now that have -- two things.

13 I think someone else alluded to this. If we  
14 had a company that was about to be acquired and would  
15 have been a 6X return for our investors, in the eleventh  
16 hour the deal was retracted.

17 The other thing is, we have companies in our  
18 portfolio that are in Series B and Series C rounds. And  
19 also the terms of those rounds are being either --  
20 either the terms of the deals are being retracted or  
21 they're being renegotiated.

22 But most importantly, I think that if there's  
23 anything we can do here, I'm really intrigued with  
24 Commissioner Peirce's ideas of the micro-offerings and  
25 the capital raising over the internet. If there's

1 anything creatively that we can do and be supportive of,  
2 I'm all in. And I echo Sara's remarks. I can't thank  
3 this, the Commissioners and this committee on how we're  
4 really working hard to make sure that capital formation  
5 in the middle of America and in underserved areas is  
6 being addressed. So, thank you.

7 MS. GARRETT: Thank you very much, Catherine.  
8 Chairman Clayton, I hear you'd like to make some  
9 remarks?

10 CHAIRMAN CLAYTON: If you don't mind. And I'm  
11 sorry to interrupt. I know you have at least a handful  
12 more comments. I'll try to be quick. But I want to be  
13 responsive, and I have a hard stop. First, thank you to  
14 everybody. This is what I think all of us, Allison,  
15 Hester and I would have hoped for, and Martha and Julie  
16 and their team. This kind of information. I wanted to  
17 let you know that I hear you on the affiliate issue and  
18 the equity comp IRS issue.

19 We are in regular contact with our colleagues  
20 across the federal government, including Jovita at the  
21 SBA, folks at Treasury. What I can commit is, I will  
22 echo these issues to them, based on this call.

23 I hear you on the cap. I hear you on the  
24 financial statements. I do want all of our investors to  
25 understand that in times like this for many companies

1 historical financial statements are not as -- not  
2 anywhere near as relevant as they had been. What is  
3 relevant are cash flows and business operations  
4 projections as best as they can be estimated in light of  
5 the circumstances. I will come back to that.

6 I want you to also know that Martha and Julie  
7 and their team recognize -- they're very sophisticated.

8 They recognize that we have a credit-based economy and  
9 a consumer-oriented economy. This situation has hit  
10 both of those incredibly hard. And they also recognize  
11 that many of our small businesses, that is their  
12 business. It depends a great deal on credit, and they  
13 depend a great deal on the consumer.

14 Lastly, I want to share with you some personal  
15 -- these are personal views that I have. That you are  
16 here, and I want you to know how we're looking at  
17 getting through this -- that "we" me -- hopefully others  
18 agree with me. Hopefully you'll comment. Maybe this is  
19 not the right form; but it goes to Sara, how bad this is  
20 and where we need to help our businesses, our workers  
21 and everybody else go to get through this from a health  
22 and economic point of view.

23 People do not invest unless they have  
24 visibility to the future. That's why I'm very  
25 supportive of the CARES Act. Because right now

1 visibility is very limited. We have 30 days to stop the  
2 spread. Businesses are trying to operate under those  
3 conditions. Some can't operate at all. The question  
4 that we need to start looking to is what next? And how  
5 can we operate under hopefully relaxed but very  
6 responsible health and safety guidelines that utilize  
7 what we've learned, utilize testing. And hopefully, as  
8 we go forward, utilize a therapeutic and then a vaccine.

9 That kind of framework -- which I'm not a health  
10 professional. I have no idea on timing. I'm not an  
11 epidemiologist. I don't know how much guidelines can be  
12 adjusted.

13 But I think as an economic regulator, we need  
14 to start thinking in those terms and help people  
15 communicate in those terms, even if they're uncertain.  
16 You know, if you don't start to get certainty around  
17 these things, people are not going to invest and they're  
18 not going to provide credit.

19 So that's my personal perspective. I wanted  
20 to share it with you. And I thank you for all of the  
21 input.

22 MS. GARRETT: Thank you, Chairman Clayton. We  
23 appreciate that. Poorvi, you're up next.

24 MS. PATODIA: Sure. You guys, for those of  
25 you that don't know me, I'm Poovi Patodia. I'm the

1 founder and CEO of Biena Snacks. We are a healthy snack  
2 food brand with a number of snacks that use legume and  
3 bean-based ingredients that are high protein. You know,  
4 in comparison to many other small businesses in the  
5 market today, I think, you know, we are -- my team and I  
6 continue to be incredibly thankful that we have a  
7 positive -- we've been able to play a positive role in  
8 the pandemic over the last month as things have gotten  
9 worse and worse. And by a positive role I mean that,  
10 you know, being a packaged snack, where 95 plus percent  
11 of our revenue comes from brick-and-mortar. We sell to  
12 grocery stores. And then another five percent that has  
13 historically come from e-commerce. You know, we are a  
14 company that has seen a surge in our business, in  
15 particular due to increased foot traffic at grocery  
16 stores. You know, at brick-and-mortar retail grocery.

17 You know, having said that, while certain  
18 parts of our business are far up, other parts of our  
19 business are -- have been decimated by the Covid-19  
20 pandemic. So, in particular, two channels that  
21 contribute a significant portion of our revenue are food  
22 service and hospitality. So, our snacks are sold, for  
23 example, in corporate cafeterias, or large corporations,  
24 through Aramark and Sysco, and food service providers  
25 such as those. As well as we have a portion of our

1 revenue that comes in from bulk business. For example,  
2 there's a retail in Canada called Bulk Barn, where their  
3 entire store is bulk bins. And so that's another type  
4 of retailer that's been essentially shut down as a  
5 result of the pandemic.

6           So, you know, as it relates to our team, we  
7 have had about 25 percent of our team is comprised of  
8 people that are out in the field every day, calling on  
9 grocery stores and building relationships at the store  
10 level. They'll bring displays and things like that. So  
11 all of the -- you know, those team members have been  
12 grounded. And you know, we've looked for ways to make  
13 productive use of their time. Over the last couple of  
14 weeks it's been slow.

15           So, you know, I think that there are, as it  
16 relates to the food industry and companies such as ours,  
17 we do expect from a trend standpoint that there's going  
18 to be long-lasting negative effects as a result of this.

19       You know, some -- for example, some of the areas that  
20 are being impacted, some of the areas that we'll  
21 continue to see a negative effect even after the social  
22 distancing guidelines go away is in the area of new  
23 product launches and resets at grocery stores. So we're  
24 seeing, while the Krogers and Walmarts and Whole Foods,  
25 you know, who are some of our largest customers, have --

1 are continuing to operate and they're deemed to be  
2 essential, they are all pushing out product launches and  
3 resets of new products that are going into grocery  
4 stores. So any growth that we had expected in the back  
5 half of the year that was going to be coming from new  
6 distribution of our products into retail or launching  
7 new products, all of that will be basically at risk.  
8 And either will not happen on time or will not happen at  
9 all, in the 2020 calendar year.

10           So you know, we are from a cash standpoint, we  
11 are, you know, putting together a scenario in which all  
12 of those things just don't happen in the back half of  
13 the year. And you know, as it relates to access to  
14 capital, I'll just give you an example, you know, of my  
15 own business. We had expected to do a fundraiser in the  
16 back half of this year, which we're essentially now  
17 planning not to do. And so, you know, we're looking at  
18 ways to essentially stretch the cash that we do have.  
19 Thankfully, you know, we do have a little bit of a  
20 runway in front of us, but we're working very quickly to  
21 figure out how to be able to extend that cash, similar  
22 to what I've been hearing, you know, others talk about  
23 as well.

24           And so, you know, we are looking at all, all  
25 different ways of doing that. We are -- you guys might

1 be interested to know that concurrently we had been  
2 pursuing a line of credit. And both from banks as well  
3 as alternative boutique lenders that focus on the CPG  
4 and the food space. And you know, I do think that their  
5 requirements have gotten tighter. And in particular for  
6 the alternative boutique lenders, and for -- as it  
7 relates to the banks that we're speaking with, we're  
8 fortunate that you know, we're being prioritized.

9 But certainly, the flux of inquiries related  
10 to the SBA loans has put all of the banks that we're  
11 talking to are suddenly, you know, just have this  
12 massive influx of work. And so even those  
13 conversations, while they're continuing, it actually has  
14 a negative effect on our ability to move with the speed  
15 that we wanted to move at on the line of credit, so.

16 MS. GARRETT: Thank you very much, Poorvi. We  
17 appreciate that information. We are running short on  
18 time. We have about 19 minutes. I would like for  
19 Martha to have a chance to speak at the end. So, the  
20 next person up is Jason.

21 MR. SEATS: I'll talk fast. So I'm with  
22 Techstars. We're an early-stage investor. We have over  
23 2,000 portfolio companies, where the vast majority are  
24 in the U.S., so we see a lot of impacts in that starter  
25 portfolio. I might say number one impact really here,

1 which has already been mentioned a lot, is just  
2 uncertainty.

3 I think the initial hope of this being a V-  
4 shaped recovery comes from the fact that this is -- the  
5 origin on this crisis is a health crisis, not a  
6 financial or economic crisis. But we're experiencing  
7 obviously a second or third order effect here. Our  
8 advice to our portfolio is really simple, sort of three  
9 prong advice that we've been pushing on hard. First is  
10 to manage the health issues. And so we do have, you  
11 know, Covid-positive cases and cases of exposure that  
12 folks are managing. The second is sort of this shift  
13 towards remote work and sort of business continuity of  
14 keeping things running when they can be. And then the  
15 third, which has already been mentioned a lot here is  
16 just to focus on cash and runway.

17 So we have counseled our portfolio to draw all  
18 available credit to plan for, you know, slash your  
19 projections on revenue. You know, but I'd say most  
20 typical actions we're seeing on the portfolio are a  
21 combination of reduction in force, so layoffs, salary  
22 cuts and furloughs. And I think someone already  
23 mentioned the advice to sort of get folks to a minimum  
24 of 18 months of cash if you can or longer than that.  
25 But obviously for startups this is a challenge. Many of

1    them are likely to fail over the next quarter or two  
2    from a lack of capital availability.

3                We do have a belief that the stimulus package  
4    will be beneficial. The primary challenge that we're  
5    seeing with it is just the complexity and the  
6    uncertainty of who can access it. And so whatever we  
7    can do to simplify that would be a help to us. And then  
8    lastly, a prediction. You know, ironically, as early  
9    stage investors, you know, our forward expectation is  
10   that this is going to be a very strong vantage of  
11   investing. I think the backdrop sort of pre-crisis is a  
12   belief that early stage and private equity is sort of  
13   overvalued as an asset, and so you're seeing some reset  
14   there. But also just in our history as an investor, the  
15   companies that are formed in these times are strong  
16   performers. And so we're -- you know, we're hopeful  
17   there. We are still seeing venture investors writing  
18   checks, but obviously there's pricing impacts and all of  
19   the slow-downs that you can expect.

20               I think the moment that we start to see the  
21   curves flatten and we can -- when we can point at dates  
22   and say this is the date when we'll see peak cases, I  
23   think that brings some certainty back and we'll start to  
24   see healthier sort of financial transactions at that  
25   point, even though it will be far from out of the woods

1 on the economic and the health impact at that point.

2 MS. GARRETT: Thank you, Jason. Hank?

3 MR. TORBERT: Hi, this is Hank Torbert. I am  
4 President of AltaMax, which would be defined as a small  
5 business, absolutely. We are a defense contractor whose  
6 clients include all of the major defense aerospace  
7 companies and defense represents about 80 percent of our  
8 total revenues. We have effectively been around since  
9 1966, and we have about 40 employees who are based in  
10 New Orleans, which is a hot zone now. So I will tell  
11 you that we were fortunate in our case because the CEO  
12 and myself realized that this was going to be a problem  
13 with Covid-19 back in late February and began to develop  
14 a survivability strategy. And secondly the other thing  
15 is that we're in a central infrastructure business, so  
16 we have to keep running. I apologize if you hear noise  
17 in the back, because I'm at the plant, running non-stop.

18 But what we did is, we focused on a couple of  
19 quick things. One, the focus on cash management. Two,  
20 we focused on production optimization. And most  
21 importantly, we are -- we committed on not having to lay  
22 off any of our employees, ever. That has been our goal.

23 So quite frankly, the CARES Act is a great lifeline for  
24 businesses like ours to keep things going and keep us  
25 operating and make sure that we don't put more people

1 out there on the street and in the unemployment line.  
2 That was our goal, as owners and operators of a small  
3 business.

4 In terms of the environment, I will tell you  
5 that it is dire for many small businesses, as you can  
6 imagine. Quite frankly, a lot of the deals that I know  
7 of that were going to occur in M&A as others have said,  
8 they are not going to happen. The financing has dried up  
9 and there's too much uncertainty.

10 So with that said, you know, moving over to my  
11 other hat of thinking about the market and the SEC and  
12 so on, it is my hope that things can be streamlined more  
13 with this stimulus package. I also hope that the banks  
14 will make things easier and not hold onto funds, so that  
15 companies like ours will make -- will actually get  
16 access to the funds quickly and be able to deploy them  
17 in the market as quickly as they can. And then lastly,  
18 I agree with what Catherine said about the micro-raising  
19 and encouraging investing online to support small  
20 businesses of any type, quite frankly. It's necessary.

21 I do think that can be a shot in the arm for the  
22 economy. Thank you.

23 MS. GARRETT: Thank you very much, Hank. We  
24 appreciate those thoughts. Melanie? Melanie, are you  
25 there?

1 MS. LUBIN: Yes, I'm here. Sorry, I hit the  
2 wrong buttons. I'm going to -- what I say, the state  
3 securities regulators are working together to provide  
4 some relief from our regulatory requirements as far as  
5 filing deadlines are concerned. And for those of us  
6 that regulate franchises, also some regulatory relief  
7 for the franchise owners as well as the ability to  
8 continue to sell. Because most of them had -- most of  
9 their filings expire right now.

10 We also have provided some relief for  
11 financial professionals, so that they are able to handle  
12 some things that are difficult to handle remotely.  
13 There's a page up on the NASAA website for the North  
14 American Securities Administrators Association that is  
15 tracking the relief we've recommended that states adopt  
16 as well as which states have adopted that. Those relief  
17 mechanisms. And we are listening carefully what's going  
18 on and talking amongst the other states about what other  
19 kind of relief we might be able to provide to issuers  
20 and to our registrants. Thank you.

21 MS. GARRETT: Thank you very much, Melanie.  
22 Marc? Marc Sharma?

23 MR. SHARMA: I'm here. Yes. Thank you. I  
24 just want to thank everyone for taking the time to share  
25 their perspectives and their most valuable insights. If

1 anyone is interested in continuing this conversation  
2 from a different perspective, today at 4:00 p.m. there  
3 is a meeting of the Investor Advisory Committee, a  
4 virtual meeting like this one. You can access it  
5 through the sec.gov website, so for anyone who's  
6 interested, please join us. Thank you all.

7 MS. GARRETT: Thank you very much, Marc, and  
8 good luck with your meeting this afternoon. Greg?

9 MR. DEAN: Carla, thank you very much. At  
10 FINRA, we've been doing a lot, working with the SEC to  
11 provide some flexibility for the small broker dealers as  
12 well as the small broker dealers in the capital  
13 formation sector. We very much appreciated everybody's  
14 comments here today. It's so vitally important, and we  
15 are trying to do our best with that. We are doing a lot  
16 of outreach with the industry. We have set up a Covid-  
17 19 webpage on the FINRA.org website. In addition, we're  
18 holding calls, especially with our small firms. We held  
19 one two weeks ago. We had nearly 1,000 participants.  
20 And we're holding another one today at 4:30. So if  
21 there's any small broker dealers that want to  
22 participate on that call at 4:30 today, please go to our  
23 website and you can sign up.

24 In addition, we're working with state  
25 regulators and others to track the shelter in place and

1 finding out -- to help the small broker dealers to  
2 ensure that they can work with their investors in making  
3 sure their investors have access to their monies as  
4 necessary. So we're happy to help. If there's any  
5 follow-up that's needed from us, please reach out to me  
6 directly. I'm very happy to put you in contact with the  
7 proper FINRA officials.

8 MS. GARRETT: Thank you very much, Greg.  
9 Martha?

10 MS. LEGG MILLER: Yes, thank you very much.  
11 And I just want to again say thank you. While we have  
12 talked about prospects that are not nearly as fun as  
13 when we are looking at the rosier side of capital  
14 raising and supporting small businesses, it's vital to  
15 have these conversations to lend visibility and to start  
16 working on solutions. That -- we can address those  
17 selectively, as well as an agency, that the SEC can  
18 implement on. I just want to flag three areas and  
19 remark to everybody.

20 One is just general observations of what's  
21 happening. The second is our thoughts, both as an  
22 agency as well as as a team in our office. And then  
23 third, just to give an update on what we are working on.

24 So the first is an observation. I think we've  
25 heard it reflected. I won't reinvent the wheel. People

1 have used a lot of phrases around circling the wagon.  
2 And we've seen that people have moved from growth  
3 capital to survival capital. The idea that you're  
4 raising capital to grow and expand is really remote for  
5 the vast majority of companies right now. Same with  
6 investors who are looking at just preserving the  
7 investments that they had made in small businesses,  
8 which changes the nature of the capital that's needed.

9           And we are listening to that. We're tracking  
10 trends, which really goes into our response on it. We  
11 are looking at our own DERA data on what's happening  
12 with capital raising. We're also monitoring trends from  
13 other resources and staying on top of that as a team.  
14 There is something new every single day from which we  
15 are learning.

16           As an agency, the SEC, I think it's been  
17 mentioned a couple of times today, but the agency  
18 granted emergency relief last week for Crowdfunding and  
19 Reg A issuers, providing an additional 45 days for  
20 filings to be completed, due to Covid-19. That's very  
21 important. You can check out -- there's a press release  
22 on the SEC's webpage as well as an SEC page on  
23 everything that the agency is doing related to Covid-19.

24           And I have to applaud the agency leadership for moving  
25 quickly across the board, trying to address challenges

1 and make sure that we have resolution on this and are  
2 being really responsive to critical needs in the market.

3 In addition to that, the comment period was  
4 extended for a number of different rule-makings,  
5 including the accredited investor proposal, which I know  
6 is of interest to many of the committee members here as  
7 well as a number of other ones. Today, Volcker was also  
8 extended by the agency. So that is another positive  
9 development, recognizing that people are in survival  
10 mode right now, not necessarily in comment-writing mode.

11 And it is very important that we provide flexibility in  
12 the rule-making process there.

13 Looking at how our office is responding and  
14 what our team is doing, I just -- I have to applaud our  
15 team. We have an incredible group of dedicated people  
16 that have transitioned to working completely remotely.  
17 The SEC moved as an agency very quickly. And we were  
18 the first federal agency that worked to a remote work  
19 environment. Our team shifted completely in what we were  
20 working on. We had plans this month to do -- in the  
21 past month we were doing a lot of outreach events, which  
22 is part of how we bring in a lot of really meaningful  
23 feedback. From being in Austin Texas at South by  
24 Southwest to engaging in a number of other events and  
25 planning to be in other cities and areas across the

1 country. And we've shifted focus. We're trying to reach  
2 people and make sure that we're accessible, as well as  
3 shifting the nature of what we are trying to talk about  
4 with people. To make sure that we're responsible in  
5 Covid-19.

6           So two things from our office that I want to  
7 highlight. One is, we're launching some Covid-19  
8 resources online, just helping people navigate to the  
9 resources that they need. That will be something that  
10 you'll see on our webpage in the coming days. That's  
11 something people have been asking for, and so that's  
12 something you'll see on a number of other office  
13 webpages within the SEC. But we're trying to highlight  
14 those specifically targeting small businesses and their  
15 investors. And then the second is, we're switching to a  
16 virtual outreach strategy. So we're going to be hosting  
17 a series of virtual coffee breaks as an office. We're  
18 calling them "virtual coffee breaks". I think everybody  
19 is sitting at home with a mug in front of their  
20 computers. And providing interactive opportunities for  
21 people to engage with us. So this is not going to be  
22 just a series of talking heads where you see us sitting  
23 in an office, like this lovely home office that I have  
24 conjured up here. But it's going to really be an  
25 interactive and engaging opportunity where you can ask

1 questions and talk to us.

2           The first one is going to be tomorrow at 11:00  
3 a.m. Eastern Time, on raising capital over the internet.

4     Youngro Lee, who is on the Advisory Committee, is one  
5 of the panelists who will be joining us, along with Ken  
6 Nguyen, from Republic and George Cook from Honeycomb.  
7 So that will be a really interesting conversation. Next  
8 week we will be hosting an event with I Fund Women, on  
9 Wednesday. And then the week following, we're with the  
10 National Small Business Association, talking to their  
11 members and getting feedback. And we have more planned  
12 and would love additional ideas that you may have.

13           But I just encourage you to continue reaching  
14 out to us. We're having meetings and direct  
15 conversations one-on-one daily. We understand and are  
16 trying to actively assess what we can be doing and how  
17 we can be providing guidance to the rule-making teams on  
18 potential regulatory relief, as well as to the  
19 Commissioners. And so I just want to thank everybody  
20 who's reached out of the midst of dealing with a  
21 personal and business crisis to reach out and try to  
22 help us with solutions. So I'll turn it back over.  
23 That was a long-winded answer but I appreciate the  
24 opportunity to flag some of the things that are  
25 happening as we look to support small businesses as an

1 agency.

2 MS. GARRETT: Thank you, Martha. And I look  
3 forward to hearing your coffee break system. Quite  
4 interesting.

5 For the members of the committee, we are going  
6 to see if we can extend the meeting for a bit. I think  
7 a lot of -- there's been a lot of substance discussed  
8 over the last hour and a half. And we would like for  
9 people to be able to have a little bit more time to have  
10 some free comments and also some maybe questions that  
11 you have from other members. So, you know, therefore,  
12 if somebody does have something that you'd like to  
13 discuss further, or if they have a question based on  
14 something that they would -- that they have heard, you  
15 know, I welcome that opportunity.

16 MS. PATODIA: I apologize. I do have to leave  
17 at 1:30, to do another meeting. But I wanted to thank  
18 Martha for her comments, and also just wanted to say  
19 that the list, at least the list of the three virtual  
20 coffee chats that you just named off sounded really  
21 great, and wanted to see if you would be able to send  
22 that list out to the group after the call today, because  
23 I would love to distribute that out to some other  
24 entrepreneurs that I know.

25 MS. LEGG MILLER: I'm happy to do so. As soon

1 as that link goes live, Poorvi, we get into everybody's  
2 hands in this group. You know we love to send you guys  
3 emails, so we'd be happy to send you that.

4 MS. GARRETT: Okay. If nobody has any  
5 questions or comments -- I'll give it one more shot.  
6 Okay. Then what, I guess I'd like to -- let's go ahead  
7 and, you know, end the meeting. We really appreciate  
8 everybody -- I think we had the whole committee on  
9 today. And you know, we recognize that this is just a  
10 crisis for small businesses at this point. So thank you  
11 so much for everybody coming and attending the meeting.

12 Our next -- our next scheduled meeting is May 8th.  
13 It'll be via video. However, I hope that we can all  
14 stay in touch as a committee during these times. And on  
15 that, I move to adjourn the meeting, and I thank  
16 everybody for participating and thank everybody for all  
17 their efforts during this time.

18 MS. LEGG MILLER: Thank you, Carla. And just,  
19 as we adjourn, one note. If you do want to reach out  
20 and discuss -- I know there were a number of different  
21 potential solutions that would entail a regulatory fix,  
22 not just market response. If you do want to reach out  
23 and discuss any of those, I know that we're short on  
24 time because we had so many observations to discuss  
25 today collectively. But feel free to reach out directly

1 to our office, and we're happy to have conversations and  
2 to communicate those and to put you in touch with  
3 anybody else within the agency that you'd like to  
4 discuss those with.

5 MS. GARRETT: Thank you very much. Thank you.

6 (Whereupon, at 1:29 p.m., the meeting was  
7 adjourned.)

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PROOFREADER'S CERTIFICATE

In the Matter of: SEC SMALL BUSINESS ADVISORY COMMITTEE  
MEETING

File No: OS-0402  
Date: Thursday, April 2, 2020  
Location: Washington, D.C.

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

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I, Kevin Carr, reporter, hereby certify that the foregoing transcript is a complete, true and accurate transcript of the matter indicated, held on \_\_4/2/2020\_\_\_\_\_, at Washington, D.C., in the matter of:

SEC SMALL BUSINESS ADVISORY COMMITTEE MEETING.

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

Date: 4/2/2020

Official Reporter: Kevin Carr