

“Equity Finance: Catalyst for Small Business Growth”

**Testimony of
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Before the

**Subcommittee on Economic Growth, Tax
and Capital Access
Committee on Small Business
United States House of Representatives**

**The Honorable Joe Walsh, Chairman
The Honorable Kurt Schrader, Ranking Member**

Testimony – House Small Business Committee
10:00am, April 19, 2012
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Chairman Walsh, Ranking Member Schrader and members of the committee, thank you very much for the opportunity to discuss crowdfunding and how it can function as a part of the solution to the small business funding crisis in the United States.

I'd like to begin by thanking the members of this committee and the House at large, for their bipartisan and overwhelming support for crowdfunding as part of the JOBS Act that The President signed on April 5th. It was a great testament to the willingness of both parties to work together in support of small businesses and entrepreneurs, which we all know are America's economic engine. When entrepreneurs have access to capital to grow their organizations, it translates into new American jobs and American innovation.

My name is Jason Best and I am an entrepreneur who has been part of the executive management team of Kinnser Software that has been ranked as one of the 500 fastest growing private companies in the US in 2010 and 2011. I am also co-founder of Startup Exemption. Startup Exemption was formed to advocate for the legalization of equity-based crowdfunding. I and my co-founders Sherwood Neiss and Zak Cassady-Dorion saw first hand the realities of the capital formation crisis and in January 2011, we created a proposal to update securities laws that were written almost 80 years ago, to enable crowdfunding to take place. We began working with the House on our ideas, and thanks to the collaborative leadership of the House, Senate and The President, crowdfunding has become law.

Now the SEC has begun its 270-day rulemaking process and I appreciate the opportunity to share my perspective on what this means for the small business community and what I would respectfully suggest this committee, and the House, consider between now and the conclusion of this rulemaking period.

Crowdfunding will enable organizations to use SEC regulated Web sites to raise modest amounts of capital from large numbers of regular Americans. In exchange for that capital, these small businesses will issue equity or debt securities. If we think of the Internet as Web 1.0, and the rise of Social networks like Facebook and twitter as Web 2.0, this legislation creates Web 3.0. Web 3.0 is when the social Web meets capital formation. Finally, we are able to harness the power of social networks, communities of geography and communities of interest to build businesses that create jobs and innovation.

I live in San Francisco, California where venture capital and angel investors are plentiful. The same can be said for places like Austin Texas or New York City. How will crowdfunding benefit companies in these places? Crowdfunding will become an

option for some early stage businesses that need to establish “proof points” with professional investors that the management team can execute and that there are markets for its goods or services. Mr. Chairman, we believe that companies may use crowdfunding as an “onramp to professional investment” from angel investors and VCs.

But what about places like Natchitoches, Louisiana where I grew up or Arnold, Nebraska where my family first settled in this country? There are great ideas, talented entrepreneurs and hard working small businesspeople in towns like these all across the country. Many of these individuals have no access to venture capital or even bank loans. Many main street businesses may never fit into the typical venture-backed business model but may be good investments for individuals in that community. Now, crowdfunding can provide these businesses and entrepreneurs to chance to raise capital from their communities. Soon a dry cleaner could crowdfund to add much needed equipment, or a restaurant, to open a second location. While crowdfunding alone cannot solve all capital formation challenges, it may provide benefits to many businesses.

But Mr. Chairman, there is still a great deal of work to do over the next 256 days of rulemaking at the SEC. As The President noted during his signing ceremony, the crowdfunding industry has come together to explore the creation of a Self Regulating Organization. This group’s goal is to collaborate with the SEC in providing oversight, education and investor protection for the industry. The fourteen crowdfunding companies and industry experts that created this group have already begun this work. Mr. Chairman, as the interim spokesperson for this group, I ask for this committee’s help in ensuring the SEC can complete its work within the 270 days called for by the JOBS Act. The crowdfunding industry has committed to do all it can to create an orderly market with investor protection, investor education, transparency and data to demonstrate that this market can and will create jobs, innovation and successful companies. Please help us as we collaborate with the SEC to create rules that enable this industry to thrive.

Thank you Mr. Chairman and I look forward to questions from this committee.