# FINANCING AMERICA'S SMALL BUSINESSES: INNOVATIVE IDEAS FOR RAISING CAPITAL

## HEARING

BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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# CONTENTS

## OPENING STATEMENTS



## WITNESSES



## APPENDIX

# FINANCING AMERICA'S SMALL BUSINESSES: INNOVATIVE IDEAS FOR RAISING CAPITAL

**THURSDAY, JUNE 6, 2013**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS,
*Washington, DC.*

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building. Hon. David Schweikert [chairman of the subcommittee] presiding.

Present: Representatives Schweikert, Chabot, Clarke, and Chu.

Chairman SCHWEIKERT. All right. Let us convene this oversight hearing of small business.

The Committee members will all have opening statements, and I ask them to submit them for the record.

I would like to take a moment and explain the timing lights, just so as we are going along, green, you are fine. Yellow means talk faster. Red, please stop. We will actually be handing out five minutes of testimony time and then we will actually just engage in discussions.

As typical, I have my written opening statement but want to say just for expediency, there is probably no hearing I have looked forward more to than this one. Having met three of you, having read all of your successes and your bios, you are an interesting group. I believe you are doing really special things for our economic future and the economy. Where does technology take us and give us opportunities to actually, give everyone that fighting chance to be able to participate in taking a risk but also receiving the rewards for that risk. Each of you have carved out sort of special, unique spots out there.

As you are doing your testimony, and as we are also engaging in the questions, it is not only telling your story but share with us where government has done things that work, but also where our regulatory environment, and those of us in Congress either did not understand or we have created blocks—statutorily, regulatorily—on where you think you could take sort of this egalitarian access to capital. Because that is what this is really about. It is really about helping that small business, those sort of small entrepreneurs that want to move and grow, and provide jobs and help all of us in this society and economy.

Ranking Member Clarke.

Ms. CLARKE. Thank you, Mr. Chairman. And I thank all of our witnesses for being here today. I think you have really set the tone for today's hearing.

For the past two years, our nation's economy has experienced positive and steady private sector job growth, adding about 4.8 million jobs during that time. However, these gains have not been enough to overcome our nation's above average unemployment, which currently stands at 7.5 percent minority unemployment for African Americans and Latinos, while retreating remains at 13.2 percent and 9.2 percent, respectively. So while we are moving in a positive direction, we still face challenges in fully putting America back to work.

Creating nearly two-thirds of all new jobs, our small businesses must remain front and center to our recovery. For our national economy to experience a more robust recovery, our entrepreneurs and small businesses must play their traditional job-creating role, and for that they must have access to capital.

Four years after the financial crisis effectively froze the credit markets, entrepreneurs and small businesses are still facing challenges acquiring funding through traditional avenues. Increasingly, entrepreneurs are turning to crowdfunding and other innovative funding methods to finance their ventures. These include using the Internet to reach accredited investors, creating peer-to-peer lending platforms, and applying old lending models and new ways to address the issue. Congress passed the Jumpstart our Business Startups, or JOBS Act, in 2012, to overhaul SEC restrictions on crowdfunding and small, public stock offerings. Once the SEC publishes its final rules, this law has the potential to unlock an untapped network of millions of investors to small businesses and entrepreneurs seeking capital.

The SEC has faced challenges in the past, balancing capital-raising needs of small businesses with the need to protect investors with limited wealth and financial market knowledge. They are now in a difficult position of creating the framework for a new finance regime that has the potential to be easily exploited without proper oversight and regulation. It is important that the SEC work quickly, though not hastily, to finalize crowdfunding rules. Rushing to publish rules could overexpose investors or lead to an unworkable system that shuns market participants.

In today's hearing, we will discuss the new and innovative ways small businesses are raising capital and how implementation of the JOBS Act will affect lending to and investment in our job creators. While the outcome remains uncertain, we must remember that it is virtually important that the SEC strike the appropriate balance between investor protection and producing a functional system that provides the capital for small businesses.

So I look forward to all of your testimony here today, and I thank you for your insights. And I yield back, Mr. Chairman.

Chairman SCHWEIKERT. Thank you, Ranking Member Clarke. I was going to ask Mr. Chabot to introduce Ms. Sullivan.

Mr. CHABOT. Thank you very much, Mr. Chairman. I appreciate that.

Today, I am honored to introduce Michelle Sullivan, who is the senior director of Communications and External Affairs at the Boston Beer Company. Now, I do not represent Boston; I represent Cincinnati, but the Boston Beer Company is actually in Cincinnati. I know it is a little confusing. Ms. Sullivan is here to discuss the brewery's signature philanthropic effort, and that is Samuel Adams Brewing the American Dream. She worked hand-in-hand with Sam Adams's founder, Jim Koch to engineer this innovative approach to small business lending and development. As her testimony this morning demonstrates, their program really does work.

The city of Cincinnati has a rich history of craft breweries dating back to the pre-prohibition era. In the mid-'90s, the Boston Beer Company moved to Cincinnati and breathed life into one of those breweries which still operates today; very successfully I might add. A craft beer renaissance is taking place in hometowns like mine back in Cincinnati, but really all over America. And we have entrepreneurs, such as Jim Koch, to thank for that. And with his innovative approach to microlending, Jim continues to give back to all of our communities.

Ms. Sullivan, I thank you for participating in this hearing, and as we have discussed, and as you have seen, we actually have a Sam Adams barrel top hanging in our office, and on there it indicates the distance between our Washington office and the brewery back in Cincinnati.

I have actually got another hearing, a Judiciary hearing, which has just started also and I have to go over there, so if I could, Mr. Chairman, I am going to go ahead and ask my question now which you can take later on to answer. But it is not every day that we hear about the unique effort that your company has made, so I would just like if you could at some point, discuss what was the inspiration behind the Sam Adams Brewing for American program.

And again, I thank you very much for your testimony here this morning. And Adam Scheidler from my office is here. We will get your transcript and read that, as well as your answer to the question.

Thank you to the other members of the panel for being here as well. Thank you, Mr. Chairman.

Chairman SCHWEIKERT. Thank you, Mr. Chabot.

Ms. Sullivan, five minutes.

**STATEMENTS OF MICHELLE SULLIVAN, SENIOR DIRECTOR OF CORPORATE COMMUNICATIONS, BOSTON BEER COMPANY; ALEJANDRO CREMADES, CO-FOUNDER AND CEO, ROCK THE POST; BEN MILLER, CO-FOUNDER, FUNDRISE; DANAE RINGELMANN, CO-FOUNDER, INDIEGOGO.**

## STATEMENT OF MICHELLE SULLIVAN

Ms. SULLIVAN. Thank you very much for your kind words, Congressman Chabot.

Chairman Schweikert, Ranking Member Clarke, and other members of the Committee, thank you so much for inviting me here this morning to discuss Samuel Adams Brewing the American Dream on behalf of our founder, Jim Koch.

My name is Michelle Sullivan. As the congressman said, and as senior director of Corporate Communications and External Affairs, I am charged, with Jim, for the implementation of this innovative program. I am pleased to be here to discuss that innovative way in which we assist small businesses by affording them access to capital and knowledge to start or grow their businesses.

In 1984, when Jim Koch started the Boston Beer Company, the odds were stacked against him. Flavorful, high-quality craft beer, like Jim's, were virtually unheard of by anyone—beer drinkers, beer distributors, beer retainers, and certainly not bank lenders. After brewing the first batch of beer in his kitchen, he named it after one of his favorite revolutionary war patriots, Samuel Adams. And after trying to obtain a bank loan from numerous banks, he quickly realized the reality of starting a small business went far beyond having a great product—namely a lack of access to capital and the right network of business contacts could prevent a small business from succeeding despite the quality of its product.

Jim began selling his beer bar-to-bar himself in Boston, having had to start his own distribution company in addition to his brewery because all of the wholesalers in Boston turned him down for the opportunity to carry Samuel Adams. He scraped together the funding for his brewery by risking everything personally, taking out a second mortgage, and by raising money from family and friends.

The beer industry has undergone profound changes since those days in the '80s. America's big three breweries—Anheuser-Busch, Miller, and Coors—have been acquired or merged into foreign conglomerates, and indeed, Miller and Coors have merged their operations in the U.S. So this leaves the brewery that Jim started in his kitchen, Samuel Adams, as one of the nation's largest American-owned breweries today. But after nearly 30 years of significant growth, we still only account for just under one percent of the entire beer industry, and the two largest players account for over 80 percent. So in the beer industry, it is still very much a David and Goliath world; that said, we are proud to continue to lead America's brewing community, comprised of more than 2,400 other small brewers in all 50 states, not only in brewing outstanding products and creating jobs but also in our unconventional path to corporate citizenship.

In 2008, working with a team of employees led by Jim himself, we created Samuel Adams Brewing the American Dream. The program has two major components. We host a variety of mentoring and coaching events for low- and moderate-income entrepreneurs, and through our nonprofit partner, Accion, we fund microloans ranging from as little as $500 up to $25,000. Our program serves business owners in the food and beverage industries, including craft brewers, the very industry where we compete and sell in, and the one where we are most able to give the small business owners meaningful nuts-and-bolts advice, guidance, and introductions.

Microloans are a critical component of the program. As you know, there is a serious lack of funding available today to small businesses. It is equally as important to educate inexperienced business owners in the areas of sales, graphic design, purchasing, marketing, hiring, distribution, and other aspects of business that can make the difference between success and failure. And we know it works because we have a 97 percent payment rate on our microloans. As of today, we have disbursed 234 loans totaling over

$2 million; have hosted 45 events nationwide that have attracted more than 3,000 attendees. More than 300 of our Samuel Adams employees have participated in these events as coaches and mentors, and we have saved or created more than 1,400 jobs. So in an odd twist, we have actually created more jobs outside of the Boston Beer Company than inside, and we are proud of that.

When Jim started Boston Beer, he was armed with a great product, the financial backing of family and friends, and a passion to succeed. What he did not have, and the reason he feels so strongly about Brewing the American Dream, were mentors. Jim did not have a network of established business owners whose expertise he could call on. Through this program he makes what he needed that was not available to him available to others; namely funding, nuts-and-bolts advice, and access to mentors. Working with these small business owners is an honor. We are convinced that well-supported small businesses are poised to grow and thrive. They are the engine for future economic growth. They are a source of innovation. They will create jobs. They will be the household names of the next generation. And like Jim Koch, they will realize their American dream.

I want to thank the Subcommittee for allowing me this chance to discuss Samuel Adams Brewing the American Dream, and please let me know if you believe our program can be beneficial in your district.

Thank you again, and I am pleased to answer any questions that the Committee may have.

Chairman SCHWEIKERT. Thank you, Ms. Sullivan.

Ms. Clarke.

Ms. CLARKE. Thank you, Mr. Chairman.

I have the distinct honor and privilege of introducing Mr. Alejandro Cremades. He is co-founder and CEO of Rock the Post, one of the leading investment crowdfunding platforms for startups in the United States.

After one year of development, his team was able to launch the platform to the public on November 23, 2011. In less than a year, the platform was already mentioned by Time Magazine as one of the best crowdfunding platforms in the world, as one of the top 10 digital tools for entrepreneurs by Forbes, and as one of the hottest startups to watch by Business Insider. Prior to Rock the Post, Mr. Cremades worked as a lawyer at King and Spaulding, where he was involved in one of the biggest investment arbitration cases in history. Mr. Cremades guest lectures on crowdfunding and entrepreneurship at NYU Stern Business School and at the Wharton Business School. And I want to thank you for being here today and we look forward to your testimony.

Chairman SCHWEIKERT. Thank you, Ranking Member Clarke.

Five minutes. And help us. Let us get our pronunciation of your last name proper. How should we be saying it?

Mr. CREMADES. It is Cremades. Either way is fine. I am used to it. It is okay.

## STATEMENT OF ALEJANDRO CREMADES

Mr. CREMADES. Thank you so much for the kind introduction, Mr. Chairman, and other members here present today. I am particularly interested in sharing my thoughts and experience with regard to the difference that crowdfunding is already having at its early stage on small businesses in the United States and the positive impact that services, like Rock the Post, provide.

According to a Kauffman report, new firms add an average of three million jobs in their first year, while other companies lose one million jobs annually. Unfortunately, 65 percent of the new firms go out of business within the first four years, due mainly to lack of access to capital. Traditional methods of financing are very limited. Out of six million businesses that launch every year in the U.S., only 400 of them get venture capital money. The rest rely on angel investors, which represent less than one percent of the U.S. population, or friends and family. With equity crowdfunding offered via services like Rock the Post, startups are able to gain exposure in front of thousands of investors; obviously, right now, accredited investors. In the offering world, startups take on average eight months to close a seed round. Via Rock the Post, startups and small businesses fundraise their round between 60 or 90 days with minimum road show instructions. Success stories, like Villy Custom Bicycles, a Shark Tank-backed company with high-profile investors, like Mark Cuban and Barbara Corcoran, raised their funding goal in just two weeks alone on our platform; Musicx.fm, a little over a month.

Rock the Post's crowdfunding platform not only helps entrepreneurs to gain access to funding, but also reduces the fundraising time significantly, which allows them to focus on growing their business, which is the most critical factor for the bottom-line. However, we are operating under a lot of restrictions, which makes it challenging to truly innovate and pioneer this new industry. The general public solicitation rule is the most difficult challenge to overcome.

Secondly, the fact that only accredited investors are allowed to make investments is also a big obstacle. Even though the law allows up to 34 unaccredited investors per offering, we feel that the amount of disclosures required to comply with this exemption kills the attractiveness for platforms like Rock the Post to be able to get involved. Not to mention, the burden entrepreneurs are faced with in providing additional disclosure materials. Allowing nonaccredited investors to partake in private offerings will open the door to over 300 million Americans in comparison to the seven million accredited people that have access to use Rock the Post today as investors.

With that being said, I believe that we are far behind, and every day that passes by without the JOBS Act being implemented is another day that startups need to fight for survival. Pandora, the online radio, for example, of which I am sure many of you have heard, was rejected over 300 times from financial institutions, and thank God they did not give up on their business.

I invite you all present in this room here today to create a unified voice in order to reduce the delay of the JOBS Act implementation. There are many cases like Pandora out there, and unfortunately, many of them end up giving up in the process.

Thank you all for listening, and I will be more than happy to answer any questions that the members might have.

Chairman SCHWEIKERT. I truly appreciate that opening statement.

Ben Miller is cofounder of Fundrise, a real estate-based development company based right here in the Washington, D.C. area. Ben co-founded Fundrise, with his brother Daniel, as a way to involve members of the community in real estate development. In addition to being cofounder of Fundrise, Ben also serves as managing partner of Westmill Capital and president of Western Development Corporation. And you went to University of Pennsylvania.

Ben, five minutes.

**STATEMENT OF BEN MILLER**

Mr. MILLER. So I deeply appreciate the opportunity given to me.

My name is Ben Miller, and I cofounded a company called Fundrise. And what Fundrise does is crowdfunds real equity into real estate. And so we are actually, technically, equity crowdfunding today 10 blocks from here on Eighth Street NE. So any resident in Washington, D.C.—you can be accredited or unaccredited—can invest at $100 a share online through Fundrise right now.

And so I think the reason I was invited is that we are actually crowdfunding. We are doing it now. We have a good sense of what it means and what it took to do it in the current regulatory environment. And obviously, there were some challenges, so I will quickly tell sort of how we did it and what we learned.

So briefly, my background is real estate development. I built a lot of large scale, multi-hundred million dollar properties in the D.C. Metro area, such as Gallery Place at 7th and H. But the problem is institutional capital does not understand emerging neighborhoods. I have Mass Mutual, Cornerstone, Angelo Gordon, AFL-CIO as our equity partners, but if you look at Brooklyn, Bushwick, L.A. Arts District, 8th Street NE, all across the country these emerging neighborhoods really do not get the attention of institutional capital, even though that is really where the growth is, especially from the millennial generation.

And so we decided to raise money from people instead of institutional capital, and sort of reconnect this disconnect in real estate. To do that, that was very challenging. We actually ended up hiring former deputy director of the SEC to help us navigate through the SEC and local regulators to figure out how do you equity crowdfund with the existing regulations? We did that using something called Regulation A. I think we were one of only two or three people last year who cleared the SEC using Regulation A, and we raised $350,000 from 175 people. And it took us about three months to do that online. We have an offering live today. I think we had $250,000 in a few days on the next public offering, so you can see how quickly once you start doing it people want to do it, and I watched family and friends and wives start to do follow-on investments from the first offering.

So the offering took us nine months to get through the SEC. It cost us far and above $100,000, and the final offering was hundreds of pages and actually weighed 12 pounds. And we have done multiple Regulation A offerings now, and so I have a good sense of what it is. And I would sort of say that I was lucky to have good local regulators in Washington, D.C. and Virginia, because the process was very ad hoc. They were really looking at me. This was a novel idea, selling shares of a real estate property had never really been done online before, and so I was lucky that I worked with them, but if I had not had the depth of resources and the staying power, I do not think that would have been possible for most small businesses, most community development organizations.

And so I would say that sort of the basic takeaway is that you can invest in a Japanese manufacturing company today, but you cannot really invest in your own community. Short of this is no feasible way other than what I am doing for communities to invest in themselves. And I have seen we are now operating—we are in L.A. We are in New York, actually, working with Third Ward in Brooklyn. Quasi Foundation just gave us a grant to launch in Detroit. So we are seeing a lot of communities wanting to reinvest in building their own communities, not looking for some outside sort of Wall Street capital to solve their problems.

But I would say it seems like two big takeaways from doing this are, one, that I understand that there need to be safeguards for investor protections, but I found personally putting offerings out there publicly, generally soliciting because we filed with the SEC and letting anybody invest, the public was a very tough critic. I had hundreds of questions from the SEC, and I got thousands of questions from the public. And I have real estate analysts from the largest companies in the country invested in our deals, underwriting them, asking us questions. And so I found personally the public was sophisticated. There was not willy-nilly, you know, funding of investments online. They were really asking tough questions and wanted to understand what they were investing in.

And the second really big takeaway I found was the SEC and the local regulators really were not designed to do what I did. This idea of small capital formation is not their primary mandate. They did not have the staffing I think in the funding to really do that, and I think we should, if possible, maybe the private sector and public sector come together and look at funding and institutional supports that could make maybe that possible or better fund institutional, let us say, institutional staffing that small business administration maybe would normally do for our sector.

Thank you.

Chairman SCHWEIKERT. Thanks, Mr. Miller.

Our last witness is Ms. Ringelmann. She is the co-founder of a crowdfunding portal, Indiegogo. Through Indiegogo, businesses, individuals, and small organizations are able to fund or raise funds through donation-based crowdfunding. Prior to co-founding Indiegogo in 2007, Ms. Ringelmann worked in finance as a securities analyst with Cowen and Company. Danae——

Ms. RINGELMANN. Danae.

Chairman SCHWEIKERT. I always get this wrong.

Ms. RINGELMANN. Danae.

Chairman SCHWEIKERT. Danae.

Ms. RINGELMANN. No problem. It rhymes with Renee.

Chairman SCHWEIKERT. Rhymes with?

Ms. RINGELMANN. Renee.

Chairman SCHWEIKERT. Okay. Danae holds an MBA from the Haas School of Business and a B.A. from the University of North Carolina. I will disclose she also runs one of my favorite sites.

**STATEMENT OF DANAE RINGELMANN**

Ms. RINGELMANN. Thanks. Well, I am happy to be here, everybody. Thanks for having me.

Yes, my name is Danae Ringelmann. I am one of the founders of Indiegogo. We are the largest and global perks-based crowdfunding platform. We do not limit our platform to any geography or industry, so we are in every country of the world and every industry. So everybody from the arts, like filmmakers and musicians, to charities and nonprofits can use Indiegogo, to entrepreneurs and small businesses, which is why I am here today. We are also distributing millions of dollars every single week now to campaign owners across the world, so it is working.

I am talking here today though about Indiegogo's meritocratic approach to crowdfunding and perks-based crowdfunding, as well as what we think the benefits, the larger benefits beyond money are to both small businesses here in America, as well as the greater economy.

But first, as a way of background, I wanted to introduce myself and talk about how I came to this. I actually met my co-founders back in 2006. We came together before the word "crowdfunding" even existed in our vernacular out of a mutual frustration for how unfair and inefficient fundraising was. I, myself, am the daughter of two small business owners, who struggled for 30 years to keep their business going and get a loan, and not once could they actually get a loan despite growth. Why? They did not know the right people. They did not have the right connections. So when I graduated from college, I went into finance to understand how this world actually worked, and I actually met failure myself. I started working with some theater producers and filmmakers on the side, trying to help them raise money the old fashioned way, and I had this culminating moment where I failed in security investment for a theater production despite audience engagement and response and enthusiasm for this production to get off the ground. And it was in that moment that I realized that the people who wanted this play to come to life the most, which were the actors and the audience, did not actually have the power to make it happen. They were relying on a third-party gatekeeper who had different interests.

So at that moment I said, all right, here is my new life. I am going to quit finance and I am going to go back to business school and start a company that was going to democratize financing. And that is where I met my co-founders, Eric and Salva, who themselves had faced frustrating challenges with fundraising—Salva for raising money for cancer research and Eric for the arts—and together we started and created Indiegogo, which is now empowering millions of people across the world to fund what matters to them.

So specifically, with perks-based crowdfunding it is a little different. The way it works is you create a campaign page on our site. You set a funding target. You set a funding goal, a funding deadline, you put up a video, and then you share it with everybody that you know. The reason why crowdfunding is different than online fundraising though is that Indiegogo offers extra amplification through social media integration, as well as through our go-go factor promotion, to allow you to reach more audiences beyond your inner circle—to your second and third order friends, as well as strangers. I can talk a little bit more about go-go factor a little bit later.

So you might wonder, well, why are people funding if they cannot get equity, if they cannot invest, if they are just getting a perk? And our research has actually found that there are four reasons that people fund. We call them the four Ps.

People. People want to support the people or team behind a project.

Their passion. They want to support the passion or project itself.

The third reason is participation. They want to be part of something bigger than themselves.

And the fourth reason is the perk. And we find that typically, people fund for a dynamic number of reasons, so a cross section of the four at any given time.

For example, I recently funded a campaign for an app called "Not Buying It." It is an app where you can take a picture of a piece of sexist media out in the world and upload it to Twitter. And if everyone is uploading it, it creates pressure for the advertisers to change their media. The reason I funded it is for all four reasons. I supported the project owner, Jennifer Sebold Newsome. I supported the project. I supported the movement to stop the objectification of women, their sexism in the media, as well as I wanted the perk itself.

So a lot of people think crowdfunding is about just money—it is a new and alternative form of financing—but there is actually a lot more to it than that, and there are people who actually use crowdfunding not just for the money but for the other benefits. Specifically, for small businesses, there are four benefits. There is market validation. There is risk mitigation. There is customer feedback. And there is confidence building that happens. With market validation, what is happening is that people are voting with their dollar, and so it is a far better indicator of interest than any focus group or Facebook like button could do. With risk mitigation, a lot of product designers and entrepreneurs are using crowd-funding as a way to mitigate the risk of overproduction or underproduction of their first run of product, because what they are doing is they are offering their perk in exchange for funding, and therefore, they fund and make the exact amount of product that they need to do to get off the ground.

The third reason is customer feedback. We had a campaign owner by the name of Sonny Vu, who had created an activity tracker and he had actually raised money from venture but he still used crowdfunding as a way to get off the ground because he wanted to become smarter faster. He used the crowdfunding as a way to test his pricing and his messaging and his actual features and learned that people wanted a certain color of his device more than another color and they were willing to pay actually more for it all through the crowdfunding campaign.

The third reason is—or the fourth reason is confidence. One of my favorite reasons I think that people use crowdfunding, and a great example of this is Karen, who started a bakery business called Free Bread. It was her first business. She lacked the confidence to get going, and so she created a campaign to raise $10,000 to launch her bakery business. And she knew that if she failed she would be back in the same place that she was before because it was always a dream of hers to start this business. And within a few weeks she had the money, and she sent us a note saying, you know, when this started to happen, I started to raise the money, my life actually started to change. So there are lots of reasons.

On the economy side, and the greater kind of financial industry side, there are also benefits. The first is meritocracy. Like the other panelist said, when every day ideas go unborn, every day ideas die because they are undercapitalized, because of the lack of efficient access to capital. And so crowdfunding is making it efficient and thereby creating this incubation platform for traditional investors to actually discover product and businesses based on their own true merit. And so that is what I think are the greater benefits. And I am happy to go further into that.

The third benefit there is jobs, of course, and I will end there so that we have time for questions.

Chairman SCHWEIKERT. Thanks, Danae. You had said you would probably go long.

Ms. RINGELMANN. Yes, I did.

Chairman SCHWEIKERT. As chairman, I am going to give myself five minutes, but—this is one of those moments where I could probably grab all of you for hours because this is an area I have great interest in.

I am going to start with Mr. Miller. You and I have had the conversation, technically, you are not doing crowdfunding as we saw it in the JOBS Act. You are right now having to use the Reg A mechanics and do SEC filings, and you can also only take nonaccredited investors within the jurisdiction, so within the state or D.C. area, that have been given approval. Tell me how much paperwork goes with these filings. Tell me what limitations you are having to operate under right now.

Mr. MILLER. So there is a lot of paperwork. I mean, the good news is that we have now done it a number of times and we are focused on real estate, so we have—I mean, real estate as a product has a lot of similarity to building my building—a lot of the same risk factors. I mean, I know that a normal public company, like Facebook, it took them three months to go public, and I know it took us nine, and we raised, I think, $350,000 in this time. Now, we are raising another $325,000 for another property, and I think most public companies raise billions. So I feel like there is an asymmetry there that the JOBS Act can help address.

The paperwork is actually less of a challenge in terms of I think that there is just—I do not think that there is anybody inside the SEC who really has the mandate for regulation A. I mean, it was really underused and I am going to bet you that that same sort of problem will happen when you start seeing potentially thousands of other small issuers raising money. And so that is going to require staffing up an organizational focus, and a lot of times I will have a comment in from the SEC. The comment will be, you know, something pretty small, something about maybe what does this footnote mean on the account? And it will take weeks; weeks, really, to hear back about a footnote in an audit statement.

Chairman SCHWEIKERT. How many pages of paperwork were in your first filing?

Mr. MILLER. Something like 350 pages. A lot. But you go back and forth. I mean, ultimately, a file, it is really an integrative process so it was a lot of disclosure.

Chairman SCHWEIKERT. Okay. Mr. Cremades, you, in your testimony, or in your opening statement, were actually having the discussion of a couple things. One, right now you can only have accredited investors participate. So it is only a small fraction of our nation's population. How different do you think your world would look if we actually had the JOBS Act, the SEC rule sets done, where unaccredited could start to participate? What difference do you think that makes in how you would run your shop?

Mr. CREMADES. That would make a huge difference because right now we are restricted just to a certain amount of people in the U.S. and our platform is kind of like closed doors, you cannot really have access to any offering or any terms on any offering unless you are an accredited investor. Once the JOBS Act is implemented, then we have the possibility of being able, you know, especially when the general solicitation rule is revised, we have the possibility of converting Facebook likes or Tweet shares into investors really, you know. And instead of having really that limitation towards seven million people really, we can access over 300 million Americans. And there are going to be different levels of investors. Obviously, you have the high-net-worth individuals, which are considered angel investors today, people that are making over $200,000 on salary or have one million in assets or that are making with their spouse 300,000 combined, but then you are going to have the other two different types of investors which is one, the one that is making over $100,000. The JOBS Act establishes a limitation there of 10 percent, where they can invest only 10 percent of their income, so it is not like, you know, like in the casinos, for example, here in the U.S., people are spending 45 billion without any type of limitation. So also, the other different type of investor that we are going to have is the one that is making under $100,000, and that the profile of investor is going to have a limitation of five percent of their income. So it is a huge impact what is going to happen when the JOBS Act is implemented.

Chairman SCHWEIKERT. Okay, Danae, just off the side of this we have had a conversation. I have tried to share this actually very publicly that I believe what we have done in the way we have written our rules is we have sort of split our society. We often hear the discussion of the haves and the have nots, but in many ways we have done that with our financial rules. We heard the comments earlier, that, 118 million Americans—or 318 million Americans and only seven million can actually invest with you right now. We treat the other 300 million of our brothers and sisters as sort of a second class citizen in their ability to participate. I know there is often fear of if we move to an equity-based crowdfunding. But at

Indiegogo you have built fraud detection technology into your platform. Can you share some of that with us?

Ms. RINGELMANN. Yeah. So when we started Indiegogo, it was very important to us to stay true to our mission, which is to empower people to fund what matters to them. And in order to do that we needed to be open and not curate, so we do not just pick and choose people to be on our site. We do not pick and choose who we promote. That is all done meritocratically. So everyone has an equal chance of success. So with that though, when you are an open site, you are open to people potentially taking advantage of the site in a way that it was not intended. And so we have been aware of that since day one, and over the last five years we have pioneered and innovated around that risk specifically. I actually remember the day when I was trying to look for any regulation that existed to follow, and there actually was not anything out there. I did not fit into any specific box, and so I said, well, let me just pull from best practices of adjacent industries and let us go at it.

And so what we ended up doing was really trying to understand where fraud could come from, and over the last five years we have built a system to fight that. So we really fight fraud in three ways. The first is easy. It is the natural dynamics of crowdfunding are a natural deterrent to fraud in and of itself because when you are raising money from a lot of people, you need to convince a lot of people to give you money. And we know successful campaigns start with the people that they know first. The early funders in are always the people that know you the best, and then through crowdfunding you can amplify it beyond that to strangers. So just the natural way that crowdfunding happens is a great way to prevent people from going onto the site and trying to raise a bunch of money for something that does not really exist.

The second way is our fraud systems that we have built. We have built proprietary fraud detection and trust and safety systems that is constantly learning and evolving because we are applying machine learning and all kinds of the latest in data science to get smarter, faster. I would probably say that one day our system will probably be better than any, and it is better right now than any manual process.

And then the third is we just follow other platforms, like eBay and PayPal and we use a community policing site—excuse me, a community and policing approach where people can flag campaigns if they look suspicious. But that is three layers on top of each other that have kept our fraud rates far below one percent, and it has enabled us to keep this an open platform and really provide a meritocratic place so that we are not judging and picking and choosing who has the right to raise money, but the world does.

Chairman SCHWEIKERT. And I want to touch on that one bit and then I have one quick question for Ms. Sullivan, and then I will pass to Ms. Clarke.

Less than one percent?

Ms. RINGELMANN. Far less.

Chairman SCHWEIKERT. That somewhat surprised me when I came across it because you allow almost anyone. I mean, I think you have something up right now to save a horse and to fund a bakery, I have to buy an ad. I mean, you have everything from business ideas to social ideas to, you know, save a large animal.

Ms. RINGELMANN. Yeah, we just had—and because of everything going on in Turkey just three days ago, three Turkish Americans were so bothered by what is going on they put up an Indiegogo campaign because they could get started right away, and they have raised almost $100,000 in just the last three days to buy an ad in the New York Times to help change the conversation about what is happening in Turkey.

Chairman SCHWEIKERT. Which surprised me because, from the mechanics of it.

Ms. RINGELMANN. It is democracy.

Chairman SCHWEIKERT. Well, you are so egalitarian. And I can put up literally everything, but yet you seem to have very, very little bad actors.

Ms. RINGELMANN. Because we pull it down ASAP. Like, right away. It is all automated and systematized. So we catch stuff faster than a human being can do because we are a data driven, Silicon Valley type of startup where we rely on data and analysis and machine learning to catch all that stuff. And we are going to continue to evolve there. We are going to continue to innovate there.

And I guess the point that is probably worth mentioning is that we did that not because we had any law to follow or any regulation that we had to abide by. I was, in fact, looking for those when we were just starting six years ago, but because, again, we were creating a new industry, we did not fall into any boxes. But the reason we did it though is because we wanted to stay in business. You know, we wanted to have a safe and clean site for our customers because we knew that the 99.9 percent of people who were coming to our site to use it in the way that it was intended would not want to come to our site if they saw or had fraudulent activity. Plus, we did not want to lose money because if there is fraud on our site, we pay for it, not our customers.

Chairman SCHWEIKERT. Thank you, Danae.

Ms. Sullivan, now, you are sort of the unique one here in what you are doing because in many ways you are actually a small entrepreneur microlender. Help us understand a little bit on that same sort of discussion of, how do you maintain your repayment rates? Because in many ways when they repay, you have the opportunity to invest in the next little business and growing concern. I mean, how have you built that model to keep it going?

Ms. SULLIVAN. Yes, that is a great question, Mr. Chairman.

I think there are two components to that. One is certainly in the screening process, and Accion as our partner, over decades of microlending, they have developed a successful system of screening potential applicants. For those who have the credit score, the drive, the passion, to really succeed in their business, one of the facets that is unique to what we do is that unlike a bank, if a person with a great idea and a real drive and passion to succeed in starting or growing a small business is not qualified for a loan at that point, we will work with them through Accion to help the entrepreneur actually become loan ready. So unlike a bank, you are not told yes or no; you are told not yet. And we are able to actually help those folks who are really dedicated and willing to stay with the process, stick with it until they are able to get their loan. So there is a very robust screening process in the beginning that Accion has piloted. Some of that does involve intangibles, you know, like the person's character and how much drive and motivation they have, which we find is actually quite helpful in looking at a business. A small business is not just what can be found on the paper. It really is the person, the entrepreneur who is behind it that in many ways is going to cause it to succeed or fail. So we do have a robust upfront process, but I would say even more importantly and unique to that is the coaching and mentoring that we offer. As many entrepreneurs would tell you, the day that they receive their funding, they look at themselves in the mirror and they think now what. So for us to be able to work with those folk who have a wonderful idea, a great product, but are not expert in the other aspects of running a business, such as sales, for example, you could have a wonderful product, but if you are unable to convince a retailer to sell that product to customers, then you are not going to succeed. So we work with them hand-in-hand and in any aspects of coaching or mentoring that the business owner needs to succeed by pairing them up with Samuel Adams employees who have that expertise.

So if you are in Brooklyn, and we have several beneficiaries in Brooklyn, and you would like to work with one of our sales folks in New York City to coach and mentor you as to how to sell your product to retailers in New York City, we make that available to them, and we have found that it has worked. I mean, we have been able to partner with many of the entrepreneurs in selling their products into the smallest of the small neighborhood grocery stores, all the way up to wonderful chains, like Kroger and Whole Foods, for example. So they may have a wonderful product, a great idea, the drive and the passion, but what we give them are some of the skills, such as selling, or hiring, or procuring ingredients, things that are very difficult sometimes to attain on your own.

Chairman SCHWEIKERT. Thank you.

Ms. Clarke.

Ms. CLARKE. Thank you, Mr. Chairman. This panel has really provided some fascinating information in today's hearing. I just wanted to sort of go down because each has such a unique way of going about providing these opportunities and start with Mr. Cremades.

It has been estimated that only three percent of accredited investors are investing in startups and small businesses. In your opinion, is the lack of participation the result of current SEC regulations, the inherent risk of startups, or something else entirely?

Mr. CREMADES. With all due respect, I would like to argue that the point from 2011 to 2012, the angel investors in number increased 59 percent from 200,000 to 318,000. And also, I would like to say that the amount that has been invested has also increased 43 percent. As a matter of fact, it went from being a $15 billion market, really angel investors investing in startups, it went all the way up to 22.1 billion in one year alone. And in addition to that, I would like to say that people, especially investors, are disappointed with the returns that they are seeing on the public markets really investing in startups. Obviously, it is risky, but especially these individuals that are high-net-worth individuals, for them just really putting eight percent of their portfolio into these types of investments, it really is not that much. I think that not only you are investing in a company, but also you are being part of something. And that is the most important part of this.

So back to your point, I would like to say that the times are changing. I think that people are slowly getting educated at the same time, and the industry is definitely growing from every perspective.

Ms. CLARKE. And just as a quick follow-up to that, do you believe that it is important that new regulation and policy be driven by the practical application of what your investors are doing? Because this is sort of unchartered territory, which is why you are, I think, running into the obstacles that you see. We are trying to fit your model into existing frameworks that really are not applicable. What would you say from your vantage point would be a good approach to I guess unleashing and creating the space for the development of the model that you have established?

Mr. CREMADES. So for us we do not rely on what is going to happen with the JOBS Act or on what the SEC is going to come out with, if they are going to have special vetting mechanisms that are going to apply for the crowdfunding industry and the platforms, the funding portals that are going to be operating. We do strongly believe that platforms, especially now at this point, they should all take reasonable measures and also responsibility and accountability for developing the appropriate systems so that they can provide the best services for the angel investors and also for the startups that in the end really somehow contribute to that investor protection.

So as a matter of fact, on Rock the Post, and it was funny that we touched on this point earlier, we also do have identity verification systems and social proof mechanisms that help to conduct the due diligence better between the entrepreneur and the investor, and we do backgrounds on every single individual. So I do believe, back to your point, that it is important for the platforms to take accountability and not to rely on the public institutions.

Ms. CLARKE. Thank you very much for your response.

Mr. Miller, investing in a small business can be very risky. Even the most sophisticated investors occasionally make bad decisions, losing their investments in the process. Easing SEC regulation and reporting requirements for crowdfunding securities as required under the JOBS Act will therefore expose tens of thousands of investors to increased risk. In your opinion, how can the SEC adequately inform ordinary investors of the risks while not burdening small businesses and restricting access?

Mr. MILLER. So what surprised me and what we have been doing is what a lot of large companies, in real estate, at least, have started doing what we are doing. We are using Fundrise. We are working with Four City, which is a $11.6 billion company. Based in D.C., you see most of the major real estate companies now starting to do this, and the reason they are interested is that they want the public as a partner. There is enormous value, social value having the public get activated, be part of building their neighborhood, and helping you make better decisions, you get better data. When you go to community meetings, when you go through the entitlement process, when you go get maybe a liquor license, you have a more representative support for that project, and so I think that the idea that crowdfunding is only going to be small businesses that are risky is actually a misnomer. I have actually seen a huge diversity of players interested in using this kind of new tool, this sort of new innovation that makes it possible to create sort of an equity in who is building your city, who is investing in it, sort of who owns your environment. And so what I have seen also, and I think everybody here is talking about this, you know, it is our lifeblood to make sure that there is quality offerings on the platform. I mean, it is a disaster for there to be fraud or even failure just from normal entrepreneurial processes. So, you know, everybody is focused, anybody who is building a platform and investing millions of dollars is going to be focused on that, and I think has a deeper expertise, for example, in real estate or underwriting breweries, for example, then maybe the regulators do.

Ms. CLARKE. Just a follow-up to you, can you elaborate on the challenges that you have faced with traditional capital with regards to these emerging neighborhoods that you are applying your technologies to?

Mr. MILLER. Yeah. I mean, I take a perfect example. There is a developer in L.A. He bought a 450,000 square foot project in downtown L.A., and the institutional capital partners said downtown L.A., we do not want to invest there. It is tired. It is really not the future. And he could not raise capital from normal places and basically ended up raising it from a hedge fund. His cost of capital was double, triple really what it should have been. And so this problem—and I am giving an example of this is a problem not that institutional capital is making with small businesses and making with large businesses. They just do not always understand the dynamics of growth in neighborhoods. Usually, they are not local, and so to them Bushwick looks the same as Williamsburg. They are like, oh, that is like the same. Right, but if you live there it is a joke. Right? So I just see that crowdfunding is really a way—over time you will see that there is a partnership between the institutional capital and the crowd. I am already seeing it with big companies coming together, and that is how you will see sort of a new sense of why is this like there is decent underwriting and security. Well, because there are institutional players involved. It is not an either or. It is really going to be about both.

Ms. CLARKE. And then Ms. Sullivan, I wanted to ask about this program. Your program is quite unique. I am familiar with Accion, of course, being from New York, but a larger business, a company like yours in collaboration is a model that we have not seen heretofore. A larger business providing smaller ones in the same industry with professional coaching as well as opening doors to lending opportunities is quite unique. How has the program been received by the food and beverage industry? And has there been interest in replicating the model elsewhere?

Ms. SULLIVAN. That is an interesting question.

I do not think the answer is yes yet. I wish that were true. We would say that the notion of funding those in your industry, you know, other food and beverage companies, is really where we can add the most value. I think sometimes folks will look at them as potential competitors, but from our perspective, our sector, the craft brewing industry is only six percent of all beer sales in the U.S., so we believe that there is room for many other small brewers to come in and join us as a small brewer. There is still so much potential growth. We welcome others to the table.

I do not believe that really this notion of bricks-and-mortar businesses like ours funding others in their space has caught on to a great extent. I am aware that Tory Burch, who is a fashion designer, who designs clothes, has been funding other sort of upstart clothing designers. She actually partners with Accion as well. To my knowledge, we are really the only two manufacturers who are funding other manufacturers in their same space. I would make the case that that is a missed opportunity because we are much better able to provide what I believe to be one of the more critical components of the program—the coaching and mentoring—to people who face the same challenges that we face currently or have faced in the past. You know, from my ability to coach somebody in the real estate industry, for example, is much decreased versus what I can talk to another beverage manufacturer about. So I would say that there is a competitive notion that keeps others perhaps from funding or mentoring upstarts. But I also believe there is a huge opportunity there.

Ms. CLARKE. Thank you. Mr. Chairman, I yield back.

Chairman SCHWEIKERT. Thank you, Ms. Clarke.

Ms. Chu.

Ms. CHU. Mr. Cremades, can you describe the process both small businesses and potential investors must go through in order to access crowdfunded capital through Rock the Post or similar portals? What are the terms or obligations that must be met either as a small business or as an investor?

Mr. CREMADES. That is a very good question. Right now we are operating via Regulation D, Rule 506, and we do this in compliance with a broker-dealer. And the name of the broker-dealer is called Bendigo Securities. And this firm was founded by the former CEO and CFO of E*TRADE Financial. So essentially, what we do is we aggregate the issuers and also the investors, and then they get to do what they do best, which is the backend compliance of the transaction itself. So essentially for the compliance, there is a lot of paperwork that needs to be done before putting an offering on the site. On average, we received—last month I believe we received over 1,300 startups, and unfortunately, since the due diligence is quite heavy on every single one of them, it takes normally on average between two to three weeks to make sure that we can drill down on the terms and also the structure of the company. We cannot take all of them, so it is hard for us really in that sense.

Basically, the process is that we receive the application from the company. Once we receive the application, then we focus on the team and the market. And if we are able to see a compelling story or potentially something attractive, then we would pass along the application to our investment committee. Our investment committee is comprised by four individuals. They have over 30 years of experience in the financial service base. They are all professional angel investors, and they also have over $2.5 billion in acquisitions under their belt, so they are the ones who really take care of the other backend type of the transaction. It is conducted essentially by Bendigo. So once everything is met and all the criteria is in place, then we will go ahead and host the offering on our site and automatically, it becomes available to the accredited investors that are registered on Rock the Post. So that is essentially the process.

Ms. CHU. And once the SEC issues its regulations, is this going to change the investing process?

Mr. CREMADES. Well, obviously, there is going to be a lot of disclosures that are going to have to be done with the JOBS Act. I believe many of you have taken a look at what Title II and Title III really introduce, and there are some heavy obstacles. Like, for example, if you are raising over $500,000, you need to do an audit report of your financials. I think that for being a startup that is quite unacceptable because it is over $50,000 potentially that you are going to have to pay on that. So I think there are many things in the JOBS Act that need to be sharpened up a little bit further because I think that even though the regulators did a fantastic job in putting that out there, I think that they need to really be a little bit grounded and establish friendlier terms to companies that have been in business for a very short period of time.

Ms. CHU. And what type of small businesses seek investments through your service, and what kind of investors are providing funding? And are there certain communities that are benefitting more from crowdfunding?

Mr. CREMADES. So we focus on high growth companies. So it is essentially tech-based, the health care, hardware, and also consumer. So those are the type of verticals that we cover. Essentially, we try to focus on businesses that are going to be able to potentially have a liquidity event in a timeframe of five years so that the investors can get their money back. That is kind of like the end that we are going for with Rock the Post.

Ms. CHU. Okay. And for anybody on the panel, how do your companies reach out to small businesses that are not as technologically savvy or equipped? How are you able to get those, I mean, what are you able to offer the investors in return for the contribution of funds?

Ms. SULLIVAN. In terms of getting the word out about Samuel Adams Brewing the American Dream, we find that the old fashioned way works very well. We actually have teams of volunteers, both Sam Adams employees and Accion employees who do what we call block walking. And they will go from business to business in given communities and spread the word about the program. We also spend a lot of time letting traditional investors, such as community banks, know about the program. So when they are unable to fulfill a funding request for an applicant, they are able to give them an alternative and let them know about our program. And we also work with local governments. So we find that many of our applicants hear about the program through a mayor's Office of Economic Development, for example. So we pursue a variety of means, including going out into the communities and looking directly for entrepreneurs and going through other gatekeepers, for example, like the banks, to get the word out.

We do still find that there is difficulty in getting the word out. One of the challenges we have on the program is actually letting folks know when they are turned down by a bank that there are other means of financing out there, so we also do call on social media and the traditional media to help us build awareness of the program. We have more money to loan than qualified applicants. So we are looking for qualified applicants. We have capital right now that we would like to have out to these businesses but nobody has applied for it.

Ms. RINGELMANN. We use classic marketing tactics from online social media to speaking at events to giving workshops and webinars in education about what crowdfunding is all about, but one thing I should mention is that at Indiegogo we are very excited about equity crowdfunding. We do not offer it right now, but as we look at it and assess it and figure out how we can actually do it and offer it in a safe way, we would be looking to maintain our ethos of being an open and democratic and meritocratic platform. So unlike other platforms, we probably would not want to have a gatekeeper involved. We would not want to have a team of people deciding which people have the right to raise money or which do not because inherent in that is bias. And that is where you run into things like we had a campaign that raised over 110,000 pounds in London for a project called The Cat Café. This is a café where you go and you have coffee and you hang out with cats. I met a banker who said, "That is the craziest idea I have ever heard. I would never loan to that business." And I said, "Well, 110,000 pounds worth of funding just went into it from the people because they clearly want it." And so because of that he said, "Wow, I am clearly wrong. I missed that opportunity."

And so when you have a system that is reliant on gatekeepers, individuals picking and choosing projects, you inherently have bias. So that is why it is also not surprising that on Indiegogo, or sadly in the venture world, only three to eight percent of all venture-backed businesses have a woman on their executive team. If you go to small business, 40 percent of small businesses are run by women in America, which is a much better number. If you go on Indiegogo, 47 percent of all successful campaigns are run by women. That is the power of meritocracy and democracy.

And so if you require us, for example, if the regulations were to come out and you require us to have a person sitting there reading applications, that inherently would be against what we believe in. And so we did not know that when we got started, but in being able to innovate and being in a regulatory environment that allowed us to innovate, we were actually able to come up with a system that is far more fair and far more efficient.

Mr. CREMADES. So I would like to—can I add something?

Ms. CHU. Yes.

Mr. CREMADES. I agree. I think that obviously having a gatekeeper is not the best way to democratize the access to fundraising, but of course, for us as a platform, we want to keep the business open. And if we would not have that gatekeeper, then the SEC would come after us and then we would be in trouble. Obviously, once the job site is implemented, we hope that we can explore other ways in which we could have the platform up and running and basically provide the same opportunities to everyone because that is the main reason why we decided to put this platform in place when we founded the company in 2010, but obviously right now, to be in compliance we need to have a gatekeeper so that we make sure that everything is kosher once it hits the platform.

Ms. CHU. Okay, thank you. I yield back.

Chairman SCHWEIKERT. Thank you, Ms. Chu.

And actually, you had a perfect question because there actually—I am going to yield myself a couple moments here. Let us consider this the lightning round.

That has actually been one of the discussions, is maybe if I am the public and I have a couple thousand dollars but I want to put it into a business, maybe I look for a platform that puts up an opinion or has a gatekeeper, or the others, something much more egalitarian where it happens to be my area of interest or my geographic or neighborhood I know. As we move towards hopefully having the SEC—sorry, I do not mean to be sarcastic—I have faith the SEC will get us our rule set and we at least understand the box we are operating under, and if those of us as members of Congress need to sort of do a JOBS Act 2.0 to fix any things where either from our drafting or their rule sets to make it work. If I come to you tomorrow and say we have equity crowdfunding as you believe it is coming, what changes? What are you as Indiegogo about to do different? If I go onto the site, will it look different? Will my mechanics be different? What am I going to see that comes different once you can actually legally do equity crowdfunding?

Ms. RINGELMANN. Well, the moment it becomes legal, that is when we actually start to get to work and we start experimenting. So you will not see anything new, different, because everything that we think customers might want, whether it is certain information that they would want back in terms of reporting, our rating systems, all of that, that is all hypothesis. And so as an entrepreneur, it is my job to put on the lien startup hat and not make any assumptions; just come up with hypotheses and then go prove it. So what we would probably end up doing is try to replicate our approach to crowdfunding, perks-based crowdfunding with equity in a very manual fashion with maybe a few customers here and there and really dig into those experiences and learn what both the campaign owners need in terms of help, support, education, features, product enhancement, whatever that may be, as well as what funders would need. I think it is very easy, and this is the hardest part about setting regulation, is that this industry does not yet exist, and the regulators are tasked with coming up with a regulation on how to control it, but clearly the risk is too much regulation will completely stifle innovation and not allow customers to actually—for us to actually explore what this new equity crowdfunding experience is supposed to be. So nothing would actually change for us. It would just be far more experiments and learning so that we could actually come out with something a little bit later.

Chairman SCHWEIKERT. Thanks, Danae.

Mr. Miller, the same question. You and I had also had the discussion of would you even move to equity crowdfunding as it is in the JOBS Act if that regulatorily, mechanically would benefit you, or are you staying with the model you have developed now?

Mr. MILLER. I mean, assuming that the regulations are manageable, we definitely would embrace it because one of the challenges is we get people from all over the country, and I was talking to a developer yesterday. He is in, I do not know, Kansas, and I never heard of him and it turns out he owns 24 million square feet of real estate. And so it is just striking how, at least in real estate, it is very, very local. In every local market, if you understand your local market, and you are really not going to understand the next one, so if we could actually open it up tomorrow and have really what would be an open platform—where people in neighborhoods actually are saying, yes, this guy has got a great reputation. We want to make this happen. We can push this—we would not have to be having to figure out this sort of top-down approach that really is difficult in a scaling environment. We have just so many people, so much interest, and if we could basically, as I said, I have lots of real estate experts, real estate analysts. Actually, a huge part of our user base is real estate people. And so making them a partner and figuring out who should get the resources, the limited resources we have to actually get into the depth of underwriting real estate deals. So I would actually have an open process in the beginning and at some point dwindle down when I see enormous support for something locally.

Chairman SCHWEIKERT. Mr. Cremades, same question. If you had the JOBS Act at the crowdfunding portion, the rule sets through the SEC, and I am an unaccredited investor but I know and like one of the companies, I mean, how do I now interface with you? How does your platform now change because you are right now designed actually you have both a gatekeeper model and a model that only allows, let us face it, accredited, wealthier investors right now?

Mr. CREMADES. Yes. So I think right now it is really hard to know what the regulations are going to be looking like. I think that there are many assumptions that are out there, but I do strongly believe that too much investor protection—and I am a big fan of investor protection—would kill the attractiveness of the industry for platforms like us to switch to the funding portal perspective rather than being operational via the Regulation D, Rule 506. What I do feel, and I am particularly very excited about, is the possibility of adding social media, blending social media with platforms like ours because it is definitely going to be able not only to give more exposure to these ventures, but also to provide much more transparency. Because I think that is the beauty of social media, is that it is that process of being able to crowdsource a due diligence process with a vast amount of people. So I am very excited about that.

Chairman SCHWEIKERT. Bless you. You hit one of my personal fixations, and that is sunshine information from lots of different sources is the ultimate regulator because many of us here, we turn to the SEC and think they are going to know everything and that is impossible. And that is how we have some of the small and huge frauds with highly regulated entities. How do they get away with it? Well, there is not enough information in a central place where we as the public, we as even the regulators can actually see it. Our discussions about affiliated blogs. I am sorry, does anyone else do this where you go to the consumer reports of the blog and the first thing you do is you look for the negative report and you start from there and go backwards?

Ms. RINGELMANN. Yeah. I mean, I was speaking to the former head of risk at PayPal and they said the best thing that has ever come along for risk management in the financial industry is social media because it is identity management. It is track record management. When people have a social footprint on the web, you have a ton of information you can look to to assess risk. And all of that information goes into all of our fraud algorithms. So that is why I think bringing social medial together with investing is incredibly powerful. We did it with perk-based funding, and I think that is honestly why we have been so successful in keeping the site clean and safe.

Chairman SCHWEIKERT. All right. Ms. Sullivan, just as one aside, are you ready to have a relationship with Indiegogo to actually raise some social entrepreneur money for some of your small startups? I see a love connection.

Ms. RINGELMANN. We do have dare companies in Indiegogo.

Chairman SCHWEIKERT. Well, I mean, mostly you are microlending.

Ms. SULLIVAN. Correct.

Chairman SCHWEIKERT. But your loans range from—what is your smallest to what is the biggest you have seen?

Ms. SULLIVAN. Five hundred dollars up to $25,000.

Chairman SCHWEIKERT. So once I got my 25,000, I started going. Could you imagine a future where you might actually move them on to you need the next tier of capital to actually really start to grow?

Ms. SULLIVAN. Yes. We actually find that with our small business owners, some of them do come back and apply. We have had folks who have taken a second loan and a third loan, which they are certainly eligible for. We actually have found many times that the capital that we are able to grant them has allowed them to grow and create a track record that then makes them qualified for traditional lenders. So many of the entrepreneurs that we funded five, four, three years ago, have had enough success using that capital. They have been able to then qualify to get bank loans, which they previously had not been qualified for. But I would love to talk more about that. I think the notion of getting consumers—we have involved consumers in our program as donors to the loan fund, but you are way more expert in doing that than we are, so I would love to entertain those conversations.

Ms. RINGELMANN. Well, with your form of lending and with crowdfunding, what is really incredible—I did not get too much into this in the testimony, but the market validation that comes from people voting with their dollar is incredible. A great example of this is we had a campaign owner who was raising money or had developed a light called the gravity light, which is this really innovative light where you raise it up for 30 seconds and that creates 30 minutes of light. It is a great solution for the developing world where kerosene is the go-to lighting source, which is dangerous and expensive. And so this entrepreneur was really excited about this design. He spent weeks calling venture capital, big banks, trying to get them to take interest and give him some startup capital, and none of them would return his phone call. So he then went onto Indiegogo, raised $400,000 by pre-offering lights in exchange for, you know, $10, $20, $50. Guess who would not stop calling him? All those venture capitalists that originally would never return his phone call because clearly the fact that he was able to raise that much money from the crowd is validation that there is market interest. And so he gained the confidence, he gained the customer feedback, he gained the validation that he is onto something. And actually, it gave him power now in the situation with the traditional investors. The reason why the traditional investors are not complaining about it though is that their investment how has been completely de-risked. You know, the big job of traditional investors, whether they are VCs or banks or foundations investing in nonprofits, or even government and labels and studios trying to find the next artist, they have two big jobs. One is one of gambler, essentially. Try to pick the right idea or person or entrepreneur to back. And then the second job is to amplify them. So if they are lucky enough to roll the dice and get lucky with one, then they come in and put more money in and grow them.

So what crowdfunding is doing is creating this incubation platform, almost like a farm league for the major leagues if you want to think about that, where the majors are traditional investors, where the cream rises to the top, not based on a lucky connection but truly based on how hard the campaign owner is working and how much the audience and community cares, which is we think the only two factors that should matter. And they rise to the top and then get discovered by the more traditional financiers who could then not roll the dice on them; they have proven themselves, but come in and just focus on their amplification job. And so that is why I think crowdfunding and these creative alternative forms of financing, it is truly American. It is really empowering people to go after their dreams and have control over themselves and their own futures and not really and hope that some third-party gatekeeper will say you are good.

Chairman SCHWEIKERT. Ms. Clarke.

Ms. CLARKE. Mr. Chairman, I really do not have any further questions but just to say to our panelists today that you have kind of renewed my faith in the capacity of our nation to sort of remake itself from a capitalist standpoint. So much of what we experience here in Washington is from the macro perspective and that has not been a fun ride recently. But what you are doing is remaking this in a way in which it is much more democratic. I would be interested in seeing how each of your endeavors is translated into future generations; how other young people see this as a new discipline and buy into it because, of course, the predominant model is the traditional model and many communities do not have access to that. Having the platforms that you all have makes it much more available, and I hope that we can see some new schools of financing thought come from it. And I wish you all well in your future endeavors. Thank you. I yield back.

Chairman SCHWEIKERT. Thank you, Ranking Member Clarke.

As we get ready to shut this Subcommittee hearing down, look, I have grown to become an absolute believer by literally the end of this decade, for small business and maybe even mid-size business, the way we find investors, the way we capitalize our organizations is going to look different. And much of this is embracing the technology around us and the ability to capture information as that sunlight. As that refiner of concept and also eliminator of fraud because so often what happens here, in my experience in the last previous two years in financial services and here, is our terror of fraud, the terror of someone losing money in a deal means we take a huge portion of our society and our population and say you do not get to participate in receiving a rate of return, even though you desperately need that rate of return to have a future, because we are terrified that someone might lose money. That ability to take risk is also the ability to grow. It is the ability to have a future in our society and for all populations. So what you are doing is incredibly important to us.

I am going to ask you if you have ideas or you come across information or you even hear rumor coming out of the SEC, let us know, because this Subcommittee and I think the Committee in general are watching very closely, hoping that the SEC puts out a fair, rational, workable rule set. For a lot of us it has been a lot of time over the last couple of years trying to put together those elements of the JOBS Act. So I have faith this is not the last time I am going to see the four of you, and this has been very interesting.

And with that I will ask for unanimous consent, which I guess that means just you and I, that members have five legislative days to submit statements, supporting materials from the records. With that also may come some questions being extended out to each of you, and if you have the ability to, with the chaos of your lives, to send us back a response, that is truly appreciated.

And without objection, so ordered. This hearing is now adjourned. Thanks.

[Whereupon, at 12:41 p.m., the Subcommittee was adjourned.]

# APPENDIX

Testimony of Michelle Sullivan

Senior Director of Communications and External Affairs, The Boston Beer Company

Before the

United States House of Representatives

House Committee on Small Business

Subcommittee on Investigations, Oversight and Regulations

June 6, 2013

Chairman Schweikert, Ranking Member Clark and Members of the Subcommittee:

On behalf of Jim Koch, the founder of The Boston Beer Company, I want to first thank you for the opportunity to testify today about our philanthropic program *Samuel Adams Brewing the American Dream*. My name is Michelle Sullivan, and as Senior Director of Corporate Communications and External Affairs for The Boston Beer Company, I am charged by Jim with the implementation of this important program, and I am pleased to be here to discuss the innovative way in which we assist small businesses by affording them access to capital and knowledge to start or grow their businesses.

In 1984, when Jim Koch started The Boston Beer Company, the odds were stacked against him. Flavorful, high quality "craft" beers like Jim's were virtually unheard of at the time by anyone—beer drinkers, beer distributors or beer retailers and certainly not bank lenders. After brewing the first batch of beer in his kitchen, he named it Samuel Adams Boston Lager after one of his favorite revolutionaries and, after trying to obtain a loan from numerous banks, he quickly realized the reality of starting a small business went far beyond having a great product. Namely, that a lack of access to capital and the right network of business contacts could actually prevent a small business from moving forward despite hose good its product is. Jim began selling his beer bar to bar, restaurant to restaurant and tavern to tavern in the Boston area himself. He had to start his own distribution company because the beer wholesalers in Boston all turned down the opportunity to carry his product. He scraped together the funding for his brewery by risking everything personally, taking out a second mortgage and by raising money from family and friends.

Today, we are in the third decade of America's Craft Beer Revolution, and Boston Beer is proud to have been a catalyst for this movement. The beer industry has undergone profound changes since the 1980s. America's big three brewers, Anheuser-Busch, Miller and Coors, have been acquired by or merged into foreign conglomerates and indeed Miller and Coors have merged their operations in the United States. This leaves Samuel Adams as one of our country's largest *American owned* breweries. But, after nearly 30 years of significant growth, we still only account for just over one percent of the American beer business, while the two largest beer companies account for over 80%. In the beer industry, we still live in a David and Goliath world.

That said, we are proud that we continue to lead America's brewing industry, comprised of more than 2,400 other small, quality-driven brewers in all 50 states, not only in creating an outstanding product, but also in our unconventional path to corporate citizenship.

From our earliest days, before we could make monetary donations to charities, we had beer. And we happily supported hundreds of Boston-area charities by providing Samuel Adams for their fundraisers and auctions. It was a real benefit to those institutions to save on the cost of buying beer, and it helped us get our name out and our Samuel Adams into people's hands. This program continued, and in 2012, we donated thousands of cases of beer to 501 c-3 not-for-profit organizations.

As The Boston Beer Company grew, however, we wanted to create a unique program that went beyond donating beer.

That was Jim's challenge to me in 2007. Working with a team of employees, led by Jim himself, we created *Samuel Adams Brewing the American Dream.* The program has two major components: we host a variety of mentoring and coaching events for low and moderate income small business owners and, through our non-profit partner ACCION, we fund microloans ranging from as little as five hundred dollars up to twenty-five thousand dollars. Our program serves small businesses in the food, beverage and hospitality industry including other craft brewers, the very industry we compete and sell in, and the one where we are most able to give them meaningful nuts-and-bolts business advice, guidance and introductions.

Microloans are a critical component to Brewing the American Dream as there is a serious lack of funding available today to small and very small businesses. It is equally as important to educate inexperienced business owners in the areas of sales, graphic design, purchasing, marketing, hiring, distribution and other facets of business that can make the difference between success and failure. Effectively, we want to ensure businesses that are part of *Brewing the American Dream* do not make the same mistakes that Jim and others starting small businesses before them have made.

And we know it works, because we have a 97% repayment rate on the loans. As of today, we have disbursed 234 loans total over $2 million dollars and have hosted 45 events in 12 states that have attracted over 3,000 attendees. More than 300 of our employees have participated in these events as coaches or mentors. And, we have saved or created more than 1,400 jobs. So, in an odd twist, through *Brewing the American Dream* we have created more jobs outside of Boston Beer than inside. And we are proud of that.

When Jim Koch started The Boston Beer Company back in 1984, he was armed with a great recipe, the financial backing of family and friends, and a passion to succeed. When he didn't have, and the reason he feels so strongly about *Brewing the American Dream,* were mentors. He didn't have a network of established business owners whose expertise he could call on. And through this program, he attempts to make funding, provide nuts and bolts business advice and access to mentors, all of the resources he didn't have, available to *Brewing the American Dream* small businesses owners.

Working with these small business owners has been an honor and an education. Based on our experience, we are convinced that well-established and well-supported small businesses are particularly well-poised to grow and thrive. They are an engine for future economic growth. They are a source of innovation, and their passion is contagious. They will create jobs. They will be the household names of the next generation and like Jim Koch they will realize their American Dream.

I want to thank the Subcommittee for allowing me this chance to discuss *Samuel Adams Brewing the American Dream,* and please let me know if you believe our program may be helpful in your district. Thank you again and I am pleased to answer any questions you might have.

ROCK
THE POST

"Innovation and Micro Financing"
Alejandro Cremades Testimony

Mr. Chairman and other members of the Committee on Small Business.

Thank you very much for the kind introduction and for having me here today. I am particularly interested in sharing my thoughts and experience with regard to the difference crowdfunding is already having, at this early stage, on small businesses in the US, and the positive impact that services like RockThePost provides.

According to a Kauffman report, new firms add an average 3 million jobs in their first year while older companies lose 1 million jobs annually. Unfortunately, 65% of these new firms go out of business within the first 4 years due mainly to lack of access to financing.

Traditional methods of financing are very limited. Out of the 6 million businesses that launch every year in the US, only 400 of them get Venture Capital money at an early stage. The rest rely on angel investors, which represents less than 1% of the US population or friends and family.

With equity crowdfunding offered via services like RockThePost, startups are able to gain exposure in front of thousands of investors. In the offline world, startups take on average 8 months to close a Seed round. Via RockThePost, startups and small businesses fundraise their round between 60 or 90 days with minimal road show distractions. Success stories like Villy Custom Bicycles, a Shark Tank backed company with high profile investors like Mark Cuban and Barbara Corcoran, raised their funding goal in just two weeks on RockThePost or Musicx,fm in little over a month. RockThePost's crowdfunding platform not only helps entrepreneurs access funding, but reduces the fundraising time significantly, which allows them to focus on growing their business, which is the most critical for the bottom line.

However, we are operating under a lot of restrictions, which makes it challenging to truly innovate and pioneer this new industry. The general public solicitation rule is the most difficult challenge to overcome. Secondly, the fact that only accredited investors are allowed to make investments is also a big obstacle. Even though the law allows up to 34 unaccredited investors per offering, we feel that the amount of disclosures required to comply with this exemption kills the attractiveness for a platform like RockThePost to get involved, not to mention the burden entrepreneurs are faced with in providing additional disclosure materials. Allowing non-accredited investors to partake in private offerings will open the door to over $400 million Americans in comparison to the 7 million accredited people that are currently in the US.

With that been said, I believe that we are far behind and every day that passes without the JOBS Act being implemented is another day that startups need to fight for survival. Pandora for example was rejected over 300 times from financial institutions and thank god they did not give up on their business. I invite you all, present in this room today, to create a unified voice in order to reduce the delay of the JOBS Act implementation. There are many cases like Pandora out there, and unfortunately many of them end up giving up in the process.

Testimony to the Committee on Small Business Subcommittee on Investigations, Oversight, and Regulations
*"Innovation and Micro Financing,"* June 6, 2013
**Benjamin Miller, Co-Founder of Fundrise**

Members of this esteemed House. I deeply appreciate the opportunity to share my experiences as a small business owner, a real estate entrepreneur, and a technology company executive. Let me spend a moment on my background so that you understand how I came to run Fundrise, one of the only companies in the country currently raising equity online from anybody and everybody in Washington DC and Virginia—from both accredited and unaccredited investors—prior to implementation of the JOBS Act. We are legally crowdfunding real investment today, through currently existing regulations, and have been for almost a year.

Prior to starting Fundrise, I ran a real estate company. In that capacity, I have lead the acquisition and development of more than 2 million square feet of real estate property. We built some of the more iconic projects in Washington DC, such as Gallery Place on 7th and H Streets NW—a 750,000 square foot mixed-use development. As a real estate entrepreneur, I have partnered with some of the largest institutional investment companies in the country, such as Mass Mutual, Angelo Gordon, and the AFL-CIO. I understand what it means to raise debt and equity.

After the 2008 financial crisis, I began to focus on real estate in emerging neighborhoods. Neighborhoods filled with new energy and growth driven by the millennial generation, and a reinvigorated desire from people of all ages to move into cities. When I went to my traditional capital partners, they didn't understand the dynamics of these neighborhoods—areas such as Washington's H Street NE, Cincinnati's Mason District, Brooklyn NY, or the L.A. Arts District. It was striking to me how little they understood local neighborhoods, where new growth is, as compared to traditional core downtown markets.

I would speak to local people in the communities where I was building and they would get very excited about what we were doing. They understood why we were investing there. They cared deeply about the places we were changing. They wanted to participate in building their city too.

So one day we asked ourselves, "Why are we raising money from institutions that have no real relationship with the places in which we are investing? What if we raised money from the people who live there, who care, who get it?"

So that's what we're doing. Which is why I am sitting here. We have been raising real investment, in increments as affordable as $100 per share, from the local public who live near our real estate projects. Anyone and everyone locally can invest—even if they are not accredited investors, as defined by the SEC. Hundreds of people have been investing hundreds of thousands of dollars through

Fundrise, purchasing shares of their neighborhoods through our web platform.

Since the JOBS Act did not exist when we started our endeavor, we had to work within the existing regulatory framework. Thanks to crackerjack attorneys—Marty Dunn and Bjorn Hall from O'Melveny Myers—we found a way, using Regulation A. Ultimately, our filings with the Securities and the Exchange Commission (SEC) totaled more than 350 pages, and eventually allowed us to sell equity online at $100 per share to the local public. Last year, I was one of only two or three people who have successfully cleared a filing under Regulation A.

It was a serious undertaking. The first offering took nine months to get qualified by the SEC and registered with the District of Columbia and Virginia regulators. It was novel, and there were new issues we had to work through. Yet, we were fortunate. The local regulators understood that we were working to build local places and create a new capital source for local job growth.

After doing multiple public offerings, raising millions of dollars online, and spending a lot of money, time, and effort to crowdfund equity online, here are my two big takeaways:

1) It's difficult to build trust with the local public to invest in your company online. I have interacted with thousands of potential investors. People were skeptical at first. There is a fear among critics of the JOBS Act that the Internet will make it too easy to raise money, but I found that the public were even tougher critics of our investments. Anyone who has read a movie or restaurant review online knows the truth of that.

There are a lot of experts out there. We have real estate analysts from the largest real estate companies in the city invested in our offerings. Even though they are not accredited investors, these men and women know their subject. And they are vocal. And put me through my paces. While it is absolutely prudent to crate safeguards against potential investor fraud, my firsthand experiences raising real investment online is that the public put us through just as much scrutiny as the SEC.

2) The regulatory institutions today are not designed to manage small business raising capital from the public. I was lucky because I found a real partner with the local regulators. I have now done multiple local public offerings working with the SEC, and District of Columbia and Virginia regulators. I say I was fortunate because I found that in some other states, the regulators were far more resistant and wary. Therein lies the problem. On the state level, in many ways, it was an *ad hoc* process. While DC and Virginia were terrific, other states gave the impression that they cared less about creating new opportunities for small businesses to raise capital and create job growth.

In terms of the Federal regulations, while I found the SEC extremely reasonable, it takes six to nine months to clear an offering for $300,000 under Regulation A. This waiting period creates high legal fees, an expense most small businesses cannot afford. The fact of the matter is the SEC is not funded to handle small offerings like mine. At times, I felt like no one in the SEC really owned my filing. The SEC is currently not built to manage and review small-scale issuances. Yet, we are about to see a sea change in the number of such issuances.

Based on my experience, I would recommend that Congress fund a group designed to take responsibility for the filings of small, agile, job-creating companies. A venture fund or private equity company can review an offering in a matter of weeks, if not days. Could a well-funded department, housed at the SEC or Small Business Administration, do the same and help thousands of small businesses like mine raise capital while substantially mitigating concerns over investor protection? I believe so.

Already, donation-based crowdfunding is approaching a $3 billion per year industry.[1] Once the SEC and FINRA implement the JOBS Act, we will almost certainly see even more tremendous flow of small-scale fundraising. As of today, however, there is no institutional body mandated with a special focus to manage and support this new industry. The Federal government has agencies to represent and engage with constituencies ranging from chicken farming to glacier research. The SEC's small business department is only a handful of people. Small business growth, innovation, and community development will be one of the greatest sources of jobs in our country in the next decade. Shouldn't we set up the type of institutional supports that crowdfunding deserves to help it succeed?

[1] http://www.forbes.com/sites/ryancaldbeck/2012/12/11/crowdfunding-predictions-for-2013/

# Congressional Hearing:
# "Innovation and Micro Financing"

Committee on Small Business Subcommittee on Investigations, Oversight and Regulations

Statement of:
**Danae Ringelmann**
Founder, Indiegogo
www.indiegogo.com
@indiegogo
@gogodanae

indiegogo

Submitted on June 5, 2013

**Introduction**

My name is Danae Ringelmann, and I'm one of the founders of Indiegogo—the largest global crowdfunding platform in the world. We launched in January 2008, before the word "crowdfunding" existed in our vernacular. Our mission is to provide an equal opportunity platform that empowers people to fund what matters to them—whatever that might be. Film, music, non-profits, small business, inventions, medical treatments, trips and more—all happen on Indiegogo every day. Today we distribute millions of dollars every week to campaign owners in every country of the world.

**Why I'm Here Today**

I'm here today because Andy Guggenheim asked me to share Indiegogo's story in pioneering what today is called perks-based crowdfunding. I will also be sharing the benefits of crowdfunding specific to Indiegogo's inclusive and meritocratic approach and with a focus on small businesses in America. I will also talk about lessons learned and share a bit about how we've had to innovate and mitigate risk in order to create a whole new industry.

As background, I was compelled to start a company that would democratize finance as I saw firsthand the impact of an inefficient and unfair financial system that needed to be fixed. I was a child of two small business owners who sweated it out for 30+ years. Not once, did they get a loan from the bank to expand, despite steady growth, loyal employees, and top-notch customer satisfaction. The reason they struggled was not for lack of performance, but lack of connections to gatekeepers. They were on their own, like most small business owners in America. When a bank rejected them that was it. There was nowhere else to turn except our own savings, own mortgage or worse, our credit cards.

So after witnessing my parents hustle and overcome intense challenges (e.g. making payroll without laying off anyone after September 11), I went into finance to understand how money worked and flowed. It was while I was on Wall Street, however, that I began volunteering with filmmakers and theater producers on the side and experienced first hand the struggles of fundraising. Even I—someone who worked at a bank—failed at helping brilliant artists with proven audiences get off the ground, not for lack of heart and hustle, but rather lack of connections to financial gatekeepers. When I failed to secure investment for a theater production after staging a one-time show in front of an audience that loved it, I realized that the people who wanted the play to come to life the most—the audience and the actors—lacked the mechanism to make it happen themselves. Shortly thereafter, I quit finance and returned to business school at UC Berkeley to start a company that would democratize finance. It was there that I met my two co-founders Slava Rubin and Eric Schell who themselves had been struggling with fundraising. Together we created Indiegogo—now the oldest and largest perk-based global crowdfunding platform.

**What's Crowdfunding on Indiegogo**

Crowdfunding on Indiegogo is people-powered finance. it's individuals directly funding the ideas, businesses, artists, non-profits and causes they care about. There's no middle-man or traditional investor—like a bank or a VC, a media publisher or a studio, or even a grants-oriented foundation or government funding body. Crowdfunding is—simply—lots of people contributing a few dollars each to raise enough money together to push an idea or project forward.

While this concept might not feel new, the reason the industry has a new name "crowdfunding" is because people-powered finance has never been so efficient and effective as it is today.

Through the integration of social media and incorporation of online payments—two irreversible shifts in online behavior—Indiegogo campaigns for funding spread to like-minded folks (both people you know and don't know) far faster than ever before. If traditional fundraising helped you raise money from the first degree of people you know, crowdfunding on Indiegogo helps you turn your first degree connections into havens, thereby allowing you to raise money from people interested in your project who are 2nd and 3rd degrees away.

**Landscape of Crowdfunding**

Within crowdfunding, there are a few models. There's donation and perks-based crowdfunding, like Indiegogo. In this case funders contribute money in exchange for perks—tangible or intangible goods and services of finite value. There is no investment made, no profit participation or upside.

There is also securities based crowdfunding like peer-to-peer lending, and equity crowdfunding for accredited investors only, and mainstream equity crowdfunding that will soon be permitted under the JOBS act. Today, I will focus on perks-based funding as that is the model Indiegogo pioneered in 2008.

**How Indiegogo's Donation & Perks-Based Funding Works**

The way Indiegogo works is as follows:

**1. Create a Campaign**

A person or organization with a project or idea in need of funding goes to Indiegogo.com and creates a campaign page. On Indiegogo, there is no application process nor arbitrary vetting of "quality" as Indiegogo believes that every idea has the right to try to raise money. Only campaigns that are illegal or in violation of our Terms of Use are removed automatically and systematically.

On the campaign page, the campaign owner:

- pitches their idea, team and impact (in both a text and a recommended video).
- sets a funding target and deadline (typically 30–40 days)
- outlines their use of funds.

- offers perks (optional), which can be anything from a thank you note or twitter shout out to a tangible item of finite value. A campaign for a business that creates innovative coffee mugs, might offer the coffee mug itself as a perk
- picks their funding framework, either:
  - "Fixed:" campaign owner receives money only if they reach goal
  - "Flexible:" campaign owner receives money whether or not they reach goal

(It's worth noting that we encourage campaign owners to set a funding target that matches an amount they need to move their project forward. It does NOT need to be 100% of budget, as campaign owners can do multiple campaigns, or use their Indiegogo campaign to attract additional funding from other sources—more on that later.)

**2. Go Live.**

Once the Indiegogo campaign page is drafted, they can go live at any time. Once live, campaign owners share their campaign with their friends, family and followers via newsletters, social media and other outlets. For artists, followers are typically their fans. For businesses, it's their customers. For non-profits and causes, its people passionate about their cause. On Indiegogo we typically see that campaigns that reach their funding goals raise the first 30% of funds from people they know.

Due to the social media integration embedded into the funding experience on Indiegogo, friends of friends begin to fund. (For example, when people fund, they are prompted to tweet or post to Facebook.) Thus 2nd and 3rd order funds begin to come in... leading eventually to "stranger dollars."

Lastly, campaigns earn extra promotion and exposure on Indiegogo.com and our marketing channels as well. Indiegogo's proprietary algorithm—the gogofactor—determines the amount of added exposure. The gogofactor, similar to google's pagerank algorithm, is a measure of a campaign's activity and its community's responsiveness—i.e. two factors completely in the control of the campaign. Indiegogo's promotion, therefore, is completely meritocratic. Just as we don't decide who has the right to raise money, we also don't decide who we promote—the campaigns and their communities do. No other platform offers this meritocracy.

As you can see, crowdfunding success on Indiegogo is earned. I call out the "friends-first-strangers-later" pattern of success simply to dispel any assumption one might have that crowdfunding is a field of dreams. People do not just post ideas, walk away and come back to find money in their account. If campaign owners build it, the proverbial "they" will NOT come. It takes work, akin to the work of grassroots and guerilla marketing tactics. This is an important fundraising dynamic to understand as it may inform your opinion on the risks of crowdfunding in general. More on that in a bit.

**Benefits of Indiegogo—It's not just about the money!**

Many people first hear about crowdfunding as a new and alternative form of finance. This is true. But what many people don't appreciate at first, are all the other benefits crowdfunding on Indiegogo brings to campaign owners, their funders, the entire financial ecosystem, and our economy.

**Benefits to Campaign Owners:**

For campaign owners market validation, risk mitigation, customer feedback and confidence are non-monetary benefits often great enough to drive small businesses to crowdfund even if they didn't need the money.

**1. Market validation:** Crowdfunding on Indiegogo enables entrepreneurs raising money to test their market and prove demand. A vote with one's dollar before a product or service even exists is a far better indication of true interest than any focus group or "facebook like" button could ever provide.

**2. Risk Mitigation:** Along with market validation, comes risk mitigation. In the case of Luminaid—a business started by Illinois-based Andrea Sreshta and Anna Stork that makes environmentally friendly, solar-powered lights for the developing world (as a safer alternative than kerosene)—crowdfunding protected them from the risks of over-production and under-production.

They used Indiegogo to raise $51,829 to fund their first-run production. For a $25 contribution, a funder would be sent a light a few months later. Because the funding came in up front, and because the amount raised was tied to an exact count, it was impossible for the Luminaid entrepreneurs to "over-manufacture" or "under-manufacture", thus mitigation production guesswork and risk.

**3. Customer Feedback:** A crowdfunding campaign on Indiegogo enables entrepreneurs to gather direct feedback, both qualitative and quantitative. California-based Sonny Vu is a product designer who designed a product called the Misfit Shine—an activity tracking device that elegantly fits on your clothing. He and his team used Indiegogo to raise $846,675 to fund this first-run production. He actually had already raised venture capital funds, but he still used Indiegogo to get "smarter, faster" on his product features, messaging, and pricing.

Throughout his campaign he swapped perks in and out, and learned that his funders far preferred the black version of the Shine over the silver version, and were willing to pay $50 more for the black. He also discovered a new revenue stream—necklace accessories—after his funders suggested he add necklaces as a perk. To his surprise, the necklaces were quite popular. Based on feedback from his funders, he discovered new revenue streams and gathered quality feedback on features, messaging and pricing. That's priceless information and data for a new business that hasn't even launched yet.

**4. Confidence:** Perhaps my favorite non-monetary benefit of crowdfunding on Indiegogo for campaign owners, however, is the confidence a campaign owner builds. Karen Freer of Brooklyn, NW had always dreamed of opening a gluten-free bread company. But the idea of saving $10,500 to launch seemed almost impossible. So rather than wait and save, she launched an Indiegogo campaign and raised $10,771 from 95 funders. For $1, she gave folks a hug: For $10, a note. For $50, several rolls of bread. Within a matter of weeks, she had the funds to launch her business. She was beside herself. What was a dream, instantly became a reality. Here's what she shared with Indiegogo in a note to our Customer Happiness team:

*"I'd like to tell you something. Once I began my Indiegogo campaign, I truly saw my life start changing. Indiegogo has given me the confidence in my first business venture—and with that a great feeling of hope for my future. That is a true gift" - Karen, Free Bread.*

**Benefits to Funders: Empowerment**

In addition to being a source of funding and a great way to validate a market, reduce risk, get feedback and gain confidence for campaigners, crowdfunding is turning funding from a "transactional" experience into a "social and relationship-based" experience.

When people fund what matters to them, they're not just buying bread or activity trackers in advance, they're creating their own reality around them... often times for as little as the price of a cup of coffee. As a result, they're more engaged and empowered.

A great example of this is the fastest growing political campaign on Indiegogo right now. Distraught by the way the government was handling the sit-ins in Turkey, three Turkish Americans felt compelled to take action. They started a campaign four days ago to raise $55,000 to purchase a full-page ad in the New York Times calling for democratic action and a new dialogue on Turkey. As of Wednesday, June 5th at 10 am, 2,369 people from across the world had joined forces and funded this ad together, raising $93,290.

Crowdfunding on Indiegogo, therefore, empowers. No longer do people have an excuse to complain about bad Hollywood movies, nor the lack of local coffee shops in their neighborhood. If they want to see good movies and have a local hang out with friends, they can fund them can get their friends and other like-minded folks to fund them too.

**Why People Fund if there's no Return or Profit Potential**

Indiegogo's research reveals that people on Indiegogo fund for 4 reasons. We call these reasons the 4 P's:

- People - they like the person or team running the campaign.
- Passion - they are passionate about the idea or project.
- Participation - they want to be part of something bigger than themselves.

- Perks - they want the perk

However, we have also found that there is a dynamic mix of motivations at play for any given contribution. For example, I recently funded an app called “NotBuyingIt.” It’s an app for the phone where you can take a picture of a piece of public media that you deem sexist and/or belittling towards women. The app posts the image to twitter with a hashtag #notbuyingit. With enough tweets, the goal is to make the advertiser revisit and remove their sexist ad. This app campaign is being run by Jennifer Newsom, an activist whose film “Miss Representation” sparked a movement to eliminate sexist media in the public. I funded this campaign for all 4 reasons—I want to support Jennifer Newsom and this project. I want to be part of the movement, without having to quit my day job, and I want the app (i.e. the perk).

**Benefits to the Finance Industry and the Economy**

The macro benefits of crowdfunding on Indiegogo to the larger finance industry and the economy as a whole are also grand.

*1. Meritocracy.* When people fund what matters to them, ideas that might once have gone unborn or remain undercapitalized due to lack of access to traditional gatekeepers, now have a chance. In London, a cat café recently raised 110,000 on Indiegogo to open. This café will be a place where people can get coffee and hang out with cats - or what some might call a very niche business. After sharing their crowdfunding success with a banker whose job it is to review loan applications for new businesses, the banker stated in shock “I would’ve never thought a cat café would have a market. Had that application come across my desk, I probably would’ve said ‘no.’ Clearly, I would’ve been wrong.”

Because funding success is based on hard work and community or audience engagement, not based on winning over an arbitrary gatekeeper whose goals, beliefs and biases may be different, crowdfunding on Indiegogo is making finance fair and efficient, once and for all.

*2. Incubation Platform & New Role for Gatekeepers.* Crowdfunding on Indiegogo is also fundamentally disrupting finance. Unlike disrupting technologies in other industries, which typically destroy the traditional industry, crowdfunding on Indiegogo is making the financial ecosystem stronger as it’s providing an incubation platform for the worlds’ ideas.

Just as crowdfunding de-risks a business or venture for the entrepreneur starting it, its also de-risking any follow-on investment that comes from a traditional investor. For example, the designers of Gravity Light - another lighting product that creates energy by lifting it up - couldn’t get a Venture fund to return their phone call when they needed to raise funds to prototype their product. So they turned to Indiegogo and raised $399,590 from the people. After the campaign, venture funds couldn’t stop calling the team. They had proven to them his business was a good investment by proving demand through their Indiegogo crowdfunding campaign.

*3. Jobs.* As a result of crowdfunding on Indiegogo, ideas and businesses that went previously unborn or under-capitalized due to lack of efficient access to funding will now have a chance to thrive on their own merit. As they grow, so will the jobs they create.

Samantha started her gluten-free bakery business Emmy's Organics on a small business loan. She had one store in the first year. With the opportunity to distribute her product in a regional grocery store chain - a huge growth opportunity - just 10 months into her venture, she needed to take on another loan to pay packaging changes (a requirement for distribution). Unable to secure a second $15,000 loan - as her bakery was deemed too young and high-risk - she didn't give up and throw away the distribution opportunity.

Instead she turned to Indiegogo to raise $15,000 in three weeks. She offered macaroons as her perks. Her customers funded her, and brought in their friends as funders too. Within a month of her campaign, she had redone her packaging and started selling her product through the grocery store chain. This lead to further growth, and within the year she was distributing her product in 40 states across America. To keep up with production, she had to move into a new kitchen and hire over a dozen employees. Had Indiegogo not existed, she might still be selling baked goods out of her one store front, employing just herself and her partner.

**Indiegogo's Innovation around Risk**

With a mission to be an equal opportunity funding platform, it was important to us to take an inclusive and meritocratic approach to crowdfunding. As I mentioned above, this is why we do not curate. We want all ideas to have an equal chance of success - a principle this country was founded on.

However, this inclusive approach also makes Indiegogo open to people wishing to use the platform in a way it was not intended - i.e. for fraud. Given that, Indiegogo has innovated on this front to keep the site clean and safe for the 99%+ users on the site who are using it for its intended purpose - to fund what matters to them.

We've developed proprietary screening technology and Trust & Safety algorithms on our backend to automatically screen out bad behavior. In addition, we employ a community policing system similar to eBay or Paypal that adds another layer of surveillance. Finally, the dynamic of crowdfunding (raising a lot of funds from a lot of people a little at a time) is a natural deterrent of fraudulent activity as convincing a lot of people to fund an idea typically takes a track record, social media activity and hard work to get funding going. This is one reason why it's a good thing that successful campaigns typically have to raise the first 30% of funds from people in their inner circles, as I mentioned above.

**Future Innovation**

As the SEC reviews the rules for equity crowdfunding, which we're very excited about as equity crowdfunding is in-line with our mission to empower people to fund what matters to them, I like to share that one of the reasons Indiegogo was able to pioneer perks-based crowdfunding is because the regulatory environment allowed us to experiment and innovate.

Since our launch in 2008, hundreds of platforms have followed, each with their own twist on crowdfunding. Clearly, a new market has been unlocked that might not have had overly burdensome regulations been in place.

Often regulation is put in place to protect all parties. While too little regulation could lead to another 2008, too much regulation could also be damaging as it could stifle innovation. Regulation setting is a tough challenge; there's no question about that. What I hope regulators keep in mind, however, is that business pressures and business uncertainties are often better drivers of innovation and protection, than regulations.

For example, Indiegogo developed proprietary screening systems and Trust & Safety algorithms to ward off fraud not because a law told us to, but rather because we wanted to stay in business. A safe site would attract more customers. An unsafe site would repel customers and lose us a lot of money.

**Indiegogo's Vision:**

At Indiegogo, we think crowdfunding is just in its infancy. Just as Twitter and Facebook democratized communication formenting the Arab Spring, we hope Indiegogo and crowdfunding will democratize funding. We imagine a world where funding the ideas and people around you is a daily habit, like commerce and social networking. Perhaps one day, people will even be able to control where their tax dollars go. After submitting one's taxes online, I see a day where the next pop-up screen says: "to which local, state and national efforts would you like your tax dollars to fund?" A dropdown of options would be provided.

Anyhow, while it seems we've innovated quite a bit to get perk-crowdfunding off the ground and help make equity crowdfunding an option, there's still quite a bit of innovation ahead. It's an incredibly exciting time to be an entrepreneur in this space as we're helping change finance for good, both permanently and for the better.

In closing, it's probably worth pointing out that one of my co-founders Slava Rubin was an immigrant to this country, and my other co-founder Eric Schell is the son of a librarian. As the daughter of two hard-working small business owners, the three of us together struggled to get Indiegogo off the ground as we ourselves lacked the right connections to make it happen early on. I often think about how much quicker we might've been able to grow Indiegogo had we had Indiegogo to fund Indiegogo.

Thank you.