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Subcommittee on Oversight and Investigations  
of the  
House Financial Services Committee  
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Good morning, Madame Chairwoman and Members of the Subcommittee. Thank you for the opportunity to appear before you today to testify on the issue of small business access to capital.

I am Frank Speight. I am the Founder, Chairman and CEO of American Capital Partners Limited, a registered Business Development Company, which is based in West Palm Beach, Florida. I also serve as Cochairman of the National Small Public Company Leadership Council, a Washington, D.C.-based group that seeks to educate and inform the White House, Congress and Federal agencies about the issues impacting the nation's small publicly traded companies and the economic contributions they are making.

Let me first congratulate Chairwoman Sue Kelly on the House passage of the Kelly Bill called Increased Capital Access for Growing Businesses Act (H.R. 3170) that would modernize outdated securities laws to ensure that small businesses have better access to capital through Business Development Companies, or BDCs. I have enjoyed working with Congresswoman Kelly on behalf of the Leadership Council. And it is exciting for me to see the first fruits of her efforts to broaden access to capital for BDCs, which are publicly traded investment companies that invest in both public and private companies and generate an injection of capital for businesses.

I am here today in support of her efforts and to urge that access to capital be broadened to encompass all small and developing companies. Small business is the engine of the economy. The ability of small business to raise funds and have access to loans or to the capital market is essential. When small businesses don't have the capital they need they are unable to make the investments they require to grow. And this, in turn, hampers growth in the overall economy. We must do all we can to create a greater access to the capital markets for small business.

An important step in providing greater access to the capital markets for small public companies can be taken by reinstating a modified version of the SEC Rule 504 Exemption, which was among the reforms created by the Reagan administration. For small businesses, in particular, the paperwork and legal costs are prohibitive for raising money through the capital markets. The Reagan administration's SEC Rule 504 made it easier for small firms to raise money from the stock market by exempting them from many SEC regulations if they raised one million dollars or less over a year.

To briefly review, the results of Reagan's SEC reforms were immediate. Small businesses fueled the boom of the 1980s and 1990s. Small businesses quickly realized that they could raise capital as never before, and the sector became the engine of growth for the new economy. For example, in 1984 two friends who owned a small ice-cream shop in Vermont wanted to build a full-fledged manufacturing plant to sell their product nationally. The friends decided to bypass an underwriter or a broker and raised \$750,000 by selling directly to Vermont residents. A year after raising this seed capital, Ben & Jerry's listed on the NASDAQ and soon became one of the best-selling brands in the U.S.

According to a report in The New York Times in 1983, the SEC's changes under the Reagan administration had brought an additional \$500 million into the markets in less than two years. Also, as Philip Koslow wrote in his book, The Securities and Exchange Commission, published in 1990: "The SEC's new approach undoubtedly contributed to the expansion of the markets and the growth of new capital. Wall Street, which had seen some hard times since the 1970 slump, began to boom. New buildings were going up throughout the financial district in lower Manhattan, and firms were hiring thousands of new workers. Suddenly Wall Street was the place to be for the energetic and ambitious. ....All this activity clearly bolstered the economy in the short run."

During the early 1990s the reforms of Rule 504 were liberalized and once again small businesses fueled the boom. According to the Small Business Administration, more than one-half of all U.S. employees work for companies with 500 employees or less. These firms produce 47 percent of all business receipts and nearly all the new job growth. Firms with more than 500 employees actually had a net decrease of jobs from 1992 to 1996. Some economists credit small business for the dramatic growth in American productivity that was responsible for the prosperity of the 1990s.

But since that era the SEC has found excuses to roll back the reform policy that Reagan had put into place. During its reign, Rule 504 successfully proved to build prosperity by giving small companies more access to the capital markets.

The SEC would argue that Rule 504 still exists on the books today. But in reality, the SEC has taken the teeth out of the measure and it is of little use. Under the former 504 guidelines accredited investors could receive unrestricted securities for their investment, thus allowing them the necessary liquidity to lessen their risk exposure. It also allowed them the opportunity to more quickly reinvest the proceeds from an investment into another small public company.

There's a tremendous need to modernize outdated securities laws to ensure that small businesses have better access to capital.

My recommendation is the reinstatement of SEC Rule 504 to its former parameters but with several modifications. These changes would be to:

- Increase the annual cap on the money small businesses can raise to two million dollars, from the former one million dollars. This would allow small micro cap public companies the access to the levels of capital they truly need.
- Require the SEC to develop some kind of mechanism to streamline the process for the filing. If a small public company is current in its SEC filings they should be allowed to file an easy 504 "notification filing," with supporting documentation such a legal opinion, on EDGAR similar to the current S-8 filing in place to compensate Consultants.

Madame Chairwoman and Members of the Subcommittee, small businesses are the backbone of our economy. It is critical for small businesses of all kinds to have more access to capital in order to create new jobs and ensure a strong, growing economy.

Thank you, Madame Chairwoman.