April 14, 2015

Dear Angel Colleague:

Thank you for participating in the Angel Capital Association (ACA) Grassroots Initiative. Your efforts will play an instrumental role in the long-term success of innovation and new business formation in our country and the critical role Angel investors play in helping young companies.

The purpose of the ACA Grassroots Initiative is to assist policy makers at the national and local level in understanding and supporting the efforts of Angels relative to new job creation, business formation, and access to capital. Many of the decisions that impact angel investing are being made in our Nation’s Capitol. That is why we are asking you to start by focusing your efforts on Members of Congress, but on the local level.

Here’s what we mean: ACA has identified 68 members of the House and Senate in the 114th Congress who will play a critical role in developing, supporting and passing legislation beneficial to angel investing. The most effective voice in reaching and persuading these Senators and Representatives are people from their home state and district, or those who have had a prior relationship with the Member of Congress. They listen most to their constituents. You have been selected as part of our Grassroots team because you reside in one of the districts which elect these key legislators.

This Grassroots Toolkit provides materials to use in educating these policymakers and in helping them craft legislation and regulatory policies that positively impact angel investing. The materials include:

A. A list of the key legislators and those you are being asked to cultivate (with ACA members we’ve identified to date in their states)
B. Congressional meeting guidelines
C. 2015 Legislative calendar identifying the best times to arrange these meetings
D. Talking Points on three critical public policy issues
E. ACA Public Policy Brochure to provide as a handout
F. A one-page summary of the HALOS Act (Helping Angels Lead our Startups)
G. Sample letter for Members of Congress to send to the Securities Exchange Commission (SEC)
It is critically important that we use 2015 to increase the profile of Angels in Washington DC, to ensure Members of Congress know us and understand our issues, and that we gain successful passage of positive legislation. *Your efforts will be instrumental to our success.*

The Public Policy Team looks forward to working with you in creating a long-lasting grassroots relationship with national legislators. We can help facilitate these meetings and provide additional background information if you need it.

On behalf of ACA, angel investors nationwide, and the thousands of young companies that depend upon our support and help, thank you for being a part of our Grassroots Initiative. We look forward to your reports, comments, and suggestions as you share the good news about Angel investing and its importance to our national economic well-being.

Sincerely,

David Verrill
ACA Board Chairman

Christopher Mirabile
ACA Vice Chair

Marianne Hudson
ACA Executive Director

Michael Eckert
ACA Public Policy Chairman

Linda L. Smith
ACA Public Policy Vice Chair
LIST OF KEY LEGISLATORS

SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Richard Shelby R-AL    Dick Reeves
Mike Crapo R-ID
Bob Corker R-TN        Jason Denenberg
David Vitter R-LA      Mike Eckert
Pat Toomey R-PA        Catherine Mott
Dean Heller R-NV       Linda Smith, Bill Payne
Tim Scott R-SC         Matt Dunbar
Benjamin Sasse R-NE    Tom Cotton R-AR
Mike Rounds R-SD       Marianne Hudson, Rick Vaughn
Jerry Moran R-KS       John Huston, Parker MacDonnell, Tony Shipley
Sherrod Brown D-OH    Joe Donnelly D-IN
Theresa Sedlack
Heidi Heitkamp D-ND    Katherine O’Neill
Robert Menendez D-NJ   John Tester D-MT
Mark Warner D-VA       Liz Marchi, Bill Payne
Elizabeth Warren D-MA  Jean Peters, Frank Ball

SENATE COMMITTEE ON FINANCE

Orrin Hatch R-UT       Bob Goff
Mike Crapo R-ID
Pat Roberts R-KS       Marianne Hudson, Rick Vaughn
Mike Enzi R-WY
John Cornyn R-TX      Jamie Rhodes, Chuck McCoy
John Thune R-SD
Johnny Isakson R-GA    Bernie Dixon, Bob Franklin
Rob Portman R-OH       John Huston, Parker MacDonell, Tony Shipley
Pat Toomey R-PA        Catherine Mott
Dan Coats R-IN         Theresa Sedlack
Dean Heller R-NV       Linda Smith, Bill Payne
Chris Murphy D-CT      Angel Investor Forum
Tim Scott R-SC         Matt Dunbar
Ron Wyden D-OR
Maria Cantwell D-WA   Dan Rosen
Robert Menendez D-NJ   Katherine O’Neill
Tom Carper D-DE
Mark Warner D-VA       Jean Peters, Frank Ball
HOUSE COMMITTEE ON WAYS AND MEANS

Paul Ryan R-WI
Charles Boustany R-LA Mike Eckert
Aaron Shock R-IL Marianne Hudson, Rick Vaughn
Lynn Jenkins R-KS Catherine Mott
Patrick Meehan R-PA Michael Cain, Andy Dreyfuss, Elaine Bolle
Kristi-Noem R-SD
George Holding R-NC
Jason Smith R-MO
Richard Neal D-MA David Verrill, Christopher Mirabile
Ron Kind R-WI Mike Eckert

HOUSE COMMITTEE ON FINANCIAL SERVICES

Jeb Hensarling R-TX Jamie Rhodes, Chuck McCoy
Scott Garret R-NJ Katherine O'Neill
Patrick McHenry R-NC Michael Cain, Andy Dreyfuss, Elaine Bolle
Bill Posey R-FL Tim Cartwright
Blaine Luetkemeyer R-MO
Bill Huizenga R-MI Ken Kousky
Sean Duffy R-WI
Robert Hurt R-VA Jean Peters, Frank Ball
Steve Stivers R-OH John Huston, Parker MacDonell, Tony Shipley
Mick Mulvaney R-SC Matt Dunbar
Ann Wagner R-MO
Luke Messer R-IN Theresa Sedlack
David Schweikert R-AZ Curtis Gunn
Robert Dodd R-IL
Frank Guinta R-NH David Verrill, Christopher Mirabile
Maxine Waters D-CA Jim Connor, Steve Flaim, Sarosh Kumana
Nydia Velazquez D-NY David Rose
Ed Perlmutter D-OH John Huston, Parker MacDonell, Tony Shipley
John Carney D-DE
Terri Sewell D-AL Dick Reeves
Bill Foster D-IL
Dan Kildee D-MI Ken Kousky
Patrick Murphy D-FL Tim Cartwright
John Delaney D-MD
Krysten Sinema D-AZ Curtis Gunn
Joyce Beatty D-OH John Huston, Parker MacDonell, Tony Shipley
Denny Heck D-WA Dan Rosen
Juan Vargas D-CA Jim Connor, Steve Flaim, Allan May
CONGRESSIONAL MEETING GUIDELINES

1. **Contacting your Senator and Representative:**
   a. **The most effective time to meet with your Representative or Senator is when they are in their home district.** There is a greater likelihood the member will personally be there and will be more focused on local constituents and concerns. Enclosed in this toolkit is a list of the 2015 dates when members are likely to be in their districts.
   b. **If you are planning on being in Washington DC, we suggest you try to meet with your legislators.** In this case please contact Mike Eckert, mjmeckert@cox.net, or Linda Smith, LLSmith2650@aol.com of ACA. We will connect you with APCO, our lobbying firm in Washington which will help you get meetings schedules with your respective legislators.

2. **Timing and length of meeting:** Members of Congress have many demands on their schedules. We suggest asking for a 15-30 minute meeting, showing you respect the demands on the Member’s time and can convey your concerns succinctly. Often you will get more time, but plan to keep your pitch short.

3. **Key “asks” during this meeting:** In this toolkit you will find suggested talking points for meeting with Members of Congress. It is helpful to be clear on your “asks”—what bills you want them to co-sponsor, introduce, or support and that you would like them to contact the SEC regarding verifying and expanding the Accredited Investor Definition. We have included a three-page handout prepared by ACA titled “Angel Investing: Key to US Jobs and Economic Health” that you can give to the Congressional Member and his/her staff to re-enforce your talking points. Your focus is to ensure the Member of Congress is personally knowledgeable about the public policy issues effecting start-up, innovative companies and angel investors like you who support them.

   **Some of the points you may want to cover:**
   
   A. **What is an angel investor**
   B. **What is ACA (Angel Capital Association)**
   C. **Impact of angel investors on the economy and job creation**
   D. **Examples of familiar companies angels have supported (Google, Starbucks, Home Depot)**
   E. **Examples of two to three companies in your state or locale that have benefited from Angel investing**
   F. **Summarize the three policy issues: Retaining the current Accredited Angel definition, refining the SEC ruling on General Solicitation, and improving and extending the capital gains tax exemption**

4. **What to Ask For:** Inform the Member of Congress you would appreciate their help on three things:
A. **Send a letter or meet with the SEC asking the Commission to keep the current definition of Accredited Investor.** Give them a hard copy of the draft Congressional letter included in this toolkit and e-mail a copy to his/her staff who sit in on the meeting.

B. **Support legislation that would clarify for the SEC what constitutes a General Solicitation (Ask them to co-sponsor or agree to vote for the HALOS Act**

C. **Support passage of the 100% capital gains tax exemption for 2015 and preferably a multi-year extension with a decrease in the investment holding period to 2 years and the inclusion of LLCs (limited liability corporations)**

5. **“Bring it Home” by bringing entrepreneurs:** The most effective in-district meetings include representatives of companies located in the legislator’s district. Ask them to share their story of why Angel investing was important to their efforts. Legislators want examples, stories, and their ramifications in addition to any facts and data you provide. Bringing it home to the Congressman by showing them real-life people with personal stories to tell can be the best way to cement your relationship.

6. **Wrap-up:** If there is enough time, indicate who is “on the other side” (State Securities Commissioners, consumer advocates, AARP) and why their concerns should not apply to Angels who are risking their own money, not other people’s funds.

7. **Follow-up:** Get the name and e-mail address (or exchange business cards) with the staff person who sits in on the meeting. Ask for the name and contact information for the staff person in Wash. DC who handles SEC issues for the member of Congress. We suggest sending a “thank-you” e-mail within a day or two to the Congressperson expressing appreciation for the meeting and reiterating your discussion; copy in the staff person. Periodically request updates, perhaps by e-mail follow-ups to the staff person.

8. **Other suggested grassroots activities:** It is helpful to find other opportunities to interact with the Member of Congress such as town-hall forums, community meetings, church events, picnics, parades, or similar home district venues. Because Members of Congress meet so many citizens and deal with numerous issues, it is usually helpful to re-introduce yourself and remind the member about your meeting on Angel investing.

Consider submitting a letter to the editor or op-ed in the local newspapers about legislative issues and the needs of the district. Use local media to increase awareness about the linkages between Angel investing, job creation, and economic growth. Members of Congress and their staffs monitor the local media and will also connect your name with these issues.

Befriend the Member through the various social media channels, such as Facebook.

**Invite the Congressperson to speak to your Angel Group or other community-based groups that you are active in. Legislators appreciate the opportunity.**

Consider attending local fund-raising events on behalf of the members. It is okay to be bi-partisan and attend events for both political parties.

9. **Some cautions to consider:** If you are a personal friend and/or know the member well you may want to address them in an informal manner. Otherwise we suggest using their formal title of Senator or
Representative during your first meetings. It is probably best not to start by telling them you have contributed to their campaign. Do tell them that you enjoyed meeting them at (insert the location when you last saw them). When you bring an entrepreneur, know what that person will say and it is wise to steer clear of entrepreneurs who has prominently supported an opposing candidate.

10. **Give us your feedback:** The ACA Public Policy Committee and staff would welcome your comments on what meetings you arranged and the responses from your Members of Congress.
2015 CALENDAR
DATES WHEN MEMBERS OF CONGRESS
WILL BE IN THEIR DISTRICTS AND STATES

House of Representatives

May 4 - May 8
May 26 - May 29
June 29 – July 3
August 3 – Sept 4
Sept 21 – Sept 25
Oct 13 – Oct 16
Nov 9 - Nov 13  (Nov 11 is Veterans’ Day)
Nov 23 - Nov 27  (Nov 26 is Thanksgiving)

Senate

May 26 – May 29
June 29 – July 6  (July 4 is Independence Day)
Aug 10 – Sept 4
Oct 13 – Oct 16
Nov 23 – Nov 27  (Nov 26 is Thanksgiving)
Dec 21 – Dec 31  (Dec 25 is Christmas)
THREE CRITICAL PUBLIC POLICIES
TO PROMOTE INNOVATION AND JOB CREATION

Expand the Definition of Accredited Investor
The Dodd-Frank Act was enacted in 2010. One of its provisions is that the SEC must review the accredited investor definition every 4 years. The current thresholds are $200K in income or $1 million in net worth (excluding the value of a primary residence). Since last year the SEC has been receiving comments about these thresholds. ACA's position is that Congress should:

- **Direct the SEC to maintain the existing financial thresholds.** Some proposals to raise the thresholds to $450K or $2.5m net worth would eliminate nearly 60% of eligible households. We must share our voices to refute these. (See enclosed draft letter for members of Congress to submit to the SEC)

- **Direct the SEC to adopt “sophistication” standards that will expand the scope of who is accredited, thus allowing more access to needed funding by small, innovative firms.** Standards might include academic degrees in finance, prior high level fiscal professional experience, or a track record of successful small business investments. Crowdfunding is not a substitute for maintaining the current base of accredited investors

Implement the JOBS Act Properly
Extensive rulemaking by the SEC threatens to undermine Congress’s intent to ease the ability of small companies to raise capital. ACA’s position is that Congress should:

- **Mandate the SEC to clearly define what constitutes “general solicitation”**. The Act mandated the SEC to allow issuers of private offerings to use general solicitation as long as all purchasers are accredited investors. Issuers must take “reasonable steps to verify” the financial status of purchasers. This is SEC Rule 506(c). Thousands of universities, research organizations, incubators, accelerators, and economic development agencies sponsor events for entrepreneurs to demo products and to meet potential investors, customers and supporters. These activities should be exempted from “general solicitation” so young companies do not inadvertently violate SEC Rule 506(c). ACA’s position is that the bi-partisan HALOS Act should be reintroduced and passed by Congress.

- **Direct the SEC to establish facts and circumstances on how to verify accredited investor status.** The SEC established a “principles based approach” for this verification process and also provided four optional “safe harbors” that require issuers or a 3rd party to review private financial information
to verify income and net worth. Angel investors should not be required to reveal private financial data, as is true for crowdfunding participants (Title III) or Regulation A (Title IV) investors. ACA believes membership in an Established Angel Group (EAG) should officially be deemed to meet the verification test. EAG is a high standard that requires adherence to best practices, education and strict codes of conduct. ACA’s position is that legislation should be introduced and passed to accomplish this.

Encouraging Small Business Investments

Congress has long recognized that exempting gains on investments in qualified small businesses encourages investing in innovative start-ups and spurs job formation. Congress extended the 100% capital gains tax exemption last year, but the 100% provision expired on December 31, 2014 and reverts to 50%. Congress should:

- **Permanently extend the 100% capital gains exemption**
- **Decrease the required holding period to 2 years from 5 for qualified small business investments**
- **Allow small businesses operating as LLCs to qualify, similar to corporations**

The last significant overhaul of the US tax system was 1986. Since then most changes have been temporary, implemented by reams of rules. ACA supports a simplified, permanent tax code with the above provisions.
Angel Investing:  
Key to US Jobs and Economic Health

What is an Angel Investor?  
Angels are accredited investors who invest their own money in high-risk, high-growth early-stage enterprises that fuel our nation’s job growth and economic health. Angel investors are the primary source of outside capital for promising startups and entrepreneurs – providing an estimated 90% of such outside funds.

In 2013, angel investors invested nearly $25 billion in more than 71,000 startups. Increasingly, angels organize into formal groups (there are about 400 groups nationwide, with more than 20,000 accredited members) to share expertise, best practices and costs of accessing deal flow, due diligence and deal management. They also form syndicates to ensure that the entrepreneurs they fund have the capital necessary to start and grow their companies.

Angel investment differs from venture capital. VCs pool funds from mostly institutional investors and largely invest in companies that have proven viability and have entered a strong growth phase. Many VCs rely on angels to fund the smaller initial amounts required to establish viability.

While angels approach each deal with an expectation of success, investing in early-stage companies is highly risky. With a well-managed, diversified portfolio, data indicate angel investing can lead to 20+% return over time; however, angels lose some or all funding in more than half of all investments.*

Companies First Funded By Angel Investors Include Household Names

Angel Investors: Vital to Economic Health of Communities and Nation

Angel investing creates jobs. From 1980 to 2005, firms less than 5 years old accounted for ALL net job growth in the US.* At the earliest stage, when neither banks nor venture capital will invest, angels are often the only source of equity for young businesses. Angel capital focuses on companies with potential to rapidly add hundreds of jobs, and achieve $10 to $50 million in sales within several years.

Mentorship by angels is often a critical success factor for early-stage companies. Funding is not the only investment angels make in startups: in addition, angel investors promote growth and success by introducing entrepreneurs to high-value potential customers and resources, counseling them during challenging times, and helping them gain credibility and market share. There are angels and angel groups in every state and region energetically working with startups to build and grow jobs in their communities and to help create wealth for entrepreneurs as well as potential returns for themselves.

Angels fuel innovation and competition. Seed capital provided by angels is vital to continued innovation and US leadership globally in technology, healthcare, telecom, energy and other job-generating growth sectors of the economy. Angel investing often makes the difference between a company remaining on the runway or soaring into flight.

*Sources: Kauffman Foundation: Returns of Angels in Groups, Robert Wiltbank; and US Business Dynamics Statistics Briefing: Jobs Created from Business Start-ups
What Angel Investors Need From Congress

Angel Investing Plays a Vital Role in Our Nation’s Economy
Congress has long supported and encouraged private sector activity that helps improve the economic health of our nation. Support of the angel investing ecosystem is critical to the success of those efforts. Angel investors provide most of the initial seed capital to new, high-growth enterprises. Angel investors take the most risk, with their own funds, time and energy, to help young companies grow, create jobs and succeed.

Three Critical Issues Impacting the Angel Investing Community Today

• Capital Gains Exemption for Small Business Investments
Under Section 1202 of the 2012 American Taxpayer Relief Act, gains on investments in Qualified Small Business Stock were exempted from taxation – a provision that expired at the end of 2014. This legislation has catalyzed investment in the innovative startups and should be reinstated, made permanent and improved in two ways:
  • Decrease the required investing holding period to 2 years from 5
  • Allow small businesses operating as LLCs to qualify, in addition to corporations currently allowed.

• Jumpstart Our Business Startups (JOBS) Act
The JOBS Act was intended to ease the ability of small and young companies to access capital needed to succeed. Its implementation via extensive rulemaking by the SEC, threatens to do the opposite.

  General Solicitation Congress should mandate the SEC to provide a clear definition of what constitutes “general solicitation.” The act mandated the SEC to allow exempt offerings to use general solicitation as long as all purchasers are accredited investors. Issuers must take “reasonable steps to verify” the accredited status of purchasers. Today, thousands of economic development agencies, universities and research organizations sponsor events for entrepreneurs to demo products and meet investors, customers and supporters. ACA believes these should be specifically exempted from the category of “general solicitation,” so that young companies do not inadvertently violate this rule (Rule 506(c)). The bi-partisan HALOS Act in the last Congress should be reintroduced

Verification of Accredited Investor Status
The SEC established a “principles-based-approach” for this verification process, and also provided four optional “safe harbors” that require issuers (or 3rd party) to review private financial information to verify income and net worth. Congress should direct the SEC to provide guidance on facts and circumstances that meet the principles-based test; in particular, membership in an Established Angel Group (EAG) should officially be deemed to meet the verification test. EAG membership is a high standard that requires adherence to best practices, education and strict codes of conduct that are critical to success in the angel investing sector. Importantly, neither Crowdfunding (Title III) nor Regulation A (Title IV) require issuer verification of income or net worth. Investors under Rule 506(c) should similarly be allowed to certify their own financials.

Accredited Investor Definition
Under Dodd-Frank, the SEC must review the accredited investor definition in 2014 and every 4 years thereafter. The current thresholds are $200K in income or $1M in net worth (excluding the value of primary residence). These thresholds should not be raised.

Raising them for inflation (to $450K income and $2.5M net worth) would eliminate nearly 60% of eligible households, severely impacting the capital raising efforts of innovative small businesses, which in turn will result in fewer jobs and less growth. Crowdfunding is not a substitute for maintaining the current base of accredited investors.

Number of US Households that Qualify as Accredited Investors Based on 2010 Net Worth

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<th>Household Net Worth ($) millions</th>
<th>Number of Households (millions)</th>
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<tr>
<td>$1-$2.5</td>
<td>5.37</td>
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<tr>
<td>$2.5-$5</td>
<td>1.08</td>
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<tr>
<td>$5-$10</td>
<td>0.83</td>
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<tr>
<td>$10-$50</td>
<td>0.60</td>
</tr>
<tr>
<td>&gt;$50</td>
<td>0.01</td>
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</table>
Angel Capital Association

ACA is the world’s leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, industry voice, public policy advocacy and an array of benefits and resources to its membership of more than 12,000 individual accredited investors in all 50 states and Washington, DC.

www.angelcapitalassociation.org

@ACAAngelCapital

Information: Marianne Hudson, Executive Director mhudson@angelcapitalassociation.org 913.894.4700

Investments by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>31.9%</td>
</tr>
<tr>
<td>Healthcare/ Life Sciences</td>
<td>20.9%</td>
</tr>
<tr>
<td>Mobile &amp; Telecom</td>
<td>13.3%</td>
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<tr>
<td>Industrial (includes Clean Tech)</td>
<td>6.0%</td>
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<tr>
<td>Consumer Products</td>
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<tr>
<td>Software</td>
<td>4.5%</td>
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<tr>
<td>Electronics</td>
<td>3.8%</td>
</tr>
<tr>
<td>Other</td>
<td>14.2%</td>
</tr>
</tbody>
</table>

ACA Member Groups are Located in Every State

Providing Capital for Economic Growth Across the US

Angel Group Deals are Widely Distributed Nationally

2013 Share of Angel Group Deals by Region
Helping Angels Lead Our Startups (HALOS) Act

On July 10, 2013, the SEC adopted Regulation D 506(c) in accordance with provisions in the Jumpstart Our Business Startup (JOBS) Act. Intended to support startups and provide small businesses across the country with the means to raise capital, 506(c) permits start-ups to use general solicitation when raising capital for non-publicly traded corporations, but only if investors are deemed accredited. Currently, an investor may either provide financial and wealth documentation to a third party such as a broker, banker, or accountant; or provide financial or wealth documentation to the entrepreneur.

This rule change has its heart in the right place: allowing businesses to take advantage of vastly expanded information technologies to advertise, while seeking to protect these businesses from investors with financial means but little experience in managing risk. However, with a collective median 9 years of experience in investing, and 15 years of experience as entrepreneurs angels are distinctly different from these less experienced investors. In addition, handing over personal wealth and financial documentation to a single third party poses privacy concerns, and asking entrepreneurs -- which may not have the physical or financial means to vet investors -- puts them at risk of violating compliance.

The HALOS Act would alleviate some of the burden posed by this new rule by protecting certain events – like demo days – from being classified as general solicitation and subject to the accreditation process. These types of events, frequented by angels and startups, existed for years during the ban on general solicitation. As the JOBS Act was meant to expand access to capital, it doesn’t make sense to add additional hoops for angels to jump through in an effort to fix something that isn’t broken.

The HALOS Act would clarify the definition of general solicitation as not applying to a presentation, communication, or event:

- Sponsored by federal, state, or local government; a college or university; non-profit; established angel group; venture forum, venture capital association or trade association; or any other group approved by the SEC.
- Whose advertising does not make any specific investment offering.
- Whose sponsor does not make investment recommendations or provide investment advice to attendees or engage in investment negotiations with investors attending the event.
- Where no specific information regarding investments is communicated by the issuer other than that they are offering securities, the type and amount of securities being offered, the amount of securities still available, and the intended use of the securities.
DRAFT LETTER FOR CONGRESS

The Honorable Mary Jo White, Chairman
US Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: Accredited Investor Definition and General Solicitation proposed regulations

Dear Chairman White:

I understand that the Commission will soon review the accredited investor definition, as required under the Dodd-Frank Act, and has issued draft regulations on what constitutes a General Solicitation. I am asking the Commission to retain the financial thresholds of $1 million in net worth or $200,000 income that are currently in the definition. I am also supporting efforts to retain the current regulation on general solicitation, known as Regulation D.

Congress acted purposefully to strip the Dodd-Frank Act of a provision to increase these thresholds to track inflation. As the record reflects, Congressional action was designed to “save angel investing.” With Angel investors providing upwards of 90 percent of all outside equity capital to innovative, high-growth startups that are responsible for most of the jobs created in our economy. If the net worth threshold is raised to $2.5 million, as advocated by some, the loss of capital support for “seed-stage” companies would be devastating. A contraction in angel investing could stall local economic development, university technology innovation initiatives, and stem innovation and job growth. At the same time, millions of Americans would instantly lose the opportunity to participate in the innovation economy that is largely the purview of companies raising funds privately from accredited investors.

The Commission was tasked under Dodd-Frank with periodic review of the definition “for the protection of investors, in the public interest, and in light of the economy.” With respect to investments by angels in startups, all three aims are perfectly aligned. Angel investment in startups is almost completely free from fraud -- largely a result of concerted due diligence, negotiated terms, and ongoing entrepreneur support that is the hallmark of angel investing. The public interest is well served, on every Main Street in the United States where local angels invest in their own communities. And the single most important issue in our economy is job creation. Nobody creates more net new jobs than the small companies that angels, and angels alone, fund at their earliest stages.

I applaud the Commission’s stated approach of considering alternative criteria to satisfy the accredited investor definition based on sophistication with regard to investing in private offerings. The Commission’s focus is well-placed on not further restricting who may be eligible, but on how expansion of the pool of angel investors might be prudently accelerated. Both the public interest and the health of our economy would be well served by the addition of such qualitative criteria to determine accredited investor status, as wealth itself may not be a meaningful proxy for investor sophistication.

The exempt market is far too large and vital to the economy to unfairly exclude all but the most ultra-wealthy from participating in America’s innovation economy. By doubling the wealth and income levels required for accreditation, more than half of the 350,000 active angels in the United States would be excluded from making angel investments as accredited investors. This would have a devastating impact on the $24.8 billion of angel investments, and more than 71,000 companies started each year. Congress acted to protect the existing angel investors, and the opportunity they have to make seed investments. The accredited investor definition itself has proven that – as the number of qualifying households has grown and more individuals become accredited angel investors - the incidence of fraud remains minimal.

With these factors in mind, I ask the Commission to maintain the current financial thresholds, while identifying additional criteria that would prudently expand this investor sector to serve the public interest and help build the innovation economy essential to the nation’s success.
Additionally, I am concerned about pending SEC regulations that would inhibit the ability of entrepreneurs to solicit funds from Angel investors. The proposed change to Regulation D being considered by the SEC would unfortunately create a considerable burden on small start-up companies, could result in the demise of some of these start-ups, and drive away Angel investors. This result is exactly the opposite of the intent of Congress when it approved the JOBS Act. I am enclosing a November 4, 2013 letter from the Angel Capital Association that further elaborates on these concerns.

I look forward to your response.

Sincerely,

Enclosure: November 4, 2013 Ltr from ACA re: File No. 57-06-13