



ANGEL CAPITAL ASSOCIATION

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.

Every year angels invest about \$25 billion in more than 70,000 startups. Angels and venture capitalists have invested roughly the same amount of money for many years, although angels invest in 15 times more businesses. An estimated 300,000 angels supported promising companies in every American state.

Angel investment differs from venture capital, but there are similarities in professionalism. Angels invest much earlier, usually at the startup stage and their own personal capital. VCs pool funds from mostly institutional investors and largely invest in companies that have entered a strong growth phase, frequently with the benefit of initial angel investment 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.**

Many angels join formal angel groups to share expertise and pool their capital. There are about 400 groups in the US.

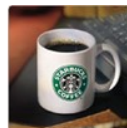
Companies First Funded By Angel Investors Include Household Names



amazon.com



Google



COSTCO
WHOLESALE



Angel Investors: Vital to Economic Health of Communities in Every State and the 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 creates jobs and fosters innovation. Support of the angel investing ecosystem is critical to the success of these 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, as well as time and energy to help young companies grow, create jobs and succeed.

Critical Issues Impacting the Angel Investing Community Today

• In Tax Reform, Continue Policies That Ensure Startups Can Access Capital

ACA supports the concept of simplifying the federal tax code, but believes it is important to continue policies that support investment in new businesses. A lower rate for long-term capital gains is important, as is keeping the permanent 100% exemption of gains on investments in Qualified Small Business Stock, passed under the Protecting Americans from Tax Hikes Act of 2016, ("IRC Section 1202").

This exemption has catalyzed investment in innovative startups and should be continued and also improved in two ways:

- Decrease the required investing holding period to 3 years from 5 to help angels who invest initially in LLC companies or through convertible notes.
- Allow small businesses operating as LLCs to qualify (adjusted for losses already filed), in addition to corporations currently allowed.

• Accredited Investor Definition

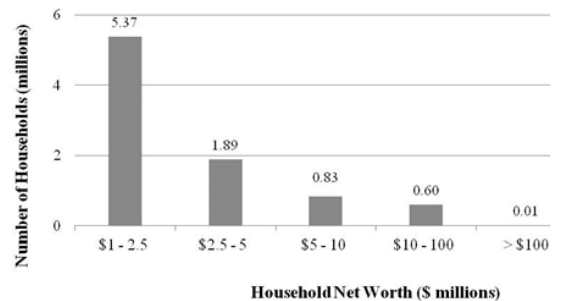
Under Dodd-Frank, the SEC was required to review the accredited investor definition starting in 2014 and every 4 years thereafter. The current thresholds are \$200K in income or \$1M in net worth (excluding the value of primary residence). SEC staff published a report in December, 2014, noting a number of options for updates to the definition.

These thresholds should not be raised by inflation going backward.

Increasing them for inflation since 1982 (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. The SEC has not recommended such an increase recently, but has received many recommendations to do so. Angels need consistency and constancy in

the definition to continue investing over time. Consideration should also be given to growing the pool of accredited investors by including individuals who are financially sophisticated by education or experience, implemented in a common sense way.

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



• Resolve the "99 Investor Problem"

Current securities regulations limit the number of accredited investors in a fund to 99. This arbitrary cap keeps capital away from entrepreneurs in both angel funds and syndicates on online platforms for accredited investors. ***ACA recommends the limitation be increased to 249 investors in funds of \$50 million or less and supports HR 1219/ S444.***

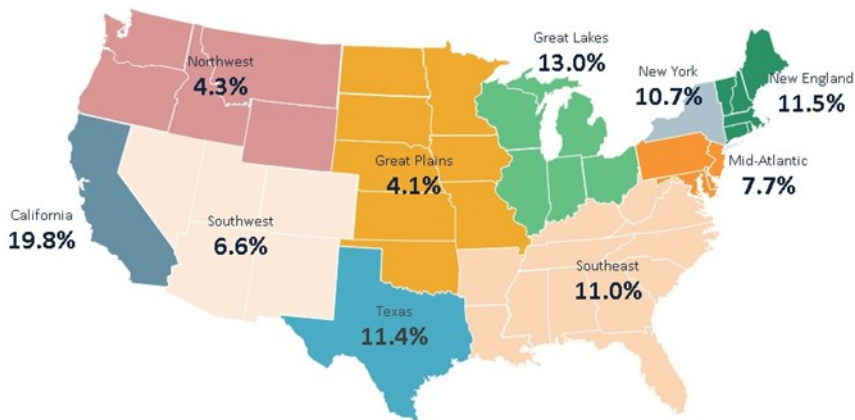
• Exempt Demo Days from General Solicitation Rules

Congress should mandate the SEC to provide a clear definition of what constitutes "general solicitation." The JOBS Act mandated the SEC to allow exempt offerings to use general solicitation as long as all purchasers are accredited investors. Issuers using general solicitation must take "reasonable steps to verify" the accredited status of purchasers, requiring angels to share their wealth and income statements with others and therefore leading most angels away from companies that use general solicitation. Thousands of economic development agencies, universities and research organizations have held demo day events for decades without fraud. Entrepreneurs demo products and meet investors, customers and supporters at these events, providing practical education to other entrepreneurs. ***ACA believes demo days 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 (HR 79) passed the House and ACA encourages the Senate to do the same via S 588.

ANGEL INVESTING STATISTICS

Angel Group Deals are Widely Distributed Nationally

2014 Share of Angel Group Deals by Region



Industry Sectors (by # of Deals)

Internet	31.9%
Healthcare/ Life Sciences	20.9%
Mobile & Telecom	13.3%
Industrial (includes Clean Tech)	6.0%
Consumer Products	5.3%
Software	4.5%
Electronics	3.8%

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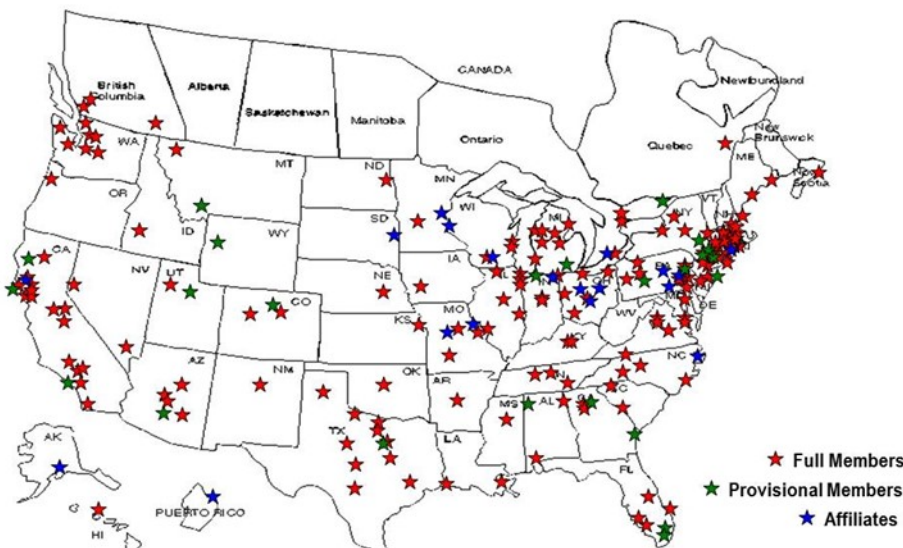
ACA is the country's leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, sharing of best practices, industry voice, public policy advocacy and an array of benefits and resources to its membership of more than 13,000 individual accredited investors in all 50 states and Washington, DC.

www.angelcapitalassociation.org

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ACA MEMBERS ARE IN EVERY STATE— Providing Capital for Economic Growth



ACA members are individual angels, members of angel groups, family offices, and management of online platforms for accredited investors. This map shows only ACA's organizational members by state



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