



To Applicants for Funding from BlueTree Allied Angels:

BlueTree Allied Angels is dedicated to the support of early stage entrepreneurs through education, mentoring and investment. Early stage innovation is the engine of job creation in our economy. We welcome entrepreneurs' applications for funding, and want to explain our policy in regard to companies using general solicitation for accredited investors, and our requirement that issuers use the **prescribed "principles-based methodology" (PBM)** to verify our accredited investor members.

Securities and Exchange Commission (SEC) Rule 506(c), effective September 23, 2013, allows companies to generally advertise or solicit investors. This is a major change in the 80-year history of securities law, and will impact most early stage companies and their investors. The term "general solicitation" is not precisely defined in SEC regulations, but has been deemed to include:

1. any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television and radio (includes internet); and
2. any seminar or meeting whose attendees have been invited by any general solicitation/advertising.

If an entrepreneur participates in any such activities – including publicly advertised events such as demo days, pitch competitions, etc. – general solicitation may be deemed to have occurred. In addition, we recognize some companies will want to proactively advertise for investors through social media or other general outlets, to broaden their access to capital.

We also recognize that some applicants will assert they are seeking funding under Rule 506(b), which prohibits the use of general solicitation, and allows accredited investors to self-certify as has always been done. We welcome all applicants, but are concerned that even the most "quiet" of offerings may inadvertently slip into the general advertising category. The penalties for failing to meet all requirements of 506(c) are extremely onerous and in the worst case could require a deal to be unwound. In addition, potential rules under consideration by the SEC may impose a one-year exclusion from raising funds for any company that fails to file in regard to a generally solicited offering – an almost certain death sentence for early-stage companies. The proposed rules would also impose extensive additional requirements on startups – many that we believe they will be unable to satisfy. As a result, we will carefully consider the potential for and consequences of inadvertent general solicitation in any due diligence process we may undertake with such issuers.

General solicitation comes with significant new requirements for entrepreneurs (issuers). Issuers must take "reasonable steps to verify" that all purchasers are accredited investors (for

definition see: www.sec.gov/answers/accred.htm). The SEC has provided a flexible, “principles-based methodology” to make this determination. After taking “reasonable steps,” an issuer must reasonably believe the purchaser is accredited (and not otherwise have knowledge that he/she is not). “Absolute proof” is not the standard, but issuers must document steps taken to verify.

The SEC also provided four alternative, non-mandatory, non-exclusive verification methods. These would require the issuer (or a third party) to verify income or net worth of investors, by reviewing detailed financial documentation such as IRS tax forms, banks statements, appraisals and credit reports. **We believe these methods place unreasonable, costly and dangerous burdens on both entrepreneurs and investors – and raise untenable privacy, cost and complexity concerns. Fortunately, their use should be unnecessary when dealing with an Established Angel Group.** The Angel Capital Association (ACA), of which we are a member, has provided guidance on applying the principles-based methodology when seeking funding from an Established Angel Group (EAG) such as BlueTree Allied Angels. This guidance is available at: www.angelcapitalassociation.org/data/Documents/Public%20Policy/GuidanceonEAG09_03_13.pdf.

BlueTree Allied Angels supports this methodology, and we require entrepreneurs seeking funding from our organization to consult with legal counsel to gain assurance that reliance on EAG membership will meet the verification test. We recognize these rules are complex, but all applicants are also expected to understand and be in compliance with all applicable SEC requirements.

BlueTree Allied Angels only accepts accredited investors for investment membership. Our members **will not** provide personal financial data to companies seeking investment.

We hope this clarifies our continued interest in early stage investments, while maintaining safety and security of sensitive financial information so our members may continue to actively invest. If you have additional questions, please contact: Catherine Mott, Founder, BlueTree Allied Angels 724-475-4538.