



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 2015, angels invested about \$24.6 billion in more than 71,000 startups. Angels and venture capitalists have invested roughly the same amount of money for many years, although angels invest in about 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. 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 capital. There are about 400 groups nationwide.

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.

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

• Accredited Investor Definition

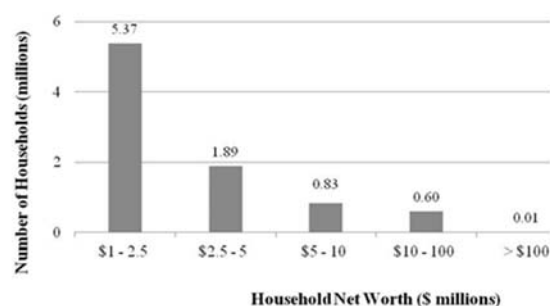
Under Dodd-Frank, the SEC must review the accredited investor definition in 2014 and every 4 years thereafter. The current thresholds are \$200K in income or \$1M in net worth (excluding the value of primary residence). SEC staff published a report in December, 2014, noting a number of options for updates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



• 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 should be passed (S. 978 and H.R. 4498).

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.

• Qualified Small Business Stock Improvements

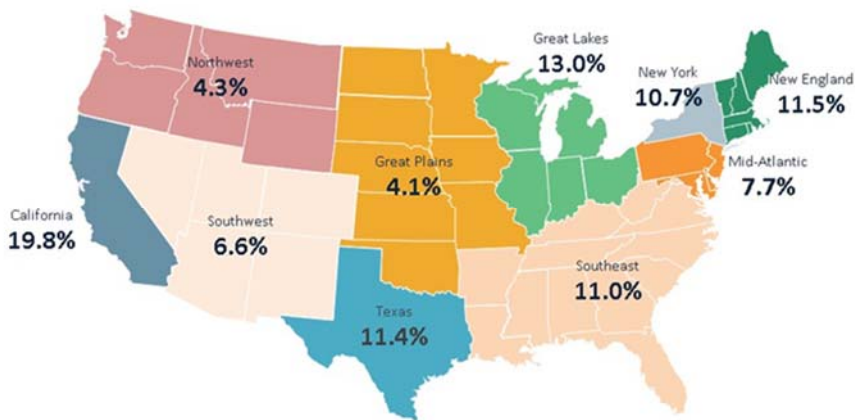
Under the Protecting Americans from Tax Hikes Act of 2016, gains on investments in Qualified Small Business Stock were exempted from taxation permanently. Thank you to Congress for this legislation on "IRC Section 1202." *This exemption has catalyzed investment in the innovative startups and should be improved in two ways:*

- Decrease the required investing holding period to 3 years from 5
- Allow small businesses operating as LLCs to qualify, in addition to corporations currently allowed.

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%

ANGEL CAPITAL ASSOCIATION

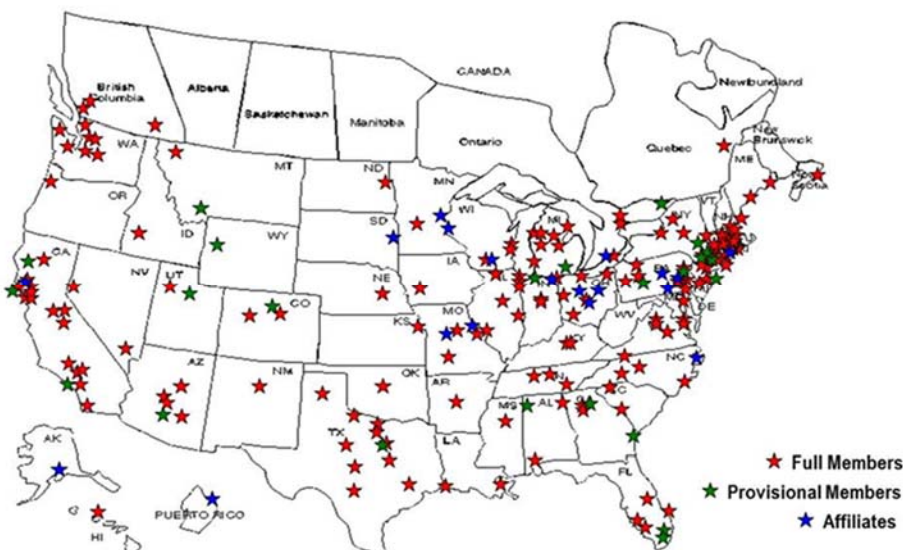
ACA is the world's leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, sharing of best practices, industry voice, public policy advocacy and an array of benefits and resources to its membership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

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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



ANGEL CAPITAL ASSOCIATION