



ANGEL CAPITAL ASSOCIATION

July 28, 2017

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 Capital*. 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 140 members of the House and Senate in the 115th 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. 2017 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 2017 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,

Linda Smith
ACA Board Chairman

Angela Jackson
ACA Public Policy Grassroots Team Chair

Marianne Hudson
ACA Executive Director

Christopher Mirabile
ACA Public Policy Chairman

KEY MEMBERS OF CONGRESS FOR ACA GRASSROOTS COMMUNICATIONS

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Tom Cotton (R-AR)

Dean Heller (R-NV)

John Neely Kennedy (R-LA)

David Perdue (R-GA)

Mike Rounds (R-SD)

Richard C. Shelby (R-AL)

Ben Sasse (R-NE)

Tim Scott (R-SC)

Thom Tillis (R-NC)

Patrick J. Toomey (R-PA)

Sherrod Brown (D-OH), Ranking Member

Catherine Cortez Masto (D-NV)

Joe Donnelly (D-IN)

Heidi Heitkamp (D-ND)

Robert Menendez (D-NJ)

Jack Reed (D-RI)

Brian Schatz (D-HI)

Jon Tester (D-MT)

Chris Van Hollen (D-MD)

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John Cornyn (R-TX)

Mike Crapo (R-ID)

Michael B. Enzi (R-WY)

Chuck Grassley (R-IA)

Dean Heller (R-NV)

Johnny Isakson (R-GA)

Rob Portman (R-OH)

Pat Roberts (R-KS)

Tim Scott (R-SC)

John Thune (R-SD)

Patrick J. Toomey (R-PA)

Ron Wyden (D-OR), Ranking Member
Michael F. Bennet (D-CO)
Sherrod Brown (D-OH)
Maria Cantwell (D-WA)
Benjamin L. Cardin (D-MD)
Thomas R. Carper (D-DE)
Robert P. Casey (D-PA)
Claire McCaskill (D-MO)
Robert Menendez (D-NJ)
Bill Nelson (D-FL)
Debbie Stabenow (D-MI)
Mark R. Warner (D-VA)

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Mike Kelly (R-PA) 3rd
Kenny Marchant (R-TX) 24th
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Kristi Noem (R-SD) at large
Devin Nunes (R-CA) 22nd
Erik Paulsen (R-MN) 3rd
Bruce Poliquin (R-ME) 2nd
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Jackie Walorski (R-IN) 2nd

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Judy Chu (D-CA) 27th
Joseph Crowley (D-NY) 14th

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Suzan DelBene (D-WA) 1st
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John Lewis (D-GA) 5th
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Terri Sewell (D-AL) 7th
Mike Thompson (D-CA) 5th

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Bill Huizenga (R-MI) 2nd
Randy Hultgren (R-IL) 14th
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Frank D. Lucas (R-OK) 3rd
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Robert Pittenger (R-NC) 9th
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Member 43rd

Joyce Beatty (D-OH) 3rd

Michael Capuano (D-MA) 7th

Emanuel Cleaver (D-MO) 5th

Wm. Lacy Clay (D-MO) 1st

Charlie Crist (D-FL) 13th

John K. Delaney (D-MI) 6th

Keith Ellison (D-MN) 5th

Bill Foster (D-IL) 11th

Vincente Gonzalez (D-TX) 15th

Josh Gottheimer (D-NJ) 5th

Denny Heck (D-WA) 10th

James A. Himes (D-CT) 4th

Ruben J. Kihuen (D-NV) 4th

Daniel T. Kildee (D-MI) 5th

Stephan F. Lynch (D-MA) 8th

Carolyn B. Maloney (D-NY) 12th

Gregory W. Meeks (D-NY) 5th

Gwen Moore (D-WI) 4th

Ed Perlmutter (D-CO) 7th

David Scott (D-GA) 13th

Brad Sherman (D-CA) 30th

Kyrsten Sinema (D-AZ) 9th

Nydia M. Velazquez (D-NY) 7th

Juan Vargas (D-CA) 51st

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 Angela Jackson, angela@portlandseedfund.com, or Linda Smith, LLSmith2650@aol.com of ACA. We will connect you with Eris Group, 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 for Qualified Small Business Stock**
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.

2017 CALENDAR
DATES WHEN MEMBERS OF CONGRESS
WILL BE IN THEIR DISTRICTS AND STATES*

House of Representatives

July 29 – Sept 4	(Labor Day is Sept 4)
Sept 15 – Sept 24	
Oct 14 – Oct 22	
Oct 27 – Oct 30	
Nov 10 – Nov 12	(November 10 is Veterans Day)
Nov 17 – Nov 27	(Thanksgiving = Nov 23)
Dec 15 – Dec 31	

Senate

July 31 – Sept 4	(Labor Day is Sept 4)
Sept 21 – Sept 22	
Oct 9 – Oct 13	
Nov 10	(Veterans Day)
Nov 20 – Nov 24	(Thanksgiving = Nov 23)
Dec 18 – Dec 31	

***Subject to change**

ACA TALKING POINTS

FOUR CRITICAL PUBLIC POLICIES TO PROMOTE INNOVATION AND JOB CREATION

Encourage Investments in Qualified Small Businesses.

Congress has long recognized that exempting gains on investments in qualified small businesses encourages investing in innovative start-ups and spurs job formation. Congress approved the 100% capitals gains tax exemption in 2015 in the PATH Act. 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.

As Congress considers overhauling the tax code, it should:

- **Continue the 100% capital gains exemption**
- **Allow investments in LLCs to count against the 5-year holding period for qualified small business investments if they LLCs convert into C Corps.**
- **Develop clarifications to tax reporting so that investors are more clear that companies are Qualified Small Businesses and meet all requirements.**
- **Increase the time to rollover gains from 60 days to 180 days.**

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 more 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. Past SEC clarifications are helpful, but are not clear enough to be accepted by the market. ACA's position is that legislation should be introduced and passed to accomplish this and/or communication with the SEC to provide clarification itself.
- **Direct the SEC to permanently withdraw proposed rule “Amendments to Regulation D, Advanced Form D, and Rule 156.”** The proposed rule came out in 2013 and has never been withdrawn, causing confusion in the startup ecosystem. It would require startups raising money via general solicitation (Rule 506(c)) to file an advanced Form D 15 days before they raise capital, update their business plan information on the same day any changes are made, and provide lengthy disclosures in written materials. This proposed rule allows issuers (entrepreneurs) to make a one-time correction to any violations, but then entrepreneurs would lose their right to raise capital for one year with any additional violations. Given that most startups would have considerable difficulty providing this information every time they change their communications -which

could be daily for many – the rule would put many startups in jeopardy of losing funding and therefore going out of business. Some consumer advocates and the SEC Investor Advisory Committee have recommended that the SEC approve the proposal to be a final rule. ACA’s position is that the rule should be withdrawn by the SEC Commissioners. Congress should communicate to the SEC that the proposal should be withdrawn.

- **Exempt “Demo Days” from the Definition of General Solicitation.** One of the components of the JOBS Act mandated the SEC to allow exempt offerings to use general solicitation as long as all of the people participating in the solicitation event were accredited investors. Decades prior to the JOBS Act and continuing today, thousands of local economic development organizations, universities, incubators, government agencies and research organizations sponsor “demo day” events for entrepreneurs to demonstrate their products and meet potential customers, investors and supporters. This is a nicer version of “Shark Tank.”

ACA believes these demo days should be exempted from the category of general solicitation because they do not involve fraud, are attended by the members of the “startup ecosystem,” and because there are no reasonable steps these entrepreneurs can take to verify that everyone at the “demo day” event meets the definition of an accredited investor. Failure to verify means the young company inadvertently violates SEC Rule 506(c) and could be required to return investment money to their investors. To avoid this situation ACA asked Congress to pass legislation (HALOS Act) to exempt demo days from the category of general solicitation. With bi-partisan sponsorship and support, the House passed our bill (H.R. 79) in January, 2017 with a vote of 344-73. The Senate version (S.588) is pending passage.

Address the “99 Investor Problem.”

Current law restricts the number of individuals who can invest in an angel or venture fund to a maximum of 99 people. Some angel groups and many online platform syndicates pool their money into a fund, or share investment deals between angel groups around the country. The America’s Innovators Act of 2017 (H.R. 1219) would increase the investor threshold to 249 individuals for funds of up to \$10 million. H.R.1219, sponsored by Rep. Patrick McHenry (R-NC), passed the House in April, 2017 with overwhelming bi-partisan support with a vote of 417-3. A similar bill with bi-partisan support in the Senate is S. 444.



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

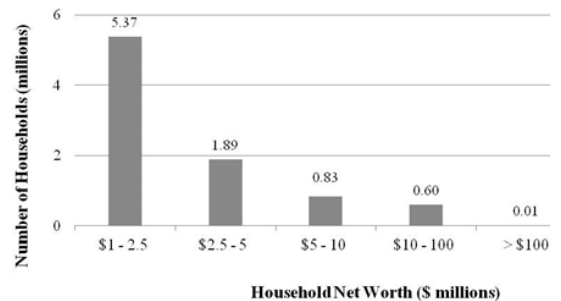
Under Dodd-Frank, the SEC was required to review the accredited investor definition starting in 2014 and every 4 years thereafter. The current thresholds are \$200K in income or \$1M in net worth (excluding the value of primary residence). SEC staff published a report in December, 2014, noting a number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

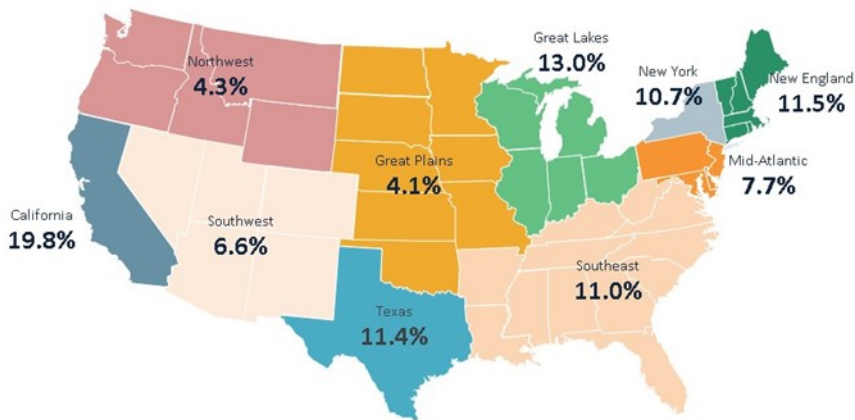
• Exempt Demo Days from General Solicitation Rules

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%



ANGEL CAPITAL ASSOCIATION

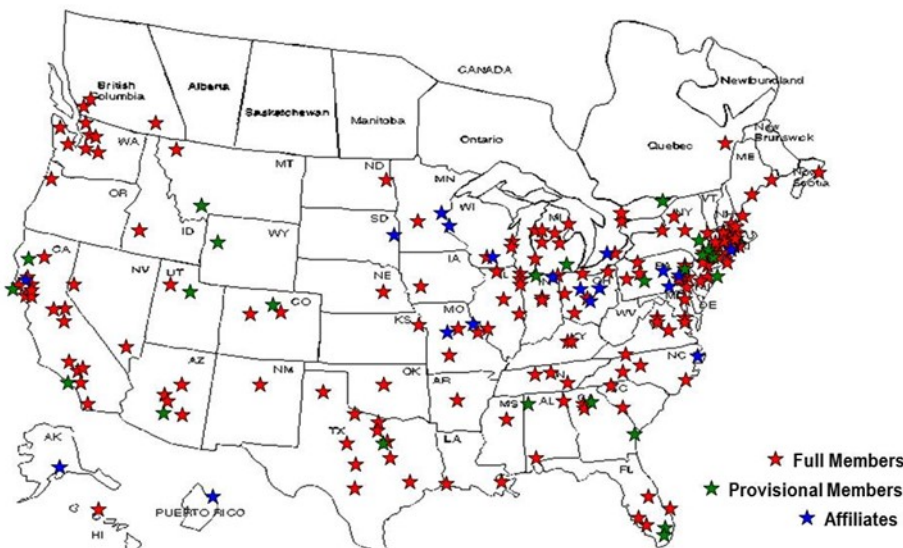
ACA is the country's leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, sharing of best practices, industry voice, public policy advocacy and an array of benefits and resources to its membership 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



ANGEL CAPITAL ASSOCIATION

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 Jay Clayton, Chairman
US Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Re: Accredited Investor Definition

Dear Chairman Clayton:

I understand that the Commission may review the accredited investor definition, as required under the Dodd-Frank Act. 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.

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 \$25 billion of angel investments, and more than 70,000 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.

I look forward to your response.

DRAFT LETTER FOR CONGRESS

Sincerely,