I want to thank SEC staff for giving the public an opportunity to comment at the start of the rulemaking process. This is a complicated subject area, but it also has the potential to do a lot of long-term good for the economy if it's managed well, and so I am glad that you're accepting input early.

I'd like to focus on the crowdfunding provisions in the JOBS Act. My background is that I've been a manager in Silicon Valley for more than two decades, including time at Apple, Palm, and several smaller companies. I'm currently cofounder of a startup soliciting early-stage funding. By the time the new rules are enacted, my company will either be too far along to take advantage of the new crowdfunding rules, or will be out of business. So I don't have a personal stake in the rules. But I do have very recent and vivid experience with the way the funding ecosystem works for startups, and also a lot of experience in the life-cycle of technology firms. That's the basis of my comments.

The current "system" for providing seed funding to startups is partly dysfunctional. Venture capitalists, and even most established angel investors, focus on companies that have already created a product or service and gathered a base of customers. In this sense, the VCs and angels act more like the public would expect a banker to act, providing capital to expand a business that is already in existence. Capital for startups in the formative stage is provided through a small network of incubators (many of which focus only on certain types of firms, usually web service startups), and by individual private investors who are not part of any formal network.

This has two very significant negative effects on startup formation:

--It is very difficult for anyone without extensive contacts to get very early seed funding, because they are not tied into the interpersonal network of investors. (I know this is contrary to what you hear in the press, but the press tends to report the lucky exceptions who get funding rather than the general outcome.) And

--Startups focused in business areas that are not in vogue with the incubators (for example, companies making hardware) find it extremely difficult to raise seed capital.

The barriers to hardware firms are especially damaging to the US economy because those firms could help revive US manufacturing and the large jobs base associated with it.

I believe that the crowdfunding element in the JOBS Act will help improve the flow of innovative startups, by enabling the formation of companies that do not fit the preconceptions of today's VCs and angel investors, and that are founded by people who are not already tech industry insiders. This should, if implemented properly, have important long-term benefits for the US economy.

As you know, these benefits need to be balanced against the need to protect investors from fraud. I believe the implementation of those protections will be the most difficult step in the regulatory process, because small startups are very weak financially, and it would be trivially easy to regulate them out of existence through excessive procedures. I'd like to offer these suggestions in the spirit of maximizing public protection while minimizing the negative impact on startups:

1. This probably goes without saying, but I recommend that the SEC write the regulations such that all of the disclosures and affirmation required for crowdfunding can be conducted online, without the requirement for in-person appearances or the filing of paper forms by investors or companies. That's

needed for efficiency, and to ensure that crowdfunding can expand beyond the geographic barriers that limit investment today.

2. In section 4A (a) (4), the disclosure and affirmation process could, if not handled carefully, be incredibly intimidating to potential investors. I recommend that staff focus on requiring very short, blunt disclosures and affirmations that can easily be understood by anyone. For example, asking someone to click a button saying "I understand that I could easily lose all of the money I invest in this company"or "I understand that X% of startups in this category fail" is a reasonable precaution. Requiring an investor to demonstrate an understanding of the intricacies of pre-and post-money valuation, or other arcane terminology used by the VC community, would have the effect of undermining the entire crowdfunding process.

Rather than focusing on the education of every investor, I recommend that you emphasize clear and broad disclosure of information about a crowdfunded company online, so that it can be reviewed and dissected by knowledgeable people in discussion forums. For example, you could require that background information on a company's managers and business plan be made accessible to anyone online, not just to investors.

The online discussion process already works extremely well for publicly traded companies, where some of the best analysis is currently being done by online commentators. If you mandate disclosure, the online ecosystem will take care of the rest for you.

3. Section 4A (a) (5). It's not clear to me what the background check would be for officers in a startup seeking funding. Does the SEC offer this as a service? If so, how much does it cost and how long does it take? I think that making sure a startup founder doesn't have a record of fraud convictions is a good idea, but keep in mind that small seed-stage startups do not have a lot of cash to burn for big investigations. That is why they are raising seed money in the first place. Anything that would require expenditures of even hundreds of dollars per company officer would be a big financial burden and would inhibit many startups.

This is another area where just disclosing their names to the public will be helpful, so investors can do their own research online.

4. Section 4A (a) (7). The timing for allowing withdrawal of an investment is important, and should be handled the same way that crowd-funded projects are. Specifically, investors can cancel before the goal is reached, but once the financial goal is reached, investments become irrevocable. Otherwise, the withdrawal of a single investor could cause a seed funding round to fall below its goal after it has already been concluded, making the entire fundraising round collapse at a time when it's not possible to start it up again. This would enable an individual investor to coerce preferential treatment from a company by threatening to withdraw an investment at the last minute.

5. Section 4A (a) (8). A crowdfunding portal can certainly track a person's investment activity on that portal, but unless the SEC offers some sort of very simple clearinghouse for tracking investors nationwide, I think a portal can't be expected to track investments made on other, competing portals. This is especially true as paragraph 9 requires the portals to protect the privacy of investors. In other words, if a private citizen lies to evade the investment limits, the consequences should fall on that citizen, not on the portals.

6. Section 4A (a) (10). I presume the intent of this paragraph is to prevent the creation of bounty shops pushing shady investments. I support that. But I recommend that staff be careful with the wording here -- if improperly written, it could prevent a crowdfunding portal from paying for search listings or advertisements in online social networks (such ads sometimes do provide identifying information to the advertiser). Those advertisements will be vital to the growth of the portals.

7. Section 4A (b) (1) (D) (iii). Wow. Requiring an audit for a company raising $500k is crazy. Most of the companies raising under $1 million barely exist, let alone have financial records worth auditing. Just hiring three or four engineers for a year in Silicon Valley can cost you more than $500k by the time you take into account benefits and taxes. Since the language of the law authorizes staff to change this financial limit, I strongly recommend raising it to $1 million. That will enable seed-level investments to occur without the cost and delay of a formal audit that won't deliver any useful information anyway.

8. Section 4A (b) (1) (G). As I mentioned above, "in writing" should allow electronic messages such as an e-mail. And the opportunity to rescind should end when the fundraising goal is reached.

9. Section 4A (b) (4). These disclosures should be the same as the disclosures required by 4A (b) (1) (D). In other words, don't force a company that raised $100k to start reporting audited results every year.

Thanks for your time. I hope these comments will be useful.

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