



ANGEL CAPITAL ASSOCIATION

Should the Commission Revise the Accredited Investor Definition?

SEC Government-Business Forum on
Small Business Capital Formation

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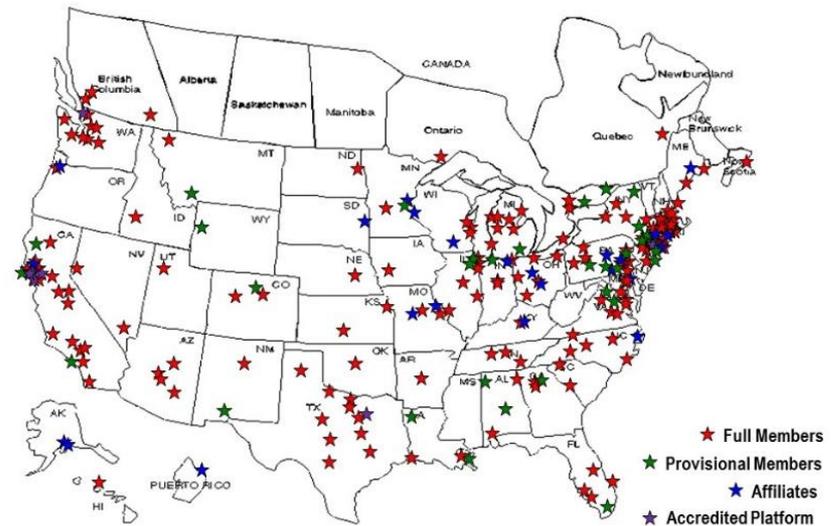
<http://www.gew.co/gbad>

Angel Capital Association

World's Largest Association of Accredited Angel Investors

www.angelcapitalassociation.org

- 12,000+ individual accredited investors
- 220+ angel groups and accredited platforms
- Voice of accredited angels
 - Best practices
 - Public policy



Mission: to fuel success of angel groups and accredited investors and the early-stage companies they support



Accredited Investor Definition

- Regulatory objectives
 - Investor protection
 - Streamline capital formation for small business
 - Maintain market integrity
- ACA goals
 - Preserve ability of knowledgeable investors to fund startups essential to job creation
 - Prevent undue obstacles to investor/entrepreneur relationship
 - Provide accredited investors education and best practices to enhance sophistication

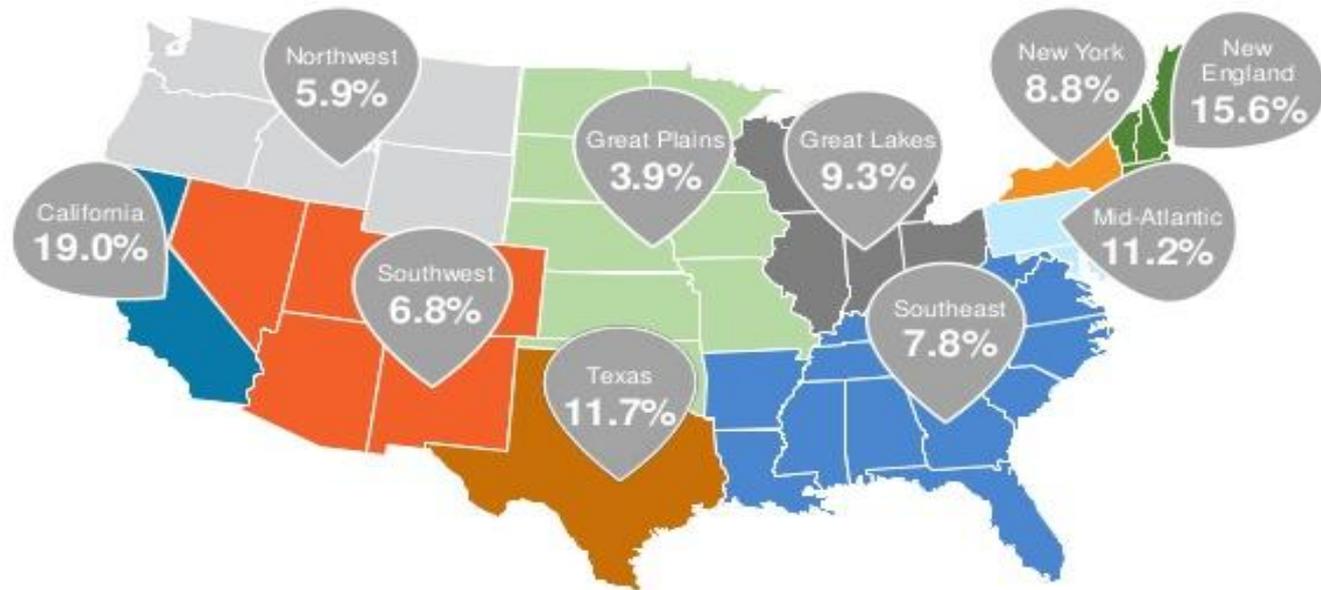


Angels Drive Most Startup Funding

- In 2013, angels invested \$25 billion in 71,000 companies
- Majority of net new jobs in US are from companies < 5 years old
 - High-growth startups create most of these jobs
 - Many receive angel funding prior to any VC investment
- Angels provide 90% of outside equity raised by startups
 - Virtually the only source of seed funding
 - 90%+ of VC goes for company expansion
- Angels deploy own funds and make own investment choices
- Approximately 200K-300K active angel investors

Where Angels Invest

Q2 2014 Share of Angel Group Deals by Region

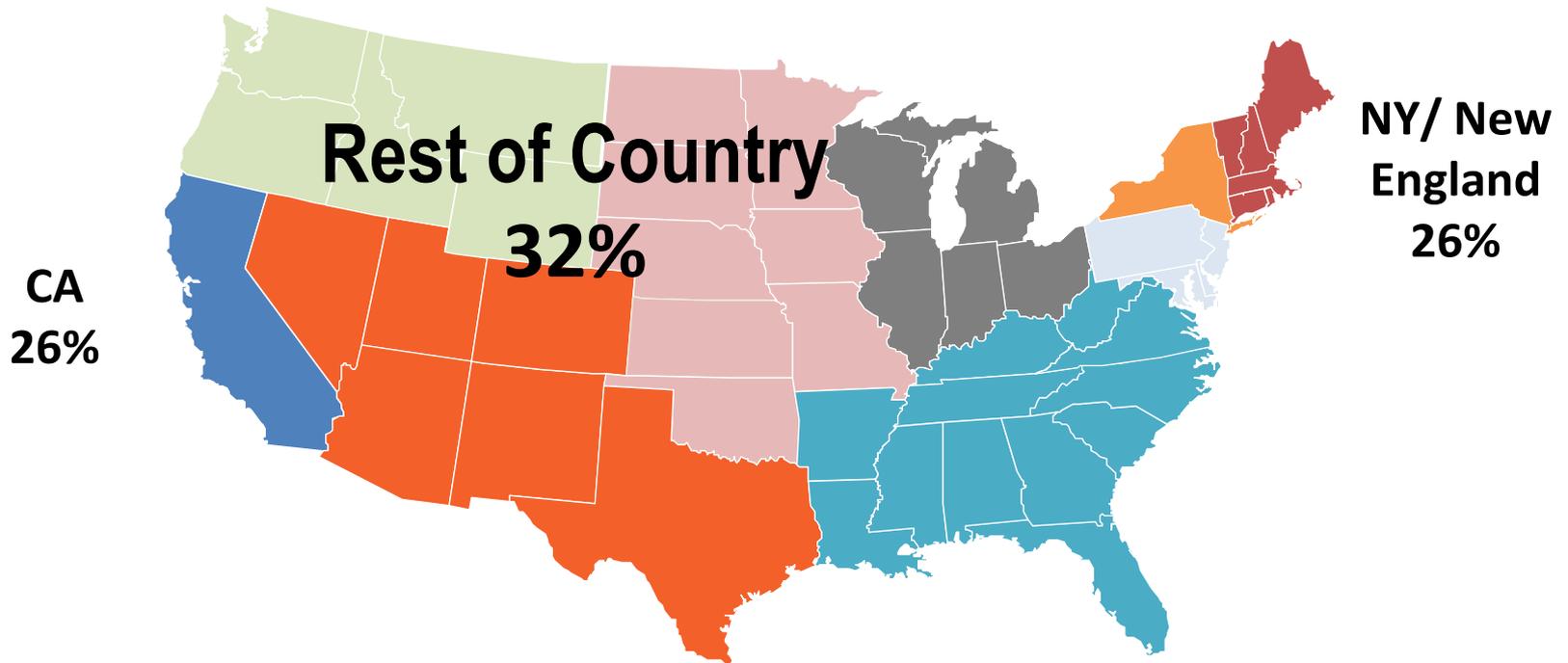


Angel Investing = Hands-On Work

- Not just a check – ongoing support of entrepreneur
 - Customer acquisition
 - Personnel
 - Develop strategy
 - Resources: office space, accounting, etc.
- Work hand-in-hand
 - Economic development
 - University tech transfer
 - Startup accelerators/incubators
- Active deal/risk assessment
 - Deal screening
 - ❖ Typically reject 90% that apply
 - ❖ Potential for growth/value creation
 - ❖ Fraud almost never an issue
 - Extensive due diligence
 - Negotiated terms – issuer does not set
 - ❖ Information rights
 - ❖ Board or observer seat
 - Intermediaries not involved
- Accredited platforms
 - Investors may follow a successful lead investor

Impact of Raising Thresholds - \$2.5M / \$400K

% of ACA members who would not qualify



Nationwide, nearly 60% of accredited investors would cease to qualify

(Source: GAO)

Map Data Source: ACA Member Survey, December 2013-January 2014



506(c) Issuer Verification Complicates Process

- Did issuer “solicit”?
 - University tech fair
 - Economic development event
 - Accelerator pitch day
- Is investor accredited?
 - Financial thresholds – who will verify?
 - Reluctant 3rd parties
 - Investor privacy; data security; expense
 - Sophistication
 - Degree?
 - Work experience?
 - Established angel group member?

Many groups will ONLY consider 506(b) – negating JOBS Act intent



ACA Recommendations

- Leave financial thresholds alone
 - Clearly understood and worked well for decades
 - Removal of primary residence (2010) was significant shift
 - Private market too large and vital to further restrict investor access
- Add sophistication criteria to expand class
 - Membership in an Established Angel Group™
 - Previous experience with Reg D offerings
 - Prior board, executive, or financial responsibility
 - Relevant degree or training: ACA certificate, MBA, JD, CPA, CFA, etc.
- Enable investors to certify via detailed questionnaire
 - Validates sophistication
 - Satisfy “issuer verification” for 506(c) deals