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.

In 2013, angel investors invested nearly $25 billion in more than 71,000 startups. Increasingly, angels organize into formal groups (there are about 400 groups nationwide, with more than 20,000 accredited members) to share expertise, best practices and costs of accessing deal flow, due diligence and deal management. They also form syndicates to ensure that the entrepreneurs they fund have the capital necessary to start and grow their companies.

Angel investment differs from venture capital. VCs pool funds from mostly institutional investors and largely invest in companies that have proven viability and have entered a strong growth phase. Many VCs rely on angels to fund the smaller initial amounts required 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*.*

Companies First Funded By Angel Investors Include Household Names

facebook amazon.com THE HOME DEPOT Google STARBUCKS COFFEE COSTCO WHOLESALE

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.

*Sources :Kauffman Foundation: Returns of Angels in Groups, Robert Wiltbank; and US *Business Dynamics Statistics Briefing: Jobs Created from Business Start-ups*

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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

• Capital Gains Exemption for Small Business Investments

Under Section 1202 of the 2012 American Taxpayer Relief Act, gains on investments in Qualified Small Business Stock were exempted from taxation – a provision that expired at the end of 2013. ***This legislation has catalyzed investment in the innovative startups and should be reinstated, made permanent. and improved in two ways:***

- Decrease the required investing holding period to 2 years from 5
- Allow small businesses operating as LLCs to qualify, in addition to corporations currently allowed.

• 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)).***

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.

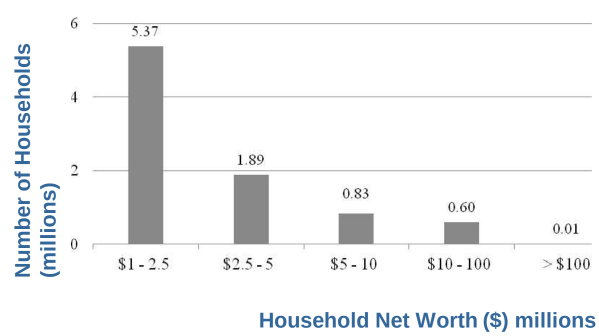
Accredited Investor Definition

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).

These thresholds should not be raised.

Raising them for inflation (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. Crowdfunding is not a substitute for maintaining the current base of accredited investors.

Number of US Households that Qualify as Accredited Investors Based on 2010 Net Worth



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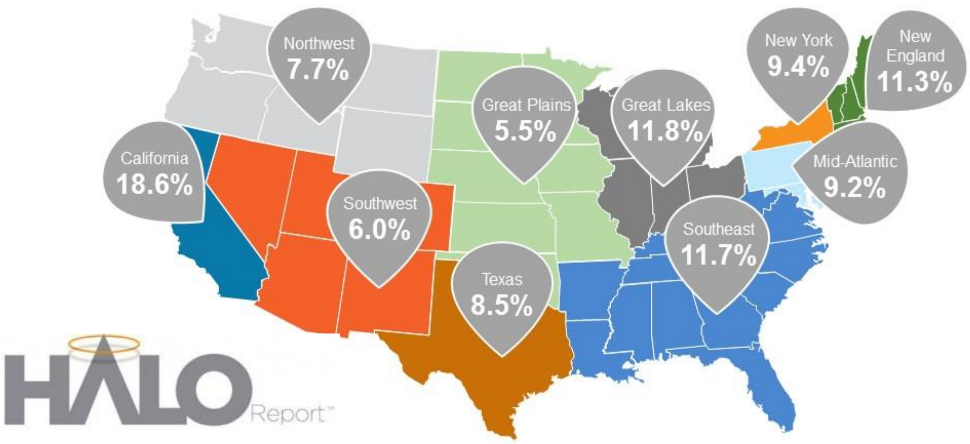
Angel Investment Deals Distributed Nationally
Share of Angel Group Deals by Region 2013



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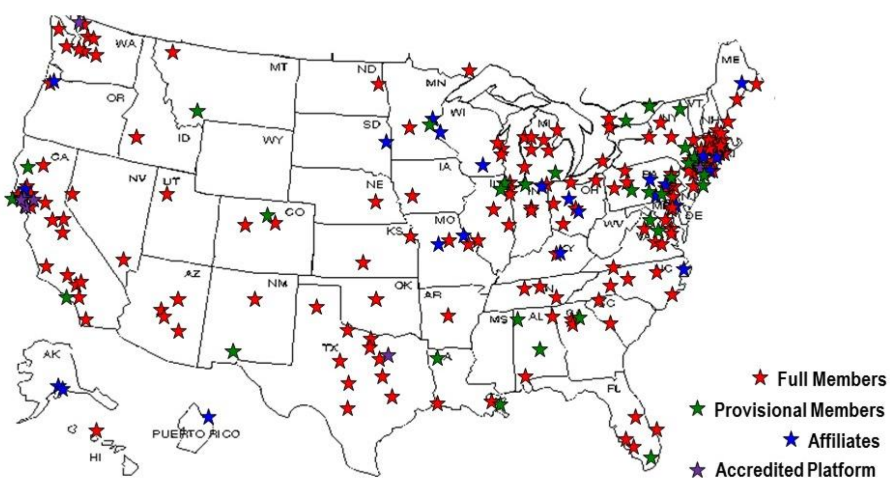
Investments by Sector

Internet		38.5%
Healthcare/ Life Sciences		19.6%
Mobile & Telecom		16.2%
Industrial (includes Clean Tech)		4.1%
Computer Hardware		2.7%
Software		4.0%
Energy & Utilities		1.8%
Other		13.2%



ACA Member Groups are Located in Every State

Providing Capital for Economic Growth Across the US

Angel Capital Association

ACA is the leading professional and trade association supporting the success of angel investors in high-growth, early-stage ventures. ACA provides professional development, industry voice, public policy advocacy and an array of benefits and resources to its membership of more than 220 angel groups and 12,000 individual accredited investors in all 50 states and Washington, DC.

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