



August 9, 2013

The Honorable Mary Jo White  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Dear Chairman White:

We are the Managing Partners of Golden Seeds LLC, an investment firm headquartered in New York. Golden Seeds consists of a nationwide angel group with nearly 300 members and three small early-stage venture funds. Since 2005, our angel members and venture funds have invested over \$55 million in more than 50 start-up companies. We are proud of the important role that we and other such organizations have played in supporting economic growth and job creation.

We are writing in regard to the final Rule 506, and proposed rules to expand the scope of Regulation D and Form D. Sadly, these rules suggest that the SEC has promulgated the rules without a thorough understanding of how the U.S. angel community, which invest more than \$20 billion per year in start-up companies, actually functions.

Even if, as the Angel Capital Association is proposing, all members of formal angel groups are deemed to be accredited investors for purposes of rule 506 (c), we still have significant issues, which could effectively cause our members and funds to stop investing in private start-ups in the future.

In particular:

We cannot understand how our members or funds can prudently make an investment in any company issuing securities under Rule 506(c), if the cure for an issuer's failure to verify that all investors are accredited, is that the issuer must offer all purchasers the right to rescind their investment. This in effect exposes our members and funds to a potentially open-ended risk that a disgruntled investor could bring, or threaten to bring, action against a company, just by challenging the issuer's verification process. Since Rule 506(c) applies a "facts and circumstances" test for each offering and issuer, whether the verification requirement had been met could be challenged at any time. These early-stage companies are very fragile, and operate with limited cash, resources and time. The risk of legal fees, time demands and the potential for investors to redeem their securities that would fall to these small companies, adds a level of risk to seed-stage investing that most sophisticated investors and funds will not take.

In addition, the "cure" for inadvertent use of solicitation under Rule 506(b), or failure to meet

the verification standard or the wide array of filing and pre-filing deadlines under Rule 506(c) - a cure that prohibits a company or fund from raising new capital under any Regulation D exemption - is essentially a death sentence for many startup companies. Start-ups and small companies are rarely cash flow break-even, and are highly dependent on follow-on rounds of funding to continue momentum and growth. When preparing to raise a new round of funding, these companies typically have well below 12 months of operating cash.

These rules will not only choke off much of the essential angel capital that provides most of the start-up funding in the United States, but they also pose steep risks for later-stage capital from venture funds and private equity firms. Even if angels do fund an early stage company, later stage venture capital funds would have to assess these new risks, and may decide not to invest if there are multiple individual investors on a company's cap table, any of whom might challenge the verification process.

While it may seem that angels could choose only to invest in issuers under 506(b), this is not a viable alternative under the proposed rules. Some of the standard practices early-stage companies use to attract angel investors include pitch-days, demo-days, open office hours, angel group screenings and meetings, all of which could be construed to be forms of general solicitation. Investors will not be able to ascertain, with reasonable certainty, that an offering has not been tainted by some type of general solicitation activity.

The proposed revisions to Reg D and Form D alone will likely bring a halt to a large portion of early-stage investing, since the complexity and timing of these requirements make it virtually impossible for most small companies to comply.

Golden Seeds' angel group has almost 300 members, all of whom are accredited investors, willing to invest \$25,000 a year or more in start-up companies. We are the fourth largest angel group in the country and were among the five most active investing organizations in the past two years, according to the Halo Report. We believe issues that affect our ability to operate are shared among most angel groups and experienced individual angels who fund this \$20 billion-plus annual market. In 2012, it is estimated that more than 66,000 companies received angel funding. Without groups such as Golden Seeds, most of these companies would never have gotten the funding needed to get off the ground.

We are available for further discussion, and believe it is imperative that the commission reconsider the impacts of these rules that could effectively wipe-out the well-functioning system of angel investment in new business ventures in the United States.

Jo Ann Corkran, Managing Partner  
Loretta McCarthy, Managing Partner  
Peggy Wallace, Managing Partner  
Vanessa Wilson, Managing Partner

cc: Marianne Hudson, Executive Director, Angel Capital Association  
Jean Peters, Member, Board of Directors, Angel Capital Association