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# SecondMarket - Providing Liquidity for Shareholders of Privately Held iContact

Through the corner office windows of SecondMarket's lower Manhattan headquarters, Barry Silbert and Ryan Allis could see the sun shining down on the Statue of Liberty. Silbert was the Founder and CEO of SecondMarket, an online liquidity platform for alternative investments, including private company stock. Allis was the co-Founder and CEO of iContact, an email and social marketing software-as-a-service [SaaS] company. It was November 2011, and the two CEOs met to discuss the possibility of running a private stock liquidity program for iContact shareholders through SecondMarket's platform.

From its founding in 2003 to late 2011, iContact had grown to $50M in revenue and 300 employees. In August 2010, the company raised $40M in a Series B financing. Allis had come to New York City to explore how SecondMarket might help provide liquidity for a handful of iContact veterans who had, for personal reasons, left the company in 2010. This group of employees had done their jobs well in helping to build iContact. They had recently asked Allis and his co-founder, Aaron Houghton, for help in realizing part of the substantial value tied up in their equity holdings. The largest shareholder among this small group had retired after six years of service to iContact as Vice President. Allis had a sense of personal obligation to this particular employee, who was 56 years old when he joined iContact. At the time, Allis was 19 and Houghton was 22. The co-founders had offered a low salary of $30,000 and used a healthy options stake to convince him to join. They were glad to have their first seasoned executive on board. Allis explained, "He was one of our first ten employees, and after six successful years at iContact he wanted to retire and send his child to college." Allis wanted to make sure he and the other early employees were able to receive some payoff for their years of hard work, even though no liquid market existed for their iContact shares.

Silbert had been looking forward to his meeting with Allis. iContact was a successful business-to-business (B2B) online solutions provider, but the company lacked the media buzz that surrounded consumer-facing private companies like Facebook, Twitter, and Groupon. The strong market awareness and significant press coverage of these privately held social media and consumer web giants had helped Silbert crack the chicken-and-egg problem inherent in bringing buyers and sellers

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Professors William A. Sahlman and Ramana Nanda and Research Associate James McQuade prepared this case. HBS cases are developed solely as the basis for class discussion. The time frame and process for iContact's consideration of pursuing a secondary market transaction has been modified for the purposes of this case study. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

together in a new marketplace. The long-term viability of SecondMarket's private company platform, however, depended on successfully serving the 99+% of private companies that were less well known by investors.

Silbert's vision was that SecondMarket would also be a destination for people looking to become knowledgeable about and invest in private companies. In doing so, Silbert hoped to solve what he saw as a systemic breakdown in the capital formation process in the public capital markets.

As the two young entrepreneurs discussed the potential for certain iContact shareholders to gain liquidity using the SecondMarket platform, each CEO wondered what this event could mean for their respective companies. What effect would cashing out former employees have on existing iContact employees? Should Allis allow all former and current employees to participate? If so, on what terms? And how could Silbert ensure that liquidity events for companies like iContact built upon the strong momentum that SecondMarket had generated?

## Changes in the Public Markets

The IPO market has always been cyclical, with boom and bust cycles the rule, not the exception. In the past decade, however, there seemed to have been a secular rather than a cyclical downturn. Historically, financial returns to early employees of startups could come only when the company went public or was sold. In the early 1980s, the average age of companies going public was 4.8 years. Between 2007 and 2011, however, the public markets landscape had shifted, and companies waited, on average, 9.4 years before going public.[i] They also had to be much bigger. The American public missed out on significant value creation by companies who might have otherwise gone public earlier. In the 1980s and 1990s, several companies that went public at relatively modest market caps went on to provide outsized investment returns to public shareholders. Oracle went public in 1986 at a market cap of $188M, which increased to a peak of $244B in 2000, a 1,300-fold increase. The market capitalization for Dell Computer was $123M at its IPO in 1988, which increased 1,122 times to a peak of $138B in 2000. In the mid-1990s, Yahoo! and Amazon went public at market caps of $344M and $430M, which rose to peaks of $107B and $149B, respectively.[ii]

In September 2011, a *Reuters* article noted that Facebook "plans to go public at the end of 2012, a later public debut than it originally planned," and that the company "is expected to have one of the biggest IPOs in history." An IPO with a valuation in excess of $100B would mean that public investors were not able to benefit from the value creation that historically preceded an IPO.

Another sign of problems in the IPO market was the decline in the absolute level of activity. In the 1990s, on average, over 500 companies debuted each year on U.S. public stock exchanges. From 2001 to 2010, that figure fell below 125 (**Exhibit 1**). A comparison of these averages to the average number of new ventures funded each year (venture capital firms invested in ~1000 startups per year in the 1990s, and ~3000 startups per year in the 2000s) indicated trouble in the venture pipeline. Reflecting on the challenge facing private companies that would historically have been strong IPO candidates, Greg Besner, CFO at SecondMarket, said, "It's a lot like being a high-school quarterback or a college quarterback. You could be great, but there just aren't a lot of spots opening up as a pro QB." Some were concerned that the reduced likelihood of exiting a venture investment through an IPO was going to threaten the innovation ecosystem in the US.

A November 2009 report published by David Weild of GrantThornton LLC summed up the situation:

> Capital formation in the U.S. is on life support. Small IPOs from all sources — venture capital, private equity and private enterprise — are all nearly extinct and have been for a decade. Within the venture capital universe, the average time from first venture investment to IPO has more than doubled. Meanwhile, stock market volatility, a measure of risk, has broken all records. Retirement accounts have been laid to waste. The opportunity for millions of potential jobs has been lost, while some in the generation nearing or in retirement are now forced to postpone or come out of retirement. The lack of new listings is not a problem that is narrowly confined. Rather, it is a severe dysfunction that affects the macro economy of the U.S. — with grave consequences for current and future generations.

While many pundits blamed the fallout on specific regulations or other dominant causes, there was a growing view that a more complex web of factors had contributed to the situation. From 1996 to 2003, a number of structural changes and regulatory reforms were introduced to the public markets (**Exhibit 1**). Prominent changes included the increasing share of online brokers, decimalization[1], Sarbanes-Oxley, and the Global Research Settlement[2]. These changes were intended to reduce transaction costs, increase transparency, and remove conflicts of interest in the capital markets. However, they also brought about significant pressure on the small- to mid-scale IPO market.[iii] For example, the introduction of decimalization and online brokers lowered the transaction costs associated with buying and selling stock. By implication, it lowered the profits available to market makers. Electronic Order Books, introduced by Regulation ATS (Alternative Trading System) in 1998, coupled with decimalization in 2001, facilitated the rise of high frequency traders. Jeremy Smith, Chief Strategy Officer at SecondMarket, noted that "These high frequency traders like stocks that they can get in and out of instantly. This model requires massive amounts of liquidity, which is not found in small company stocks." A March 2011 study by the Boston Consulting Group estimated that high-frequency trading accounted for approximately 56% of US equity trading volume in 2010.[iv]

Another challenge in the public markets was the disappearance of equity research coverage of small-cap companies. Through the late 1990s, a number of smaller firms specialized in research and market-making for small-cap stocks. As described in a July 2002 *Economist* article titled "Boom, fizzle, silence," boutique investment banks like Robertson Stephens, Alex. Brown & Sons, Hambrecht & Quist, and Montgomery Securities (four banks commonly referred to as the "Four Horsemen") all shared the same fate: "years of respectable if modest success, a bout of spectacular returns, acquisition by a larger outfit—and then decline or extinction."[v] All Four Horsemen were acquired by big banks and then, after the dot.com bubble burst, ultimately couldn't survive in the new market. Small-cap companies like the ones these banks used to service represented approximately 80% of IPO volume in the early 1990s, but less than 20% of public offerings in 2009 (**Exhibit 1**).

Though coinciding with the timing of the tech-bubble crash, the decline in IPOs was not limited to tech companies listed on the NASDAQ. All three major US stock exchanges (NASDAQ, NYSE, and AMEX) experienced IPO volume declines (**Exhibit 2**). While the number of companies listed on the global exchanges of other developed markets increased from 1997 to 2010, the number of companies listed on US exchanges decreased by 45% (**Exhibit 3**).

[1] The transition in prices quoted on US stock exchanges from fractions (in increments of 1/8ths) to decimals.

[2] The Global Research Settlement forced the separation of investment banking and equity research division, noting that equity research analysts' compensation cannot be based directly or indirectly upon investment banking performance.

In addition to these structural changes, several other trends in the public markets increased the burden on public companies. In 2011, a *Bloomberg Business Week* article (April 21st, 2011) noted that, "Owing to the Sarbanes-Oxley Act and other regulatory changes to capital markets over the past decade, the IPO is no longer an attractive goal for many companies." A survey of CEOs of both pre-IPO and post-IPO companies noted several concerns and challenges inherent in going and staying public (**Exhibits 4a, 4b, 4c**). Also, due in part to the rise of high-frequency traders, the average hold period for a public stock investment shrank from five years in the 1970s to 2.9 months in 2011. Average first-day turnover of shares for NYSE and Nasdaq IPOs more than doubled from an average of 36.9% between 1983 and 2000 to over 75% in 2011.[vi] The short investment horizon of these high frequency traders pressured many public company boards and CEOs to focus efforts on meeting quarterly earnings estimates and other short-term financial milestones, potentially at the expense of long-term value creation.

In Silbert's words, "Public markets have broken down. They've become a casino. Take for example the flash-crash[3] — it's scary what happened in five minutes. Whether it was all broken algorithms or broken computers, or it was people freaking out and speculating or running for the hills, whatever the case may be, it was not a well-functioning market. It's become a marketplace that investors, retail and institutional alike, have lost faith in." Summing up the potential he saw in SecondMarket's private company platform, Silbert said, "I think we can build a market that's for the benefit of companies and investors."

## The Emergence of SecondMarket

SecondMarket, originally named Restricted Stock Partners, was founded in 2004 by Barry Silbert. From his prior work experience in the restructuring group at Houlihan Lokey, Silbert saw an opportunity to create a marketplace for certain types of illiquid assets. SecondMarket created that marketplace for a variety of such assets, including bankruptcy claims, mortgage-backed securities and other structured products, and public company restricted equity, convertible debt, and warrants. The core principles of the company were transparency, centralization, and independence. As Silbert explained, "Transparency means providing detailed information about the asset so that buyers and sellers can make informed investment decisions. It also means transparency into asset pricing. Centralization means bringing together buyers and sellers in a formalized, secure marketplace. Independence means we are not a subsidiary of another financial institution and, more importantly, we do not engage in proprietary trading. Thus, we do not use our own balance sheet to complete transactions. We are willing to sacrifice short-term revenue opportunities because we believe that as a global marketplace, it is critically important that our participants recognize that we are not on either side of the transaction. We are always the marketplace connecting buyers and sellers, guiding our participants through the sales process, and handling the closing and settlement of the transactions."[vii]

The company received $400k in angel financing in 2004 and started as a low-tech business. When they initially launched, Silbert said, "It was a handful of us in a tiny little office with telephones." The company narrowed its focus on one particular asset class, restricted securities of publicly held companies. Two years later, in the summer of 2007, SecondMarket raised a $3.8M Series A financing to build out the company's technology platform. Silbert acknowledged, "Because we launched the way we did, we ended up being cash flow positive from the first year, and that certainly broadened our fundraising options."

[3]On May 6, 2010, the Dow Jones Industrial Average plunged nearly 1,000 points and wiped out nearly $1 trillion of stock-market value in just a few minutes.

The company made a critical transition into the secondary market for private company stock after it facilitated the sale of Facebook stock held by a former employee. Public interest in and investor appetite for the social networking company fueled significant press coverage of the transaction. In 2007, a former Facebook employee asked SecondMarket if they could help him sell his Facebook shares. Since Facebook was not a public company, the stock was unregistered and Facebook did not have any plans for an IPO. "We facilitated the transaction and then took a step back to assess the viability of the market," Silbert said. "Once we understood that companies were remaining private much longer than in prior years, and that systemic changes in the public markets make it difficult for companies to go public, we were convinced that we could help to fill the role of a new growth market."

To reflect the shift in focus, Silbert changed the company's name to SecondMarket. The strategy was based on the notion that there was not a "one-size-fits-all" model for private companies. "Each company has its own goals and objectives. Some companies value control and flexibility, others are more concerned with liquidity and valuation. Thus, we allow companies to dictate the essential elements of their marketplace," Silbert explained. These decisions included identifying eligible buyers and sellers, setting the amount or percentage of shares to be sold, and determining the frequency of transactions. "Some companies want only former employees to sell, and some want only existing shareholders to buy. Some permit weekly trading, but many prefer to establish quarterly or annual liquidity events. Some choose to allow an open market where buyers and sellers negotiate the share price on a one-off basis, and some elect to run an auction."[viii]

Based on the favorable publicity around early Facebook transactions, SecondMarket grew rapidly, both in number of registered participants on the exchange as well as in dollar value of transactions that the company processed. In February 2010, SecondMarket raised $15M in a Series B investment from Horizons, the investment arm of the Hong Kong-based Li Ka Shing Foundation, and Dunearn Investments, a wholly owned subsidiary of Singapore-based Temasek Holdings. Prior to the Series B, the balance sheet was strong with cash on hand and no debt, but as CFO Greg Besner said, "Although we didn't need the money, we still wanted to strategically partner with fantastic investors like Li Ka Shing and Temasek, so we did."

SecondMarket continued to improve its technology platform, introducing social-networking features like personal profiles (**Exhibit 5**) and invitations to connect with other investors, in order to drive increased user engagement. The website's 'Watch Company' feature gave users a real-time news feeds on investment targets and provided SecondMarket with an accumulated a list of potential buyers. At the same time, SecondMarket managed over 17,000 private company profiles (**Exhibit 6**), where buyers could learn more about potential investment targets and shareholders could register interest to sell stock. With visibility into buyer and seller interest, SecondMarket could then offer their transaction services to the target company's management team. If management wanted to engage, it's "a couple of weeks from engagement to process," noted Dominic Preuss, SecondMarket's Chief Product Officer, "but it can be longer if we have to identify the 'right' buyers." In approximately 75% of transactions the company provided the list of targeted buyers.[ix]

There was a strong culture of entrepreneurship at SecondMarket. As Besner noted, "Prior to joining here, I started Restricted Stock Systems, a financial technology system that I licensed to bulge bracket firms. Jeremy left private equity to acquire and run a high-end luxury outdoor furniture company. Dominic had a background in building marketplaces, first at Trillogy and then at Google. Adam [Oliveri, Head of Private Company Markets] joined a startup right out of undergrad, and that startup was SecondMarket. The entire C-suite is full of entrepreneurs, and that's important when you want to disrupt a market like this."

In September of 2011, employees and shareholders of SecondMarket used the company's own exchange to sell a portion of their own stock — in Silbert's terms, "Eating our own cooking." SecondMarket shareholders, including current employees, sold approximately $13 million in common stock at a valuation of about $160 million. Reflecting on the size of the transaction, Silbert pointed out that "ten to twenty years ago, a transaction of this size could have been an IPO."

By October of 2011, a number of platforms had been created to facilitate secondary market transactions in illiquid assets (**Exhibit 7**). SecondMarket, with 150+ employees and 75,000+ registered participants, was a leader in the market. The company traded stock in over 60 companies, its last twelve month [LTM] transaction volume was approximately $525 million, and the average transaction size was $1.5 million. (See **Exhibits 8A-8D** for a breakdown of completed transactions by buyer type, seller type, and industry, as well transaction interest by Industry.)

(See **Exhibit 9** for details on how the SecondMarket platform worked, and **Exhibit 10** for a comparison of SecondMarket and SharesPost for private stock transactions.)

## Debate in the Venture Capital Community

The decade from 2001 through 2010 had been a rough one for venture capital returns. In a study conducted by Cambridge Associates for the National Venture Capital Association, the US Venture Capital Index 10-year return as of December 31, 2010 was -1.98% (**Exhibit 11**). The lack of IPO exits had forced many VCs to extend the length of their funds, and pressure was on to provide liquidity to limited partners. VC reaction to the emergence of online secondary market transactions was mixed. The debate was whether providing early liquidity was a good thing for the company, their employees, and their investors.

An April 2011 *Bloomberg Business Week Online* article questioned whether it was healthy to allow current employees to convert pre-IPO shares into millions in cash. The article detailed, "[There are] Silicon Valley veterans who ominously observe that the secondary markets are messing with the rules of the country's entrepreneurial engine. In the old days, they say, investors and employees worked in unison until they reached an IPO or acquisition. Now some founders and employees are motivated to leave before the IPO because they are free to cash out; and new investors are snapping up pieces of tightly held companies, propelling them closer to the important regulatory threshold of 500 shareholders—the point at which they must report their financial data to the SEC and essentially behave as a public company."[x] Gordon Davidson, chairman of Silicon Valley law firm Fenwick & West, said that the secondary market "has created a natural tension between employees who have worked hard in a startup for many years and want to balance their portfolios and the philosophy of companies that you really shouldn't cash in until the job is done."[xi]

On the other hand, Chamath Palihapitiya, a former V.P. at Facebook and a founder of Social+Capital Partnership, believed providing some amount of liquidity to employees could benefit both the employees and their employers. He explained:

> The liquidity that I got in 2007 or 2008, when [Facebook] did a small financing with DST, for my life was transformational. I'm someone who graduated with a lot of school debt, I had a young child, I was about to have another, and it was a situation where I had been working a lot of time putting all of my effort into Facebook, seeing really meaningful results. Being able to get a small amount of liquidity, frankly, made me more incentivized. I was happier, I was more excited about Facebook's long term prospects, and most importantly I took a much longer-term view. I wasn't thinking, "Hey, when are we going to file? When are we going to go public?" We could build the business that Mark [Zuckerberg] wanted to build over decades.

> I think that's the type of thing that, if a lot of employees have access to, will yield much bigger results.[xii]

Palihapitiya's vocal support for SecondMarket in September 2011 expanded into a financial investment in the company two months later. In November 2011, his Social+Capital Partnership fund invested $15 million in SecondMarket at a post-money valuation of $200 million.[xiii]

In addition to Palihapitiya's argument that it allowed entrepreneurs to focus on the long term, the ability to provide liquidity to employees was also a weapon for companies to use in the war for talent. In 2011, that war — particularly for technical and programming talent — had become fierce, as Facebook, Google, Microsoft, Apple, and others competed among themselves and with newer startups to attract the best talent. (**Exhibit 12**)

Many venture capitalists believed that the real test for secondary markets would come when valuations began to decline. Vladimir Belinsky, president of Hermitage Advisors, which invests in hedge funds and venture capital for wealthy people, said he would advise his clients to be careful investing in the secondary market. "This is a good thing for the employees — they get liquidity and have been able to sell into a frenzied market and get more money," Belinsky said. "But I don't think it's so good for investors."[xiv]

Tom Conaghan, a partner at law firm McDermott Will & Emery, noted that the Groupon IPO "may be a sign that the secondary market is maturing." While early pre-IPO trades in Facebook, Zynga, Twitter and LinkedIn may have made money, losses by pre-IPO Groupon traders "may present the true validation for the legitimacy of these secondary markets," Conaghan said. "Real investors in healthy markets know that it is not all up all the time. I suspect that even those who may incur losses on Groupon will not give up on secondary markets."[xv]

## iContact

iContact was founded in 2003 by Ryan Allis and Aaron Houghton as undergrads at the University of North Carolina. Allis, a website designer with experience in search optimization, was a freshman when he met Houghton, a programmer, through the entrepreneurship club on campus. Houghton was in his senior year and had developed a software solution for email marketing. When he heard about the software, Allis saw the potential to serve multiple clients all through a common platform. The two students incorporated iContact in the summer of 2003; Houghton graduated that May, and Allis dropped out of school to focus on the business. "We lived in our office and slept on futons, we ate ramen noodles all the time," Allis described. "We were two first-time entrepreneurs, 19 years old and 22 years old. So raising investor money was not really an option. It was classic bootstrapping."[xvi] Their initial strategy was to keep costs low by working for equity, get revenue from customers to pay for expenses, and then reinvest every dollar of revenue into hiring a solid team and investing in ROI-based direct response online advertising.

The company had its first paying customer in September of 2003, and the first full year of operations brought in $12K in revenues. "Unfortunately it was matched with $17K in expenses," noted Allis. But by 2005, the company had $1.5M in revenues and had honed in on their primary unit economics. The average customer paid $57 per month for three to four years, and the cost to acquire clients was roughly $500. With that investment proposition, iContact raised $500K of seed financing in May 2006 from IDEA Fund Partners, also based in the Raleigh-Durham area.

The company scaled to $2.9M in revenues for 2006, and in June of 2007 raised $5.3M in a Series A from Updata Partners. That capital was used to build out the senior management team and fund the next three years of growth in the business, which led to an August 2010 $40M Series B investment from JMI Equity. A small portion of each round was paid out to early shareholders and investors. "That provided enough liquidity for us to focus on the long term," explained Allis.[xvii] Proceeds from the Series B were used to expand internationally and to build out a social media offering, which launched in 2011.

By mid-2011, iContact had grown to $50M in annual revenues and 300 employees. The company had 71,000 paying customers who used the software to create, send, and track emails and social media messages. Ever since iContact took on venture capital financing in 2007, the goal had been an initial public offering (IPO), but goalposts of a successful IPO seemed to keep moving farther and farther back. Allis still considered going public as a likely outcome, but the market for raising ~$50M through an IPO had declined significantly over the past decade. With Sarbanes-Oxley and the need to be big enough to attract sufficient institutional coverage, investment bankers had advised Allis that he needed to get to $80M in sales with a quarter or two of profitability and roughly a $300M market cap in order to trade publicly with enough liquidity. It would likely take him another 18 months to reach those thresholds — too much more time, Allis thought, for his former employees to wait.

Through the window, the late afternoon sun cast a warm glow on the lower Manhattan skyline. As the SecondMarket team wrapped up their presentation, Allis thought that using the platform to provide liquidity for his group of former iContact employees might make sense, but on what terms? Should this be a one-time liquidation event or a recurring process? On the other hand, if he elected not to engage with SecondMarket for a liquidity event, the former employees had identified a qualified buyer who was an unknown to iContact's existing investors. What would happen if these former employees pursued a transaction elsewhere without the company's approval? Was there anything in the existing stock option plan (**Exhibit 13**) that he could use to deal with such a situation? What changes could Allis and Houghton implement to help them better deal with these issues going forward?

## SecondMarket Going Forward

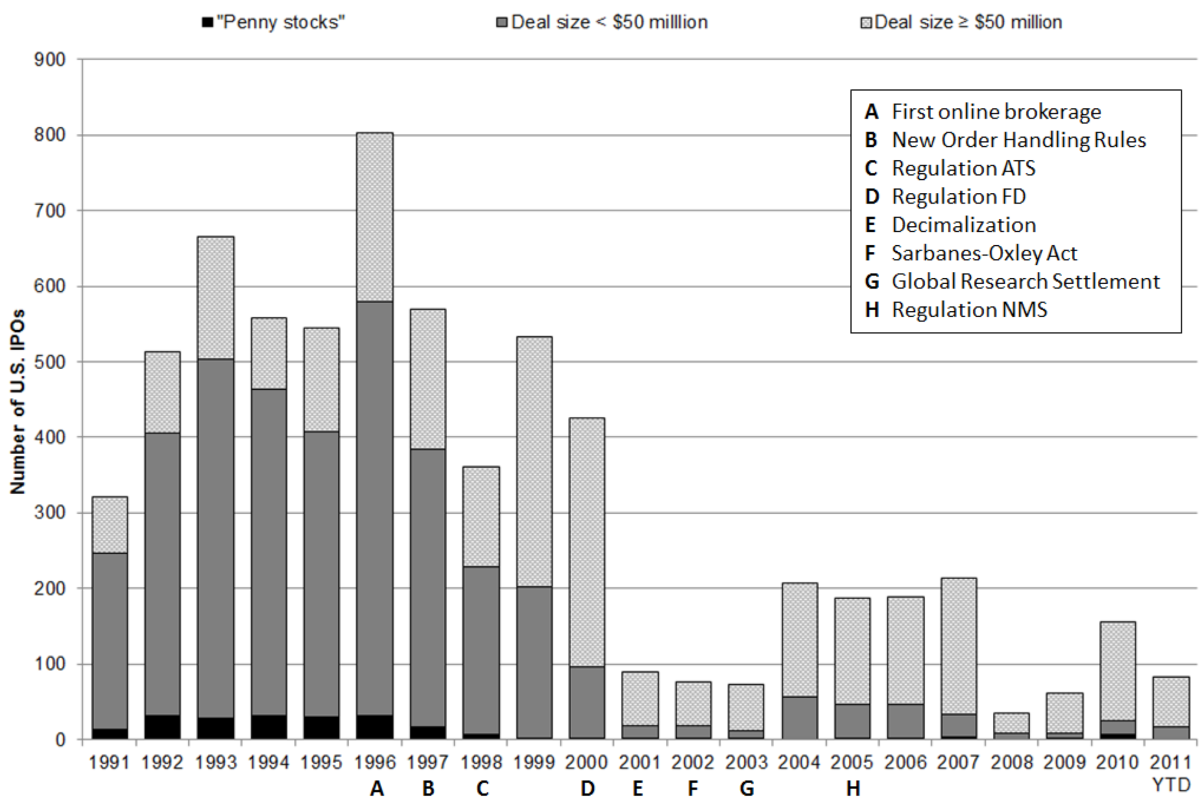
After wrapping up his meeting with Allis, Silbert sat back down to reflect on what the transaction would mean for the future of SecondMarket. His team had proven that there was an opportunity to bring investors into the market and had demonstrated that it could be done in a legal and compliant way. The questions Silbert faced now were all about scaling the business. How could he ensure that his company best serves successful, though smaller-scale, startups like iContact? How can SecondMarket help economically support an ecosystem to bring back equity research on small-cap companies? Could SecondMarket expand into primary capital raising for successful companies like iContact without falling into the adverse selection challenges that plagued London's Alternative Investment Market (AIM) or Germany's Neuer Markt[4]? What other new markets could SecondMarket expand into?

Furthermore, the decline in the IPO market and the growing buzz around secondary markets had attracted the attention of both regulators and policy makers. A September 2011 article in the *Reuters Venture Capital Journal* noted, "Since very little information is publicly available about private companies, the SEC appears concerned that its rules (including anti-fraud and insider trading regulations) are not being followed and wants only the most sophisticated investors, who understand

[4] Some investors were concerned that the lighter regulatory regimes of both AIM and Neuer Markt attracted a disproportionate share of lower quality companies, as compared to the major exchanges.

the inherent risks, to engage in these private company transactions." In October 2011, an IPO Task Force commissioned by the U.S. Treasury Department provided a list of recommendations to restore effective access to the public markets for emerging high-growth companies (**Exhibit 14**). Silbert wondered what these potential changes might mean for his company, and how he and his colleagues could proactively shape the evolution of secondary markets.

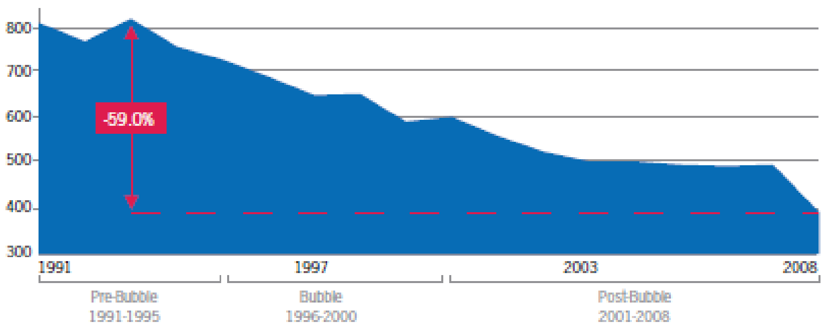
**Exhibit 1** Number of U.S. IPOs per Year




Source: Capital Markets Advisory Partners and GrantThornton.

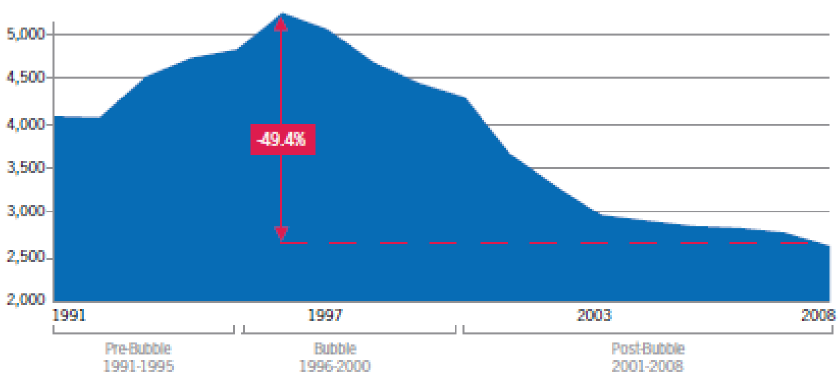
**Exhibit 2** Number of Listed Companies on the AMEX, NASDAQ, and NYSE Exchanges, 1991-2008

Number of Amex-listed companies



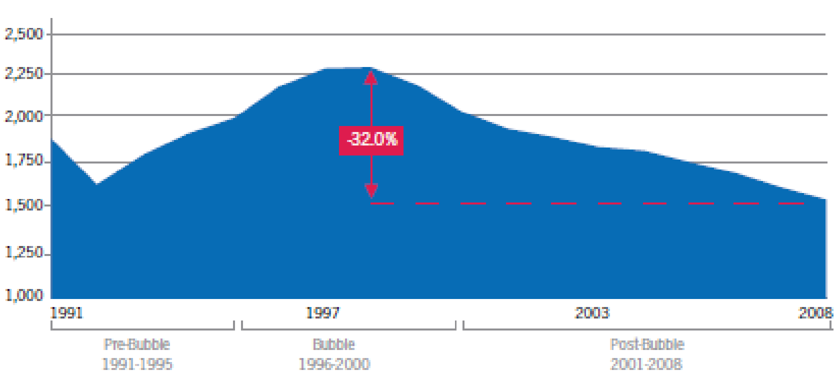

Source: Capital Markets Advisory Partners, World Federation of Exchanges, NYSE Euronext. Domestic companies listed, excluding funds.

Number of NASDAQ-listed companies




Source: Capital Markets Advisory Partners, World Federation of Exchanges, The NASDAQ Stock Market. Domestic companies listed, excluding funds.

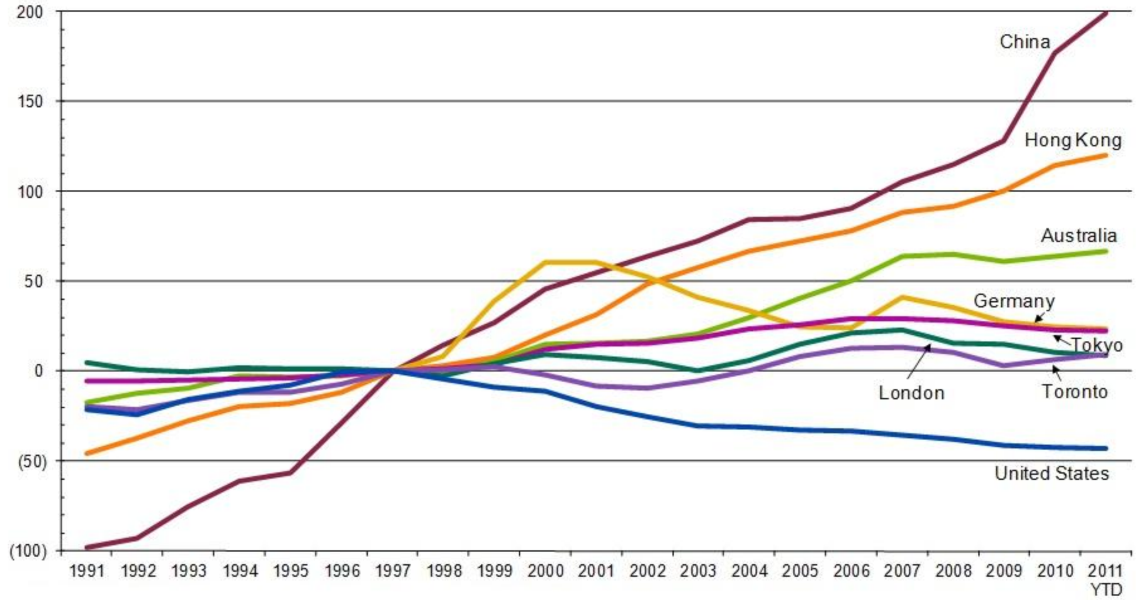
Number of NYSE-listed companies




Source: Capital Markets Advisory Partners, World Federation of Exchanges, NYSE Euronext. Domestic companies listed, excluding funds.

Source: Weild, David and Kim, Edward, "A Wake Up Call for America," GrantThornton Capital Markets Series (November 2009), GrantThornton, http://www.grantthornton.com/staticfiles/GTCom/Public%20companies%20and%20capital%20markets/gt_wakeup_call_.pdf.

**Exhibit 3** Number of Companies Listed on Global Stock Exchanges (Indexed to 1997)




Source: Capital Markets Advisory Partners and GrantThornton.

**Exhibit 4a** Survey of Public Company CEOs on the Challenges of Going Public

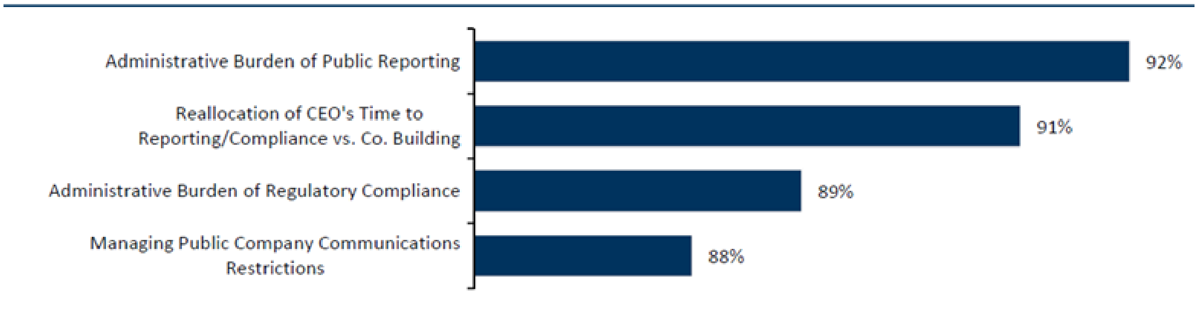



**Exhibit 4b** Post-IPO CEO Survey on Costs of Going Public and Staying Public

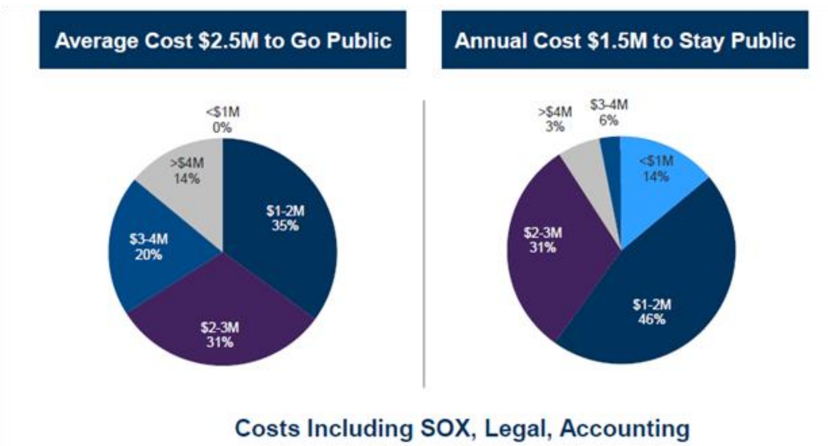
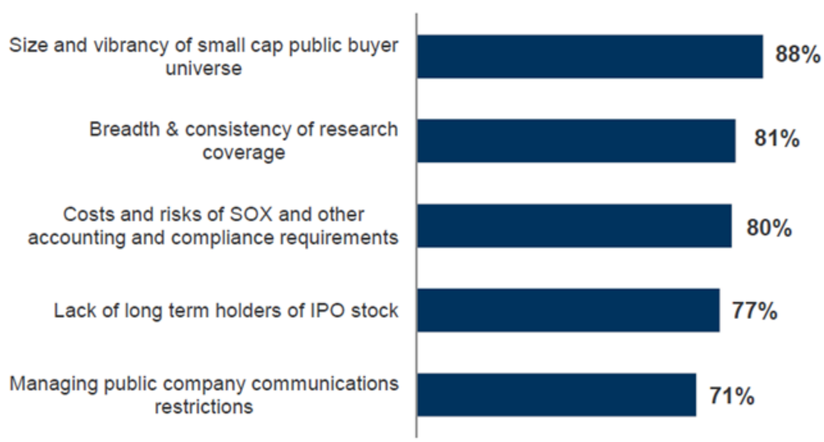
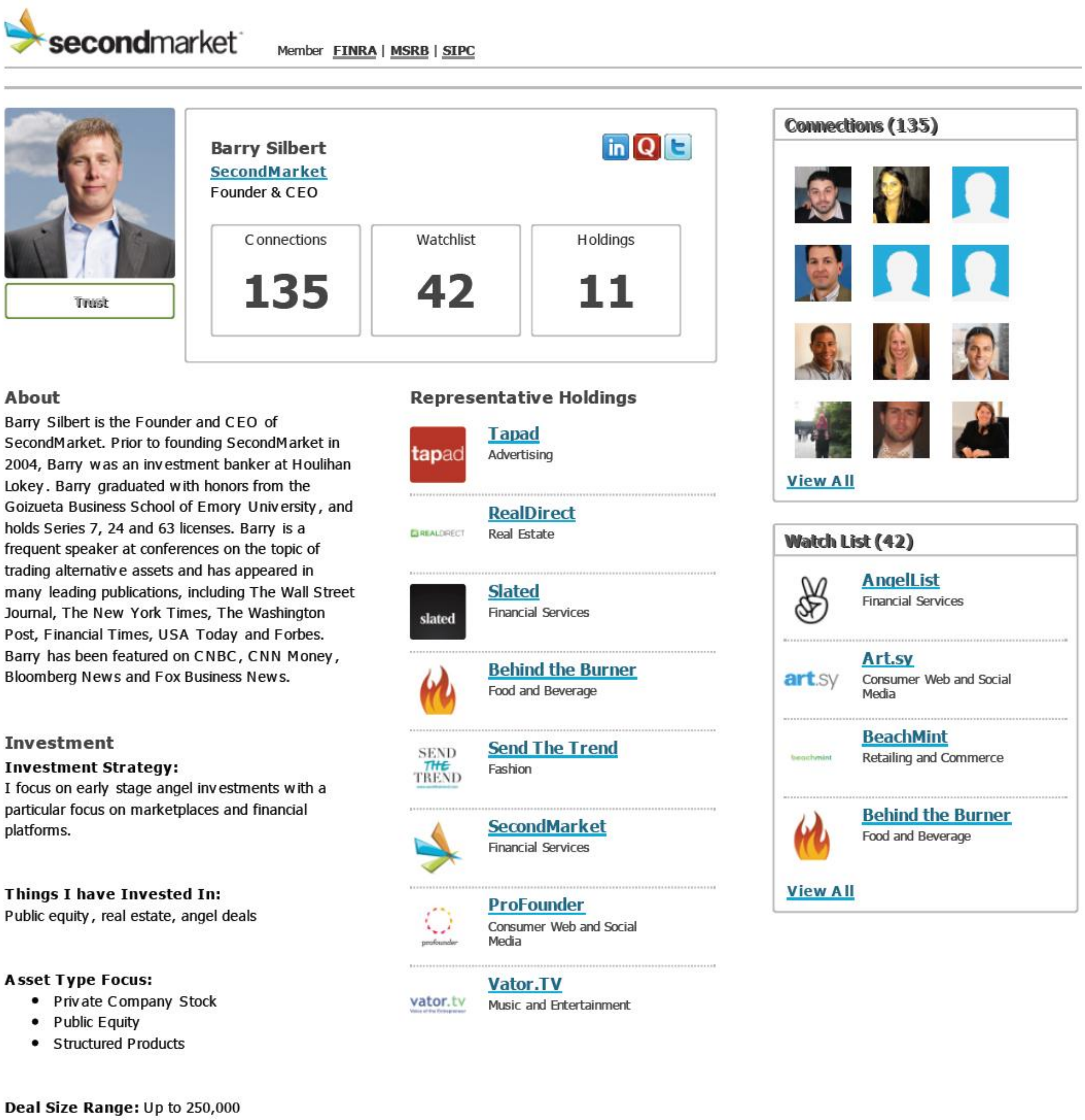



**Exhibit 4c** Survey of Pre-IPO CEOs on the Concerns of Going Public




Source: IPO Task Force, "Rebuilding the IPO On-Ramp: Putting Emerging Companies, Investors, and the Job Market Back on the Road to Growth." October 20, 2011. http://www.slideshare.net/TENOR/ipo-task-force, accessed October 21, 2011.

**Exhibit 5** Barry Silbert Investor Profile on SecondMarket




Source: Company.

## Exhibit 6 iContact Company Profile on SecondMarket

iContact
We Simplify Communication

Watch

I Want to Buy

I Want to Sell

**iContact**
http://icontact.com
Consumer Web and Social Media

| Watchers | Holders | Watch Rank |
|---|---|---|
| 47 | | 231 |

Share 0 Tweet Like

### Summary

iContact is the largest private provider of email marketing and social media marketing software and services to small and mid-sized companies globally. It is based in Morrisville, NC. iContact makes it easy to create, send, and track email newsletters, surveys, autoresponders. iContact's products include iContact, iContact Enterprise, iContact Agency, iContact for Salesforce, iContact Free Edition and Ettend.com.

As a B Corporation, iContact utilizes the 4-1s Corporate Social Responsibility Model, donating 1% of employee time to community volunteering, 1% of payroll, 1% of equity, and 1% of product to its local and global community as part of its social mission. iContact works hard to maintain a fun, creative, energetic, challenging, and community-oriented company culture.

iContact was founded in 2003 by Ryan Allis and Aaron Houghton in Chapel Hill, NC.

### Funding

| | |
|---|---|
| **Series B**, Aug 2010<br>JMI Equity | **$40M** |
| **Debt_round**, Nov 2009 | **$2.5M** |
| **Debt_round**, Oct 2008<br>North Atlantic Capital | **$5M** |
| **Series A**, Jun 2007<br>IDEA Fund Partners<br>Updata Partners | **$5.4M** |

### Offices

5221 Paramount Parkway
Morrisville, NC 27560
United States

5221 Paramount Parkway
Morrisville, NC 27560
United States

### Documents

- 3rd Amended and Restated Certificate of Incorporation of iContact Corporation 08.27.2010.pdf

### Affiliated People

**Board of Directors**

Aaron Houghton
Chairman and Co-Founder

Carter Griffin

**Executives**

Ryan Allis
Co-Founder/CEO

Tim Oakley
Chief Financial Officer

Ralph Kasuba
Chief Technology Officer

Jeff Revoy
Chief Product & Marketing Officer

David Rasch
Chief Architect

**Other**

Arie Abecassis
Advisor

Sarah Stealey
SVP Customer Support

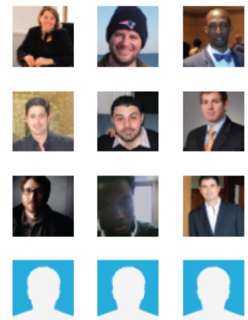
Kevin Fitzgerald
SVP of Sales & BD

Alan Cox

Source: iContact on Crunchbase
Suggest Edits or Report Errors

Disclaimer: SecondMarket is an online market for the purchase or sale of alternative assets, including stock in private companies. The information set forth on this page regarding iContact is not an offer to sell, nor does it seek an offer to buy, securities in iContact. There can be no assurance that securities in iContact are available for purchase or sale on SecondMarket.

### Watchers (47)



View All

### Recent News

iContact Story

One in Four Small Businesses Hates Social Media; iContact Survey Uncovers Love Affair with Facebook (And Cooling Passion for Groupon) - PR Newswire

0 Likes | Like

iContact Story

iContact Launches Social Media Product As Part of Digital Marketing Platform - PR Newswire

0 Likes | Like

iContact Story

IContact, an email marketing company, plans to expand social networking abilities - The News & Observer

0 Likes | Like

View All

### Similar Companies

Facebook

Twitter

Quora

### Own Shares in this Company?

Owners of common stock, preferred stock, or options in iContact can track their shares through SecondMarket.

Add to Portfolio

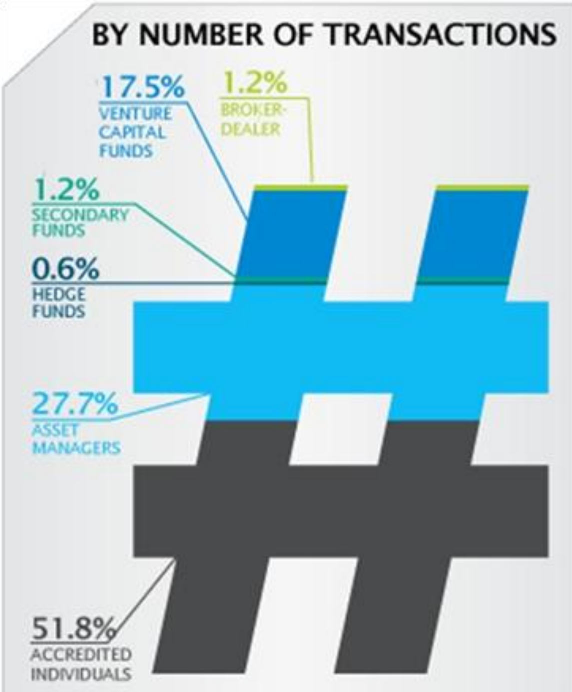
Source: Company.

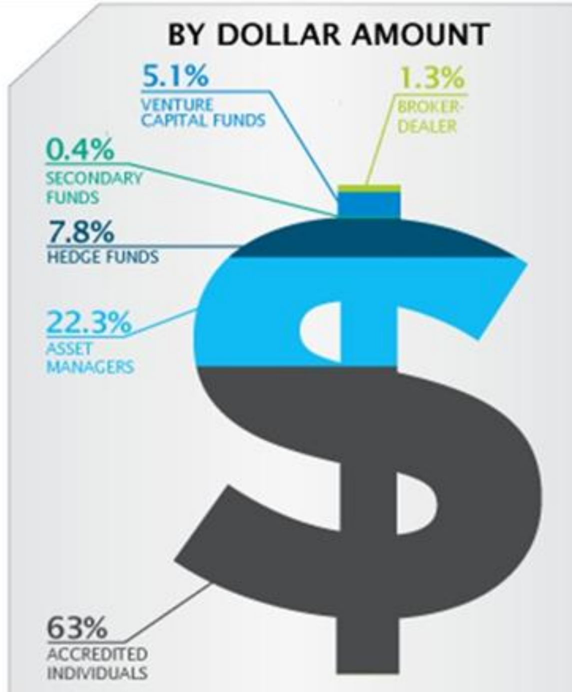
**Exhibit 7** Platforms that Facilitate Public and Private Small-Cap Equity Transactions, November 2011

| Company | Approach | Status |
|---|---|---|
| **AIM (London Stock Exchange's Alternative Investment Market) www.londonstockexchange.com** | Market targeted at small-cap growth companies internationally, with lower listing standards and regulatory burdens. | Launched in 1995. Has targeted U.S. companies with some success to come to list in London. |
| **Entrex www.entrex.net** | TIGRCubs – Top Line Income Generation Rights Certificates – novel security structure by which investors receive a fixed % of an issuer's revenues for a defined period. | Institutions have raised capital earmarked for investment via TIGRCubs. |
| **Gate Technologies www.gatetechnologies.com** | Developed a customizable Global Alternative Trading Engine (GATE) platform to target | Launched GATE Pro, a US-based trading platform, in November 2010. |
| **Knight Capital www.knight.com** | Leading source of off-exchange liquidity for U.S. equities. Other assets include fixed income, foreign exchange and derivatives. | Trading more volume in U.S. equities than NYSE or NASDAQ. |
| **Liquidnet www.liquidnet.com** | An Alternative Trading System that represents mostly long-only institutions in the crossing of public equity positions. | Decided to use their trading platform to cross trades in the private equity market. |
| **NYPPEX Private Markets www.nyppex.com** | Secondary private market advisory, execution, processing and research services. Focus on partnerships, private company securities and credit claims. | Founded in 1998. Launched private market platform in 2007. |
| **NYSE Arca www.nyse.com** | NYSE's electronic exchange for small-cap growth companies and ETFs. Designed as a feeder to the big board. NYSE also acquired the American Stock Exchange. Combined, NYSE now can qualify most of what qualified to list on NASDAQ. | Increased total addressable market to compete head to head with NASDAQ. Despite growth in high quality listed market venues, not reignited IPO market. |
| **PORTAL Alliance www.portalalliancemarket.com** | Open platform for trading and collecting information on privately placed 144A securities formed by NASDAQ and leading investment banks. | NASDAQ's PORTAL Market was spun off and relaunched in November 2008 as the PORTAL Alliance. |
| **The Receivables Exchange www.receivablesxchange.com** | Online auction marketplace for accounts receivable, targeted at small and medium sized businesses. Lenders are hedge funds, banks and asset-based lenders. | Launched in November 2008. |
| **SecondMarket www.secondmarket.com** | Largest centralized marketplace for multiple classes of illiquid assets, including auction-rate securities, bankruptcy claims, CDOs, mortgage-backed securities, LP interests and private company securities. | 71,000 participants. Has completed billions of dollars in transactions. |
| **SharesPost www.sharespost.com** | Online platform for trading private company shares. Founders include founder of Brighthouse (incubator) and Wilson Sonsini attorneys | Founded in early 2009. Has a network of 77,000 institutional and angel investors. Closed private placement capital raise for TrueCar. |
| **TSX Venture Exchange www.tmx.com** | Exchange headquartered just North of the U.S. border in Canada that consolidated the Vancouver Stock Exchange and has attracted some listings from the United States. | Active in listing mostly Canadian companies although some U.S. companies have chosen to list dually in London and Canada. |
| **Xpert Financial www.xpertfinancial.com** | Operating a platform that is focused on helping companies to raise private capital. | Formerly XChange, which launched Spring '09. Run by Thomas Foley and Adam Draper. |

Source: Weild, David and Kim, Edward, "A Wake Up Call for America," GrantThornton Capital Markets Series (November 2009), GrantThornton, http://www.grantthornton.com/staticfiles/GTCom/Public%20companies%20and%20capital%20markets/gt_wakeup_call_.pdf.

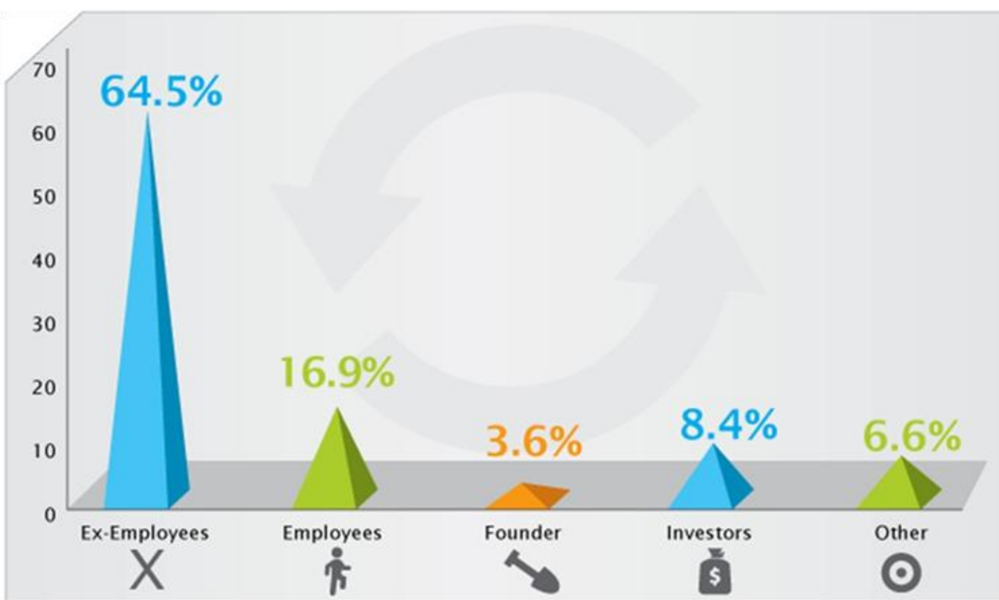
**Exhibit 8A** SecondMarket Completed Transactions by Buyer Type, First Three Quarters of 2011



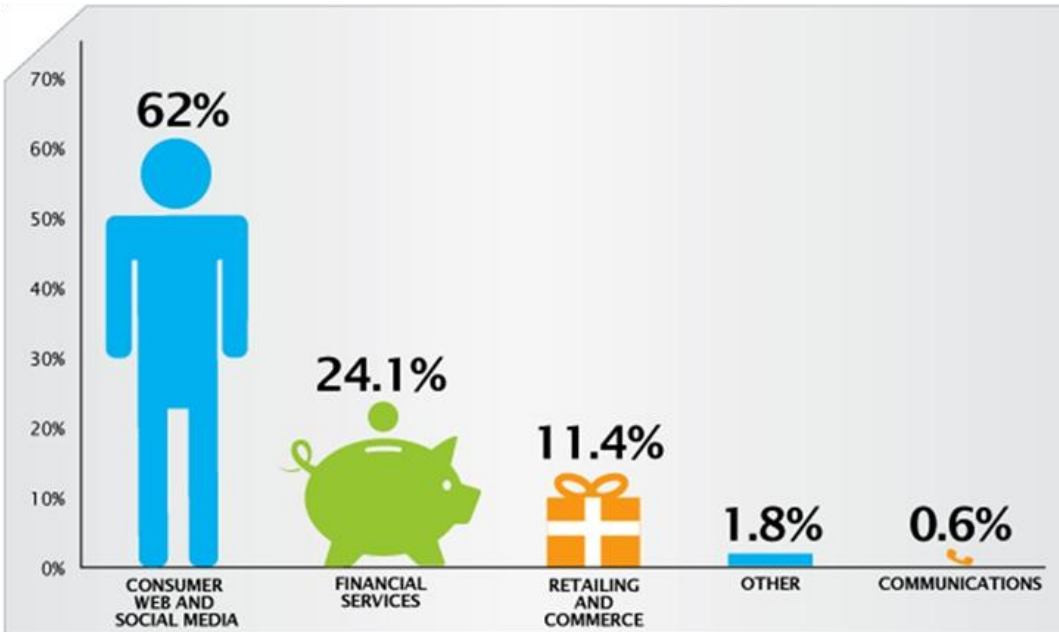

Source: Company.

**Exhibit 8B** SecondMarket Completed Transactions by Seller Type, First Three Quarters of 2011



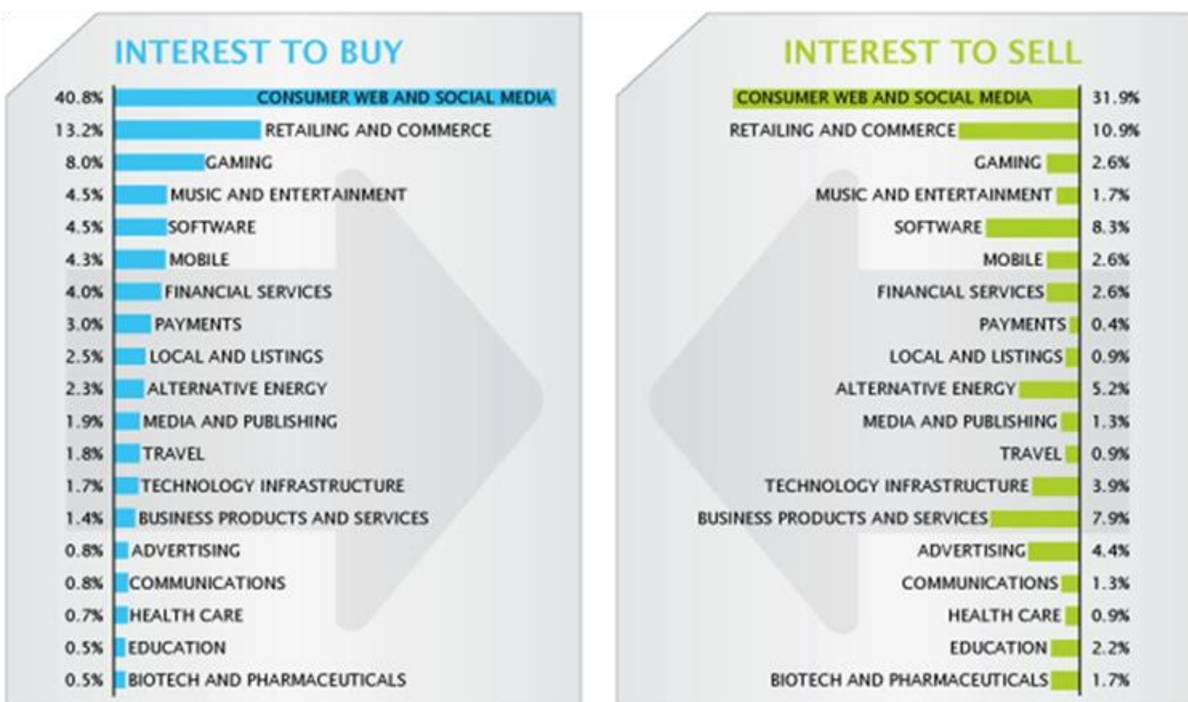

Source: Company.

**Exhibit 8C** SecondMarket Completed Transactions by Industry Type, First Three Quarters of 2011




Source: Company.

**Exhibit 8D** SecondMarket Transaction Interest by Industry Type, First Three Quarters of 2011




Source: Company.

**Exhibit 9** How SecondMarket Worked

Any individual could register for access to the overarching private company portal. From there, members could create an investor profile (**Exhibit 5**) and make connections with other investors. Members could also create and monitor a watch list of companies from any subset of the 17,000 companies profiled on the platform, and receive an up-to-date news feed on all companies in their watch list. Registered members did not have to be accredited investors[5] to view company profiles (**Exhibit 6**) or to sell equity ownership positions they held. To register as a buyer to check listings and make investments, however, the individual had to qualify as an Accredited Investor or Qualified Institutional Investor, as defined by the SEC, and pass a related background check. It took SecondMarket roughly 48 hours to complete this process. Registered buyers could indicate interest on participating in a transaction, but had to receive company approval to be allowed into a process. Once allowed in, the potential buyer would sign a Non-Disclosure Agreement, and need to pass a second, more thorough background check. Before this point, potential buyers would submit non-binding indications of interest. After this point, they would submit binding bids. For accepted bids, the buyer escrowed the money and the seller escrowed the stock. For the services they provided – ranging from finding buyers, running the auction, serving as a data room, and settling the transaction – SecondMarket received a 3% to 5% commission on each transaction, paid by the seller.[xviii]

From the perspective of the company who elected to engage with SecondMarket, company management had to decide what information would be disclosed. At a minimum, the company was required to provide financial disclosures to eligible buyers and sellers, including two years of audited financial statements and company risk factors. After providing that information, the company established the key parameters for the process, including:

- Who can buy?
- Who can sell and how much?
- How often do transaction windows occur?
- Which Auction Pricing System to use?
    1) Fixed priced – all shares are sold at the price established by the company
    2) Privately negotiated pairings – in which collected bids and asks are matched
    3) Sealed bid Dutch auction – where all shares are transacted at the lowest market clearing price.

Source: Company.

---

[5] The term "accredited investors" covers a wide range of investors, including individuals whose net worth (excluding housing) exceeds $1M, individuals with income exceeding $200,000 or joint income with a spouse exceeding $300,000, and institutions such as VC firms and mutual funds.

**Exhibit 10** Comparison of SecondMarket to SharesPost for Private Company Stock Transactions, As of November 2011

| | SecondMarket (SM) | SharesPost (SP) |
|---|---|---|
| **Overview** | • SecondMarket works with companies, buyers and sellers to create markets for alternative assets.<br>• Companies who work with SM are required to provide mandatory financial information to the company-approved buyers and sellers to prevent information asymmetry.<br>• SM does not publicly disclose private companies' pricing or valuation information. | • SP operates as a passive bulletin board to match private stock buyers and sellers.<br>• SP does seek company approval in the trading of its stock, and it does allow a company to prohibit trading. But, a company doesn't have to be involved in order for trading to take place.<br>• SP lists historical pricing and bid/ask data for private stock. |
| **Transaction Fees** | • SM receives a 3% to 5% commission on each transaction, paid by the seller | • SP takes approximately 3% of the total transaction amount or $5,000, whichever is greater. The U.S. bank that SharesPost uses also charges a flat fee of around $1,500 to each buyer and seller for using the service.[xix] |
| **Participates as an Investor?** | • No, SecondMarket neither buys nor sells securities marketed on its platform. | • Yes, SharesPost raised an investment fund to buy private stock available for sale on its platform. SharesPost receives a fee for capital deployed through this fund. |
| **SEC Registered Broker/Dealer[1]** | • SecondMarket became registered as a broker-dealer with Financial Industry Regulatory Authority (FINRA) and the SEC in all 50 states in 2007, prior to launching their private company stock market in 2009. | • No. |
| **SEC Registered Alternative Trading System[2]** | • In 2011, SecondMarket registered with the SEC as an Alternative Trading System (ATS) in trading private company securities. | • No. |
| **SEC Registered Exchange[3]** | • No. | • No. |
| **Company Response to Unwelcomed Trades?** | • Company approval is required for all transactions. | • Some companies can exercise Right of First Refusal (ROFR) to purchase back their stock from the seller at the proposed price. As assignable ROFR would allow the company to choose a 3rd party buyer for the stock at the proposed price.* |

[1)]Under Section 15 of the Securities Exchange Act of 1934, the SEC defines a "broker" as "any person engaged in the business of effecting transactions in securities for the account of others," and defines a "dealer" as "any person engaged in the business of buying and selling securities for his own account, through a broker or otherwise." According to the SEC website, " a person who executes transactions for others on a securities exchange clearly is a broker. And a firm that advertises publicly it makes a market in securities is obviously a dealer. Other situations can be less clear."[xx]

[2)] Introduced by the SEC in 1998, the Regulation of Exchanges and Alternative Trading Systems (Regulation ATS), allowed alternative trading systems to choose whether to register as national securities exchanges, or to register as broker-dealers and comply with additional requirements under Regulation ATS, depending on their activities and trading volume.[xxi]

[3)] A "national securities exchange" is a securities exchange that has registered with the SEC under Section 6 of the Securities Exchange Act of 1934. As of November 2011, there were 15 securities exchanges registered, plus six exchanges for security futures. There are greater reporting requirements and increasing regulatory scrutiny in the progression from Broker/Dealer to ATS to Exchange. Point and click purchases of securities are allowed on ATSs and Exchanges, but there needs to be an intermediary step for transactions through Broker/Dealers (often a purchase and sale agreement).[xxii]

*Note: In response to a company exercising its right of first refusal (ROFR), an interested buyer could raise its offer price. The company would then have to decide whether or not to exercise its ROFR at this higher price. Exercising a ROFR would establish a fair market value of the company stock, which may be used for future options pricing considerations.

Source: Company Websites, SEC Website, Business Insider.[xxiii]

**Exhibit 11** US Venture Capital Returns as of December 31st, 2010

**U.S. Venture Capital**
**Fund Index Summary**
**End-to-End Pooled Mean, Net to Limited Partners**
**As of December 31, 2010**

| Index | 1-Quarter | 1-Year | 3-Year | 5-Year | 10-Year | 15-Year | 20-Year | 25-Year |
|---|---|---|---|---|---|---|---|---|
| Cambridge Associates LLC U.S. Venture Capital Index®[1] | 8.40 | 13.53 | (0.25) | 5.67 | (1.98) | 34.76 | 26.33 | 18.89 |
| U.S. Venture Capital - Early Stage Index[1] | 8.52 | 13.27 | (0.74) | 4.89 | (3.33) | 46.14 | 30.03 | 20.53 |
| U.S. Venture Capital - Late & Expansion Stage Index[1] | 12.24 | 28.16 | 5.76 | 12.63 | 1.74 | 15.65 | 21.55 | 15.87 |
| U.S. Venture Capital - Multi-Stage Index[1] | 6.71 | 8.49 | (1.97) | 4.15 | (0.90) | 30.84 | 23.60 | 18.09 |
| Barclays Capital Gov't/Credit Bond Index | (2.17) | 6.59 | 5.60 | 5.56 | 5.83 | 5.97 | 6.91 | 7.42 |
| Dow Jones Industrials Average | 8.04 | 14.06 | (1.61) | 4.31 | 3.15 | 7.93 | 10.26 | 11.28 |
| Dow Jones U.S. Small Cap Index | 15.25 | 26.47 | 3.75 | 5.68 | 7.62 | 9.43 | NA | NA |
| Dow Jones U.S. TopCap Index | 11.16 | 15.93 | (2.31) | 2.74 | 1.72 | 6.87 | NA | NA |
| Nasdaq Composite* | 12.00 | 16.91 | 0.01 | 3.76 | 0.71 | 6.36 | 10.29 | 8.76 |
| Russell 1000® | 11.19 | 16.10 | (2.37) | 2.59 | 1.83 | 7.01 | 9.46 | 10.00 |
| Russell 2000® | 16.25 | 26.85 | 2.22 | 4.47 | 6.33 | 7.64 | 10.83 | 9.10 |
| S&P 500 | 10.76 | 15.06 | (2.86) | 2.29 | 1.41 | 6.76 | 9.14 | 9.93 |
| Wilshire 5000 Total Market | 11.59 | 17.16 | (1.92) | 2.90 | 2.50 | 7.03 | 9.50 | 9.83 |

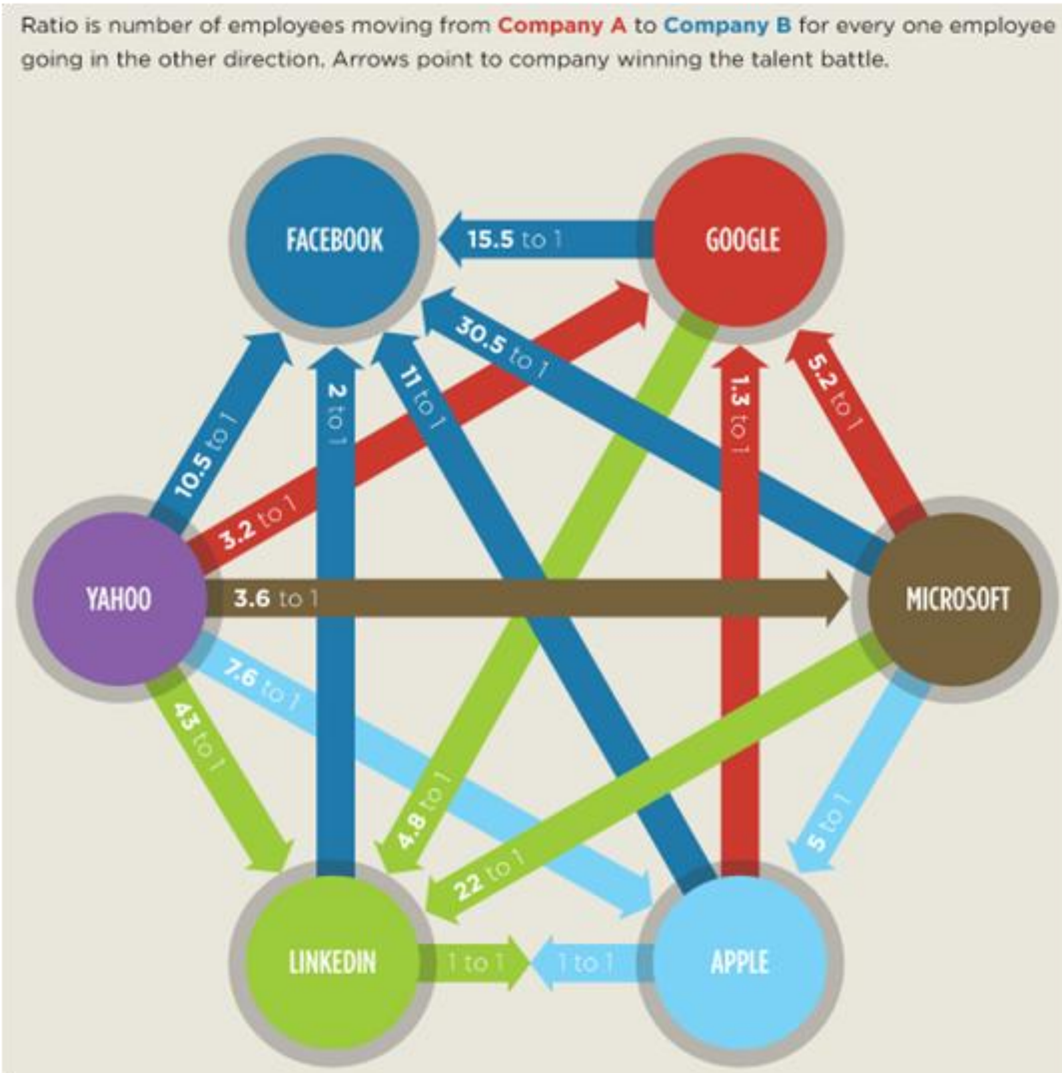
Note: The Cambridge Associates LLC U.S. Venture Capital Index® is an end-to-end calculation based on data compiled from 1,298 U.S. venture capital funds (863 early stage, 168 late & expansion stage, 264 multi-stage and 3 venture debt funds), including fully liquidated partnerships, formed between 1981 and 2010.

[1]Pooled end-to-end return, net of fees, expenses, and carried interest.

*Capital change only.

Source: Compiled by case writer using data from "U.S. Venture Capital Index And Selected Benchmark Statistics," Cambridge Associates, LLC (December 31, 2010), accessed through "Venture Capital Returns Q4 2010 – Benchmark Report," National Venture Capital Association, http://www.nvca.org/index.php?option=com_docman&task=cat_view&gid=59&Itemid=317, accessed October 2011.

**Exhibit 12** The War For Talent




Source: Top Prospect, as displayed in Rip Empson, "A Look At Who's Winning The Talent Wars In Tech," June 7, 2011, http://techcrunch.com/2011/06/07/a-look-at-whos-winning-the-talent-wars-in-tech-hint-it-rhymes-with-twitter/, accessed October 2011.

**Exhibit 13** Excerpts from the iContact Stock Option Plan

1. Purpose. The Plan is intended to create an incentive for key employees, directors and consultants or advisors of iContact Corporation.
2. Time for Granting Options. All Options shall be granted, if at all, within ten (10) years from the earlier of the date the Plan is adopted by the Board or the date the Plan is duly approved by the stockholders of the Company.
3. Terms, Conditions and Form of Options. Each Option granted pursuant to the Plan shall comply with and be subject to the following terms and conditions:
    a. Exercise Price. The exercise price for each Option shall be established in the sole discretion of the Board; provided, however, that the exercise price per share for an Incentive Stock Option shall be not less than the fair market value of a share of Stock on the date of grant.
    b. Exercise Period of Options. The Board shall have the power to set the times on or within which an Option shall be exercisable or the events upon which an Option shall be exercisable and the term of an Option; provided, however, that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years after the date of grant.
    c. Payment of Exercise Price. Payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made in cash, by check, cash equivalent
4. Options Non-Transferable. Except as otherwise provided in a stock option agreement, no Option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution. During the lifetime of an Optionee, an Option shall be exercisable only by such Optionee.
5. Termination or Amendment. The Board may amend, suspend or terminate the Plan or any portion thereof at any time. The Board may amend, modify or terminate any outstanding Option; provided, however, that no amendment authorized hereby may adversely affect the rights of any Optionee under any then outstanding Option without the consent of the Optionee.
6. Withholding. Each Optionee shall pay to the Company, or make provision satisfactory to the Board for payment of, any taxes required by law to be withheld in connection with Options to such Optionee no later than the date of the event creating the tax liability
7. Right of First Refusal.
    a. Right of First Refusal. If any Optionee proposes to sell, pledge or otherwise transfer any shares of Stock acquired upon exercise of an Option, the Company shall have the right to repurchase the Exercise Shares under the terms and subject to the conditions set forth in this Paragraph.
    b. Notice of Proposed Transfer. Prior to any proposed transfer of the Exercise Shares, the Optionee shall give a written notice to the Company describing fully the proposed transfer, including the number of Exercise Shares, the name and address of the proposed transferee, the proposed transfer price and all other material terms and conditions of the proposed transfer.
    c. Exercise of the Right of First Refusal. The Company shall have the right to purchase all, but not less than all, of the Exercise Shares at the purchase price and on the terms set forth in the Transfer Notice by delivery to the Optionee of a notice of exercise of the Right of First Refusal within thirty (30) days after the date the Transfer Notice is delivered to the Company.
    d. Failure to Exercise the Right of First Refusal. If the Company fails to exercise the Right of First Refusal within the period specified in Paragraph (c) above, the Optionee may conclude a transfer to the Proposed Transferee of the Exercise Shares on the terms and conditions described in the Transfer Notice, provided such transfer occurs not later than one hundred twenty (120) days following delivery to the Company of the Transfer Notice.

**Exhibit 13 (continued)** Excerpts from the iContact Stock Option Plan

e. Transferees of the Transfer Shares. All transferees of the Exercise Shares or any interest therein, other than the Company, shall be required as a condition of such transfer to agree in writing (in a form satisfactory to the Company) that such transferee shall receive and hold such Exercise Shares or interests subject to the provisions of this Paragraph 14 providing for the Right of First Refusal with respect to any subsequent transfer.

f. Assignment of the Right of First Refusal. The Company shall have the right to assign the Right of First Refusal at any time.

g. Early Termination of the Right of First Refusal. The Right of First Refusal shall terminate, and be of no further force and effect, upon the earlier of (i) the occurrence of a Transfer of Control, or (ii) the existence of a public market for the class of shares subject to the Right of First Refusal. A "public market" shall be deemed to exist if (x) such stock is listed on a national securities exchange (as that term is used in the Exchange Act) or (y) such stock is traded on the over-the-counter market and prices therefor are published daily on business days in a recognized financial journal.

Source: Company.

**Exhibit 14** IPO Task Force Recommendations

The task force's recommendations for policymakers are:

1) Provide an "On-Ramp" for emerging growth companies using existing principles of scaled regulation. We recommend that companies with total annual gross revenue of less than $1 billion at IPO registration and that are not recognized by the SEC as "well-known seasoned issuers" be given up to five years from the date of their IPOs to scale up to compliance. Doing so would reduce costs for companies while still adhering to the first principle of investor protection.
2) Improve the availability and flow of information for investors before and after an IPO. We recommend improving the flow of information to investors about emerging growth companies before and after an IPO by increasing the availability of company information and research in a manner that accounts for technological and communications advances that have occurred in recent decades. Doing so would increase visibility for emerging growth companies while maintaining existing regulatory restrictions appropriately designed to curb past abuses.
3) Lower the capital gains tax rate for investors who purchase shares in an IPO and hold these shares for a minimum of two years. A lower rate would encourage long-term investors to step up and commit to an allocation of shares at the IPO versus waiting to see if the company goes public and how it trades after its IPO.

In addition to its recommendations for policymakers, the task force has also developed a recommendation for members of the emerging growth company ecosystem:

4) Educate issuers about how to succeed in the new capital markets environment. The task force recommends improved education and involvement for management and board members in the choice of investment banking syndicate and the allocation of its shares to appropriate long-term investors in its stock. Doing so will help emerging growth companies become better consumers of investment banking services, as well as reconnect buyers and sellers of emerging company stocks more efficiently in an ecosystem that is now dominated by the high-frequency trading of large cap stocks.

The recommendations above aim to adjust the scale of current regulations without changing their spirit. Furthermore, the task force believes that taking these reasonable and measured steps would reconnect emerging companies with public capital and re-energize U.S. job creation and economic growth – all while enabling the broadest range of investors to participate in that growth. The time to take these steps is now, as the opportunity to do so before ceding ground to our global competitors is slipping away.

Source: IPO Task Force, "Rebuilding the IPO On-Ramp: Putting Emerging Companies and the Job Market Back on the Road to Growth." October 20, 2011. http://www.slideshare.net/TENOR/rebuilding-the-ipo-on-rampfinal-slideshare, accessed October 21, 2011.

## Endnotes

[i] Compiled from Thomson Reuters/National Venture Capital Association data on October 20, 2011.

[ii] Compiled from Bloomberg data on October 20, 2011.

[iii] Written testimony of Barry Silbert, CEO of SecondMarket, delivered to Congress on May 10, 2011 http://oversight.house.gov/images/stories/Testimony/5-10-11_Barry_Silbert_Capital_Formation_Testimony.pdf.

[iv] "United States Securities and Exchange Commission Organizational Study and Reform," Boston Consulting Group, March 10, 2011, http://www.sec.gov/news/studies/2011/967study.pdf, accessed on October 21, 2011.

[v] Stephens, Robertson. "Boom, fizzle, silence, Pulling the plug on a bank that served the high-tech world," *The Economist*, July 18th, 2002.

[vi] Ritter, Jay R., "IPOs Turnover," http://bear.warrington.ufl.edu/ritter/IPOs2011Turnover_04162012.pdf, accessed May 2012.

[vii] Barry Silbert, interview by author, New York, NY, October 31, 2011

[viii] Written testimony of Barry Silbert, CEO of SecondMarket, delivered to Congress on May 10, 2011 http://oversight.house.gov/images/stories/Testimony/5-10-11_Barry_Silbert_Capital_Formation_Testimony.pdf.

[ix] Adam Oliveri, interview by author, New York, NY, October 28, 2011.

[x] Stone, Brad, "Silicon Valley Cashes Out Selling Private Shares: SecondMarket and its ilk allow investors and employees—including Facebook's—to convert pre-IPO shares into millions. But is it healthy for startups?" Bloomberg Business Week Online, April 21, 2011, via Factiva, accessed October 2011.

[xi] Ibid.

[xii] Chamath Palihapitiya, interview by Bloomberg West, *Bloomberg Television*, Sept 27th, 2011. http://www.blinkx.com/watch-video/palihapitiya-says-facebook-to-grow-with-mobility-usage/DKL5sAI5JPO4e8deT-UOSQ, accessed October 6, 2011

[xiii] Ante, Spencer E., "Second Market Gets its Own Funding," *The Wall Street Journal Online*, November 2, 2011.

[xiv] Barr, Alistair, "Analysis: Groupon IPO to test nascent private stock markets" *Reuters*, November 1, 2011, http://www.reuters.com/article/2011/11/01/us-groupon-privatestock-idUSTRE7A06Z720111101, accessed November 1, 2011

[xv] Barr, Alistair, "Analysis: Groupon IPO to test nascent private stock markets" *Reuters*, November 1, 2011, http://www.reuters.com/article/2011/11/01/us-groupon-privatestock-idUSTRE7A06Z720111101, accessed November 1, 2011

[xvi] Ryan Allis, interview by author, via telephone, October 17, 2011

[xvii] Ibid.

[xviii] Dominic Preuss, interview by author, New York, NY, October 28, 2011

[xix] "SharesPost Private Company Marketplace," AppAppeal, http://www.appappeal.com/app/sharespost/, accessed May 2012.

[xx] "Broker-Dealer Registration," U.S. Securities and Exchange Commission Website, http://www.sec.gov/answers/bdregis.htm, accessed May 2012.

[xxi] "Regulation of Exchanges and Alternative Trading Systems," SEC website, http://www.sec.gov/rules/final/34-40760.txt, accessed May 2012.

[xxii] Jeremy Smith, interview by author, via telephone, May 21, 2012.

[xxiii] "The Differences Between SecondMarket and SharesPost According to Their CEOs," Business Insider, http://www.businessinsider.com/the-differences-between-secondmarket-and-sharespost-according-to-their-ceos-2011-12, accessed May 2012.