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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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PART III

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5⁴⁰² Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: SECONDMARKET, INC.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

636 AVENUE OF THE AMERICAS

(No. and Street)

NEW YORK

NY

10011

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

SIMCHA WURTZEL

(212) 668-3917

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

(Name - if individual, state last, first, middle name)

5 Times Square

NEW YORK

NY

10036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

EW
3/9/13

OATH OR AFFIRMATION

I, SIMCHA WURTZEL, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SECONDMARKET, INC., as of DECEMBER 31, 2012, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

THOMAS J. CALABRESE
NOTARY PUBLIC, STATE OF NEW YORK
QUALIFIED IN NEW YORK COUNTY
NO. 01CA6141338
MY COMMISSION EXPIRES 02-21-2014
Notary Public

Shirley...

Signature
CONTROLLER - FINOP

Title

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

STATEMENT OF FINANCIAL CONDITION

SecondMarket, Inc.

December 31, 2012

With Report of Independent Registered Public Accounting Firm

SecondMarket, Inc.

Statement of Financial Condition

December 31, 2012

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Report of Independent Registered Public Accounting Firm

The Stockholder of SecondMarket, Inc.

We have audited the accompanying statement of financial condition of SecondMarket, Inc. (the Company) as of December 31, 2012, and the related notes to the statement of financial condition.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the statement of financial condition in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a statement of financial condition that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the statement of financial condition based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of SecondMarket, Inc. at December 31, 2012, in conformity with U.S. generally accepted accounting principles.

February 28, 2013

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Washington DC
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Ernst & Young LLP

SecondMarket, Inc.

Statement of Financial Condition

December 31, 2012

Assets

Cash and cash equivalents	\$ 13,575,844
Cash segregated under federal regulations	147,144
Receivable from clearing broker	328,212
Commissions receivable	226,198
Due from affiliates	175,232
Securities owned, at fair value	4,819
Property, equipment and leasehold improvements, net	310,020
Prepaid expenses and other assets	421,665
Total assets	<u>\$ 15,189,134</u>

Liabilities and stockholder's equity

Liabilities:

Accounts payable and accrued expenses	\$ 777,382
Due to affiliates	4,717,756
Deferred income taxes, net	53,214
Due to customers	147,144
Total liabilities	<u>5,695,496</u>

Commitments and contingencies (*Note 9*)

Stockholder's equity:

Common stock, \$0.01 par value; 100,000 shares authorized, issued and outstanding	1,000
Additional paid-in capital	5,797,978
Retained earnings	3,694,660
Total stockholder's equity	<u>9,493,638</u>
Total liabilities and stockholder's equity	<u>\$ 15,189,134</u>

The accompanying notes are an integral part of the financial statement

SecondMarket, Inc.

Notes to Statement of Financial Condition

December 31, 2012

1. Nature of Business

SecondMarket, Inc. (the "Company") was formed under the laws of the State of Delaware on June 8, 2005. The Company is an introducing broker-dealer, headquartered in New York with a branch office in California, is registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company's primary business is providing a marketplace for transactions in illiquid assets, including auction-rate securities, private company stock and restricted securities. The Company is a wholly owned subsidiary of SecondMarket Holdings, Inc. (the "Parent").

2. Summary of Significant Accounting Policies

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

The following is a summary of significant accounting policies followed by the Company:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates and assumptions.

Cash Equivalents

The Company considers short-term investments with initial or remaining maturities of three months or less from the date of purchase to be cash equivalents. At December 31, 2012, there were no cash equivalents.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Cash Segregated Under Federal Regulations

Pursuant to the exemptive provisions of sub-paragraph (k)(2)(i) of SEC Rule 15c3-3, the Company is permitted to hold customer funds received in connection with privately negotiated securities transactions. At December 31, 2012, the Company held customer funds of \$147,144, which were segregated in a special account for the exclusive benefit of customers of SecondMarket, Inc.

Securities Owned, at Fair Value

The Company records securities owned on trade date.

Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation methods. The accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

- Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

Property, Equipment and Leasehold Improvements, Net

Property and equipment is stated at cost less accumulated depreciation. The Company provides for depreciation as follows:

Asset	Estimated Useful Life	Principal Method
Computer hardware and software	3 years	Straight Line
Communication systems	5 years	Straight Line
Furniture and fixtures	5 years	Straight Line
Equipment	3 years	Straight Line

Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining term of the lease or the estimated useful life of the improvement.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

2. Summary of Significant Accounting Policies (continued)

Prepaid Expenses and Other Assets

Prepaid expenses and other assets primarily include prepaid amounts relating to various dues and subscriptions, as well as amounts paid to regulators.

Income Taxes

The Company files its federal income tax return on a consolidated basis with its Parent and on a combined basis for state and local income taxes.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of management, is more likely than not to be realized.

The Company evaluates tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are "more-likely-than-not" to be sustained by the applicable tax authority. The Company recognizes the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. At December 31, 2012, no provision for income tax uncertainties is required in the Company's financial statements. Federal, New York State and New York City are the major tax jurisdictions that the Company currently files in. The Company is subject to examination by the various tax authorities for 2009 through 2011.

The Company's policy is to accrue interest and penalties associated with unrecognized tax benefits. The related liability is recorded in Due to affiliates in the Statement of Financial Condition.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

3. Securities Owned, at Fair Value

Securities owned primarily consists of equities, some of which do not have readily observable prices.

The following table presents information about the Company's assets and liabilities measured at fair value as of December 31, 2012:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2012
Assets				
Equities	\$ -	\$ 139	\$ 4,680	\$ 4,819
	<u>\$ -</u>	<u>\$ 139</u>	<u>\$ 4,680</u>	<u>\$ 4,819</u>

As of December 31, 2012 the Company's balance of Level 3 assets was \$4,680. No gains or losses were recorded on these assets during the year.

The Company considers cash and cash equivalents, receivable from clearing broker, commissions receivable, due from affiliates, prepaid expenses and other assets, accounts payable and accrued expenses, and due to affiliates to be its financial instruments. The carrying amounts reported in the Statement of Financial Condition for the Company's financial instruments closely approximate their fair values due to the short-term nature of these assets and liabilities.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

4. Property, Equipment and Leasehold Improvements

Details of property, equipment and leasehold improvements at December 31, 2012 are as follows:

Computer hardware and software	\$ 474,959
Communications systems	25,739
Furniture and fixtures	254,468
Equipment	78,048
Leasehold improvements	2,480
	<u>835,694</u>
Less accumulated depreciation and amortization	(525,674)
Total property, equipment, and leasehold improvements, net	<u>\$ 310,020</u>

5. Net Capital Requirements and Exemption from SEC Rule 15c3-3

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2012, the Company's net capital was approximately \$8,105,704, which was approximately \$7,735,814, in excess of its minimum requirement of approximately \$369,890.

The Company is exempt from SEC Rule 15c3-3 pursuant to the exemptive provisions under sub-paragraph (k)(2)(i) and (k)(2)(ii). Pursuant to the exemptive provisions of sub-paragraph (k)(2)(i), the Company is permitted to hold customer funds received in connection with privately negotiated securities transactions. The Company maintains a "Special Account for the Exclusive Benefit of Customers of SecondMarket, Inc." for such customer funds received. The Company is also exempt from the provisions of sub-paragraph k(2)(ii) as an introducing broker or dealer that carries no customer accounts, promptly transmits any customer funds and securities to the clearing broker or dealer, and does not otherwise hold funds or securities of customers.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

6. Income Taxes

Deferred income tax assets and liabilities result from temporary differences primarily related to non-cash compensation, the treatment of realized/unrealized losses on securities for tax purposes, depreciation methods used for tax purposes, and prepaid expenses. These resulted in a net deferred tax liability of \$53,214 at December 31, 2012. The net deferred tax liability is composed of a deferred tax asset of \$543,730, a deferred tax liability of \$72,412 and a valuation allowance of \$524,532.

A valuation allowance was recorded against the deferred tax assets at December 31, 2012, as management believes that non-cash compensation as well as realized and unrealized securities losses will not be recognized as a tax deduction in a future period. The nature of the non-cash compensation charge from the Parent to the Company is related to stock compensation granted by the Parent (see Note 9). Management has established a full valuation allowance during 2012 for the total deferred tax asset related to non-cash compensation, as the Company cannot be certain that it will be able to recognize the benefit related to this deferred tax asset in the future. The difference between the provision for income taxes reported in the financial statements and the provision for income taxes computed by applying the statutory federal rate to income is primarily attributable to state and local taxes, lobbying expenses, expenses for meals and entertainment, and changes to valuation allowance.

At December 31, 2012, income taxes payable of \$3,032,942 are included in Due to affiliates in the Statement of Financial Condition.

7. Off Balance Sheet Risk and Concentrations of Operational Risk

Certain of the Company's customers' securities transactions are introduced on a fully-disclosed basis to its clearing broker. The clearing broker carries all such customer accounts and is responsible for execution, collection and payment of funds and receipt and delivery of securities relative to customer transactions. These transactions may expose the Company to off-balance-sheet risk, wherein the clearing broker may charge the Company for any losses it incurs in the event that customers may be unable to fulfill their contractual commitments and margin requirements are not sufficient to fully cover losses. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. The Company has the right to pursue collection or performance from the customers who do not perform under their contractual obligations. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and ensure that customer transactions are executed properly.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

7. Off Balance Sheet Risk and Concentrations of Operational Risk (continued)

by the clearing broker. The receivable from clearing broker of \$328,212 includes a \$250,000 deposit that the Company is required to maintain with its clearing broker.

At December 31, 2012, the Company's cash accounts were held primarily with three financial institutions, each with balances that exceeded the federally insured limit.

8. Related Party Transactions

The Company has entered into a service agreement with the Parent whereby the Parent provides services to the Company including the use of its employees, facilities, and other assets.

As of December 31, 2012, Due to affiliates on the Statement of Financial Condition includes \$1,684,813. The remainder of the balance within Due to affiliates on the Statement of Financial Condition as of December 31, 2012, relates to income taxes due to the Parent.

Pursuant to stock incentive plans of the Parent (collectively, the "Plan"), share-based payment awards are periodically granted as compensation to employees of the Parent. A portion of the costs associated with these awards is allocated to the Company in accordance with the service agreement. The Parent accounts for certain awards as a liability plan which requires those awards to be remeasured at fair value at each reporting period until settlement. The Parent has executed an indemnification agreement with the Company which indemnifies the Company with respect to its allocation related to share-based payment awards. As a result, the forgiveness of debt between the Company and the Parent is recorded as a capital transaction.

9. Commitments and Contingencies

In the normal course of business, the Company enters into contracts that contain a variety of representation and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company expects risk of loss to be remote.

Pursuant to the Company's service agreement with the Parent, the Company has no contractual obligations for expenses incurred by the Parent. However, the Parent does have a lease obligation of which a certain portion is allocated to the Company.

SecondMarket, Inc.

Notes to Statement of Financial Condition (continued)

10. Subsequent Events

The Company has performed an evaluation of events which occurred subsequent to December 31, 2012 through the issuance of these financial statements. There are no known events that have occurred that require disclosure.