secondmarket

liquidity | transparency | independence

Presentation for SEC Government-Business Forum on Small Business Capital Formation

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LARGEST MARKETPLACE FOR ILLIQUID ASSETS

- FOUNDED IN 2004 AND GROWING RAPIDLY
- FACILITATED THOUSANDS OF TRANSACTIONS REPRESENTING BILLIONS OF DOLLARS IN ILLIQUID ASSETS
- 5,000 PARTICIPANTS MANAGING $1 TRILLION
- APPROXIMATELY $25 BILLION IN ASSETS AVAILABLE FOR SALE
- REGISTERED BROKER-DEALER

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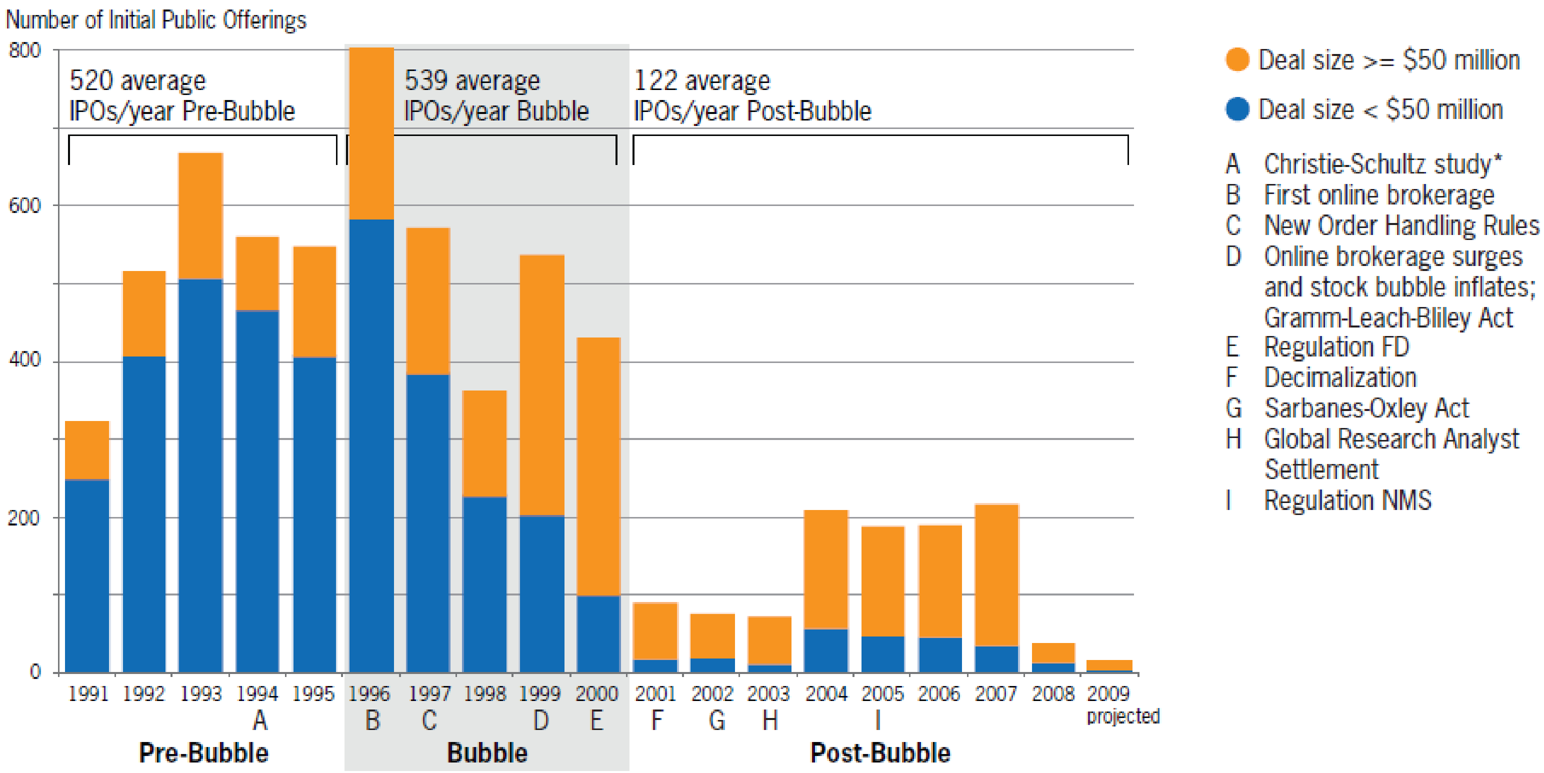
- IPOs ARE DOWN -

The IPO market is broken

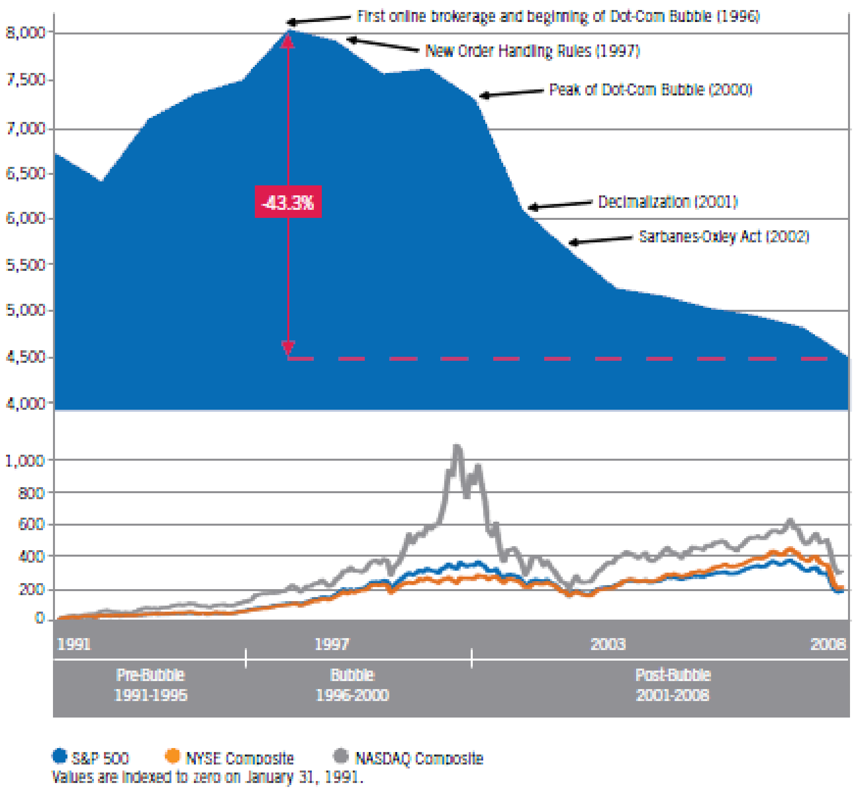
In the last decade the number of IPOs has fallen dramatically, specifically deals less than $50 million in proceeds.



* Capital Markets Advisory Partners

- OVERALL LISTINGS ARE ALSO DOWN -

The *Great Depression in Listings* began with the advent of online brokerage and the Order Handling Rules. The peak of the Dot-Com Bubble and the adoption of Sarbanes-Oxley came much later.
Companies listed on U.S. stock exchanges



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

- Undermining:
  - private companies
  - jobs
  - innovation
  - U.S. competitiveness
  - national security
- trouble began **<u>before</u>** the Dot-Com Bubble reached its peak

- WHAT CAUSED THE PROBLEM? -

Online brokerage destroyed the retail broker model

Decimalization took profits away from funding sell-side research (small companies do not trade well w/o research)

Emergence of **high frequency trading** led to poor allocations for long-term value investors

Sarbanes-Oxley made it costly for private companies to be public and created liability issues for management

- WHY IS IT A PROBLEM? -

Lack of Exits - prevents start-ups from raising capital and attracting employees

Stifles Job Growth – Grant Thornton study: as many as 20 million jobs were not created in this country because of the lack of IPOs

Restricts Innovation and the "Creative Class" – IPO is often the most logical exit option for the most innovative of companies (e.g., Google, Apple, Intel, etc.)

Undermines American Competitiveness – US public markets will continue to be outdone by other countries without regulatory changes that enable a strong <u>private company market</u>

- SOLUTIONS -

New Path to Liquidity – the National Venture Capital Association (NVCA) has sounded the alarm and cited the need for an alternate path to liquidity

Fine-Tuned Market – given the unique needs of each company, a customized market is required to satisfy those needs

The SecondMarket Approach – our model puts control of the market (buyer access, information, timing, etc.) in the hands of the company, and provides access to accredited investors and QIBs

Companies Exit on Their Own Terms – can serve as "spring training" for an IPO

- REGULATORY CONSIDERATIONS -

Amend general solicitation rules: vetting should occur before purchase, rather than before marketing

Amend 144A rules to include both QIBs and accredited investors

Review investment intent rules to allow for more active “market making”

Add exemption for accredited investors to the 12g registration requirements (allow companies to have more than 500 holders of record)