Stanford eCorner

A New Vision for Capital Markets [Entire Talk]

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SecondMarket Founder and CEO Barry Silbert thinks his online marketplace for trading alternative assets can play an important role in creating a new model for capital markets. In this lecture, Silbert explains his personal path into entrepreneurship and describes the current growth of his firm, which has drawn attention for trading private stock in companies such as Facebook and Twitter. Silbert also offers reasons for why he thinks current public markets are broken and his vision of a new way forward.

Transcript

Barry Silbert is the founder and CEO of SecondMarket which he founded in 2004. It is arguably the world's largest market place for buying and selling alternative financial assets and we'll let him define that for you if that's new to you, but it essentially includes private company stock and what makes this so exciting is he's been... he and his company have been in The Wall Street Journal in similar types of press a good bit over the last year because of Facebook and Zynga and Twitter and some others but essentially Facebook. So he's been recognized as a terrific entrepreneur with all sorts of awards. He went to a college in my hometown which I admire a great deal; Emory University, have you heard of that? It's a wonderful school in Georgia. But without further ado, let me let him explain to you which is really a hot, hot topic right now and we're so happy to have him at Stanford. Welcome Barry. That's... hello everybody. So it is really great to be here.

One, as a first time entrepreneur I looked at everybody who has done this before and it really is humbling to be in the same group of entrepreneurs and speakers. So what I'm going to do today is tell you how to turn an Excel spreadsheet into a $150 million business. So I have like three people so far tell me that this is like a fun crowd. Is this a fun crowd? Yes? You guys... yeah, OK, good, so -- Yeah, yeah, let's get excited. So what I'm going to go through today is... we will first talk about my story, you know, again, first time entrepreneurial get into how I got where I am today, talk about the SecondMarket history then talk a bit about the public markets. What the heck is happening? And after that a vision that the SecondMarket has for the future and then finally, I'll leave you with a few lessons learned from me. So who am I? So I was born in Washington DC, grew up in Gaithersburg, Maryland. Any, any Marylanders here? DC, look at that, we got two Marylanders in the house also.

As Tom said I went to school at Emory down at Atlanta. I was in the business school program, so focused on finance and graduated in 1998. As I'm thinking about this presentation, thinking about what am I going to talk about my background, we are recognizing everybody but I'm a first time entrepreneur. I don't have all these successful exits to talk about. I haven't done this or done that but I have done some things. So this is my illustrious career to date. I started off mowing lawns, shoveling driveways for money like any suburban kid would do. Around at the age of... I was 11, 12 I got involved in baseball cards so I started buying and selling baseball cards as a business and then I decided that there was bigger money in being a backroom stock clerk working in shoe stores and liquor stores. I was like the guy like putting forties back in the fridge of the liquor store.

I have no idea what my parents are thinking but paid big money. And then... I shortly there, after I got really involved in the stock market, I started investing, I took my bar mitzvah money, bought a bunch of stock and eventually I got a job in a brokerage firm where eventually they sponsored me to become a stock broker at the ripe old age of 17. So I was actually the youngest person ever to become a stock broker. After that, while I was in college I worked with Smith Barney and then my first real job was at Bear Stearns in New York. And then after graduation I went to work at Houlihan Lokey which is an investment bank in New York. So as I was thinking about my background and as I was thinking about those different jobs, I was reflecting on my professional career and thinking, you know, which of these jobs had the most profound impact on me as an individual? Anybody want to take a guess? Of these choices, what do you think had the most profound impact? Just yell it out. Baseball cards. Baseball. Isn't that obvious? OK, so I was enlightened when I thought about this and so I'm going to take you back to let's call it 1987, I was a 13-year-old kid, you know, I thought I was pretty hotshot back then but I was scrawny, sporting a bowl cut, I would go to these baseball card shows about once every two weeks and I would take my baseball cards in like a milk crate and I'd lug them to the baseball card show and I set up this table.

And I remember like borrowing 30 bucks from my parents to buy this glass display case to make it look professional. Like people are not going to see this 13-year-old kid, so they might not think I'm not a professional. But anyways, I was doing this baseball card shows making some money and it was eye-opening because I'm now reflecting back on that experience. And what I came to realize was the baseball card market itself was my first exposure to illiquid assets, so inefficient markets. And what's really interesting about it is that... and that market was basically... it was fixed. So you have these dealers who professionally made money out of buying and selling baseball cards and then you have collectors. These collectors me and other young people and older people would buy these cards from these dealers. And it always surprise me that somehow some way, these dealers knew like two weeks before when the pricing guide came out every month which were going to be the hot cards, which were going to be the cold cards.

And looking back on it, it was my first appreciation for the need for transparency, for centralization, for basically not allowing the big boys to control all the information. So it took me 16 years to again see this type of dynamic. I was at Houlihan Lokey doing restructuring work and for those who don't know what that is, we were basically hired by either the companies or the creditors, we essentially kind of restructure or break apart these companies and we would have to kind of sell off their assets. And what happened again, and again, and again is we would get phone calls from these bond holders who got a bunch of stock in companies like Enron and WorldCom all these kind of reorganized companies saying, "Hey, I need to get out of this" and the light bulb went off and I said, "You know what? That's a really interesting business idea." I was at doing banking for 5-1/2 years, I was a board banker and I said, "I'm going to go start a business." But what's interesting is as I was kind of thinking about it and researching this world of illiquid assets, what I quickly realized was there are trillions and trillions of dollars of these types of illiquid assets out there and you don't see a very efficient market and I think at that time, I thought that there was a tremendous opportunity to create some real efficiencies. So I... like any good banker, I left and took a long vacation in Hawaii with my wife, my wife is here, by the way, and I just kind of decompressed. I was doing 120-hour work weeks and so I got back from this really relaxing vacation, I started putting together a business plan. And so I did an investment banker's version of a business plan. It was like 100 pages, charts and graphs and it was like... I mean, it was a work of art.

And I started sharing it with people that I knew, people that I trusted and the business plan essentially contemplated us raising $2 million, we're going to go build like this awesome eBay platform and then take over the world. And so I remember distinctly one person came out... came back to me and said, "OK, this idea for business, it's a good idea but screw technology. You don't need technology for this business. So why don't you just get going. Don't go try to raise a bunch of money. Don't go try to build a whiz bang platform. Just open your doors start a business." So that's what I did. So in the middle part of 2004 I put $50,000 in the bank, opened up a bank account and started working together... working on the next version of the real business plan, eventually, was able to secure some Angel funding.

We've raised about $350,000 from a bunch of angels that you've never ever heard of because I didn't know anything about raising money from Angels. So looking back I guess the $1.7 million valuation I probably sold so much of the company but it got us started. But what was really, really interesting was when we opened up our doors in the early part of 2005, it was five of us, five telephones, and an Excel spreadsheet. That was it. That was our market place. And the funniest part is The New York Times picked up our launch as a story and left out the facts that it was just a bunch of us in the room making phone calls all day long. But because we launched that way, because we just went at it, we're profitable in essentially the first day because we had not built a bunch of infrastructure, we hadn't wasted a bunch of time trying to build a whiz bang platform. So in our first year in 2005 we did about $1 million in revenue, 2006 we did about $2.5 million in revenue. Now, at that time we had only focused on just one illiquid asset class and that was restricted stock in public companies. And we certainly knew that eventually we're going to get involved in other asset classes but for us that was enough of a business.

So along comes 2007 and we're on like a $5 million run rate, very, very profitable and so we get a phone call... I wasn't getting venture phone calls often but I did get a phone call from FirstMark Capital, a venture fund in New York saying, "OK, we like what you guys are doing. We see that --" I mean, at this point we had built the first version of the platform and so we like what you're doing, we think there's an opportunity to create a more scalable business, help you get involved in another asset classes, we want to invest. And at the time I was thinking, OK, I'm a first time entrepreneur, I never wanted to look back and say, if we'd only raised that money from this venture capital firm we'd be still around today. So we ended up raising $3.8 million from FirstMark, I had about a $16 million valuation. And so with that money we started aggressively hiring and started building technology of our next version of our platform and in 2008 the wheels really fell off the economy. And we were incredibly well positioned to expand our market place... expand our platform beyond just this one asset class. We got involved in auctioning securities, we got involved in bankruptcy claims, we got involved with the really toxic stuff the kind of the toxic CDOs and mortgage backs, we got involved with private company stock, which I'll come back to, and then we got involved in whole loans and things like that. So business is taking off, doing really, really well but a year ago, we then got a phone call from folks with Li Ka Shing and Temasek saying, "OK, we love this business you're doing.

We love the private company market. We want to get involved and help you take this business to Asia." So we raised $15 million from Li Ka Shing and Temasek about a year ago at $135 million valuation and that money was used for really for scaling and for expansion into Asia. So today, we are I think arguably the largest market place for buying and selling alternative investments. We have 140 employees who are based in New York. We have an office in San Francisco, office in Hong Kong and an office in... soon we'll have an office in Israel. And I'm going to attack a popular misconception, we are in fact regulated. We're very regulated. We're regulated by the SEC, we're regulated by FINRA, we're licensed in all 50 states, we've got an enormous legal and compliance team. And as you can see from these charts, the business has really taken off over the past year or two.

There's a number of participants if you understand the power of the network-effect that's what we're starting to see now in our business. So the private company market. So I'll start up with how this came about. In late 2007 or early 2008 it started with, as Tom mentioned, Facebook. So remember at that time we were only just in one asset class. Maybe we were in two in auction rates. We had not yet launched this private company market. And we got a phone call from some former... from a former employee of Facebook, saying, "OK, I just left the company. I need to go buy a car, buy a house, I don't know what it was, could you help me find a buyer for my stock." And we said, "Sure." Facebook, cool company and we had this big network of buyers, let us see if we can find a buyer for this.

And what was really interesting at that time was that there were institutions that were willing to buy a Facebook stock without any information. They had really nothing beyond just the Microsoft valuation and like maybe the stock option price, yet they were willing to deploy millions and millions of dollars into the stock at that point in time. Obviously, it was a good investment decision for them. But we said, there's something going on here because as we started trading Facebook we then started getting calls from other shareholders of other private companies who said, "Hey, I want to do this too. I want to sell my stock." So then the light bulb went off I said, "OK, it's now time for us to do this. It's now time for us to get involved officially in this private company market." So the next thing we did is we go on a bit of a kind of a road show met with a bunch of venture capitalists and lawyers and bankers and I said, "OK, we're going to go create this market place for private company stock, what do you think?" And do you want to guess what the response was? OK, so the response was it will never work, there's no need for it, you're going to fail. So of course, what did we do? We launched a private company market. So today, or over the past 18 months, what you can see is the volume has increased significantly. You can see in 2008 we did about $30 million and just... this is just private company stock.

Went about a hundred million in 2009, $360 million in 2010 and this year had started off very strong. So as this market is taking off, I'm getting this question more and more from people and then it's starting to be asked in the press; why go public? And so historically, it's important to know why companies have gone public, there's really kind of four reasons. One is it's to raise capital. It's traditionally been kind of the easiest, most cost-efficient way to raise equity capital for larger companies. Two is liquidity for shareholders. Third it is to have a currency that you can use to buy other companies or to pay your employees and then lastly, it was a branding event. So what's interesting is in the first three, the secondary market, the private market, is now actually starting to address these first three objectives. The fourth one, you know, going public, it used to be the pinnacle of success for companies but today, it's not. Yes, that is Snooki. Ringing the bell of the New York Stock Exchange.

Yes. So what a long way we've come from what this fine institution was originally created to do. But you know, all seriousness, I don't think a lot of people realized that over the past 10 years, the IPO market has been dying a slow, slow death. Now, there's a lot of information on this chart, so I'm going to point on what is important for you to look at. So one is the number of IPOs. So if you look at the chart, the number of IPOs, historically speaking, you look in the '90s, it was averaging 400, 500, 600 IPOs per year. Yet, over the past decade it's now averaging, what, 150 IPOs per year and this was even during kind of the 2000 to 2007 timeframe when things were pretty healthy in the economy. So that's scary, but also look at the colors on this chart. So the blue are companies that are raising less than $50 million and the orange are ones raising more than $50 million. So what you've seen is in the past, companies, smaller cap companies represented about 80% of the IPO market...

ones raising less than $50 million. Today, it is completely shifted to the opposite. So the companies that are getting public, they're just much larger companies which is really, really bad for us as entrepreneurs. So what happens? I think if you were to kind of look at the causes for this... the death of the IPO, I think you can describe it as it's really kind of the unattended consequences of probably some well intended actions. So the first cause which is surprising to many people started with all of us, all of our parents, all of our friends, moving money away from stock brokers into online trading firms because what used to happen is everybody would have a stock broker and that stock broker will call you up and say, "Hey, I just found this great company. It's named after a fruit, you should buy the stock." And you would say, "OK, good, I'm going to buy that stock." But that just doesn't happen anymore. It's all self-service now. So we lost hundreds of thousands of brokers who used to be pushing smaller cap stocks. Next was decimalization.

So what decimalization is, there was a time when stocks were traded in increments of eights and quarters. And so there was the spread between the bid and the offer. And it was then shifted to decimals like basically pennies. And so while that was really good for us as investors, works with lower transaction fees, it was terrible, terrible for Wall Street and the market bankers. And I know what you're saying, well, it was me, market bankers aren't making us money... not so much money. The problem is that that money that they were making was being used to pay for research. So what happens is as these banks can't make money trading the stocks anymore, they stop covering the smaller cap companies. Next in 2002, was Sarbanes-Oxley and I think a lot of people think that Sarbanes-Oxley was kind of the cause of all these, it really was probably one of the final nails in the coffin. Sarbanes-Oxley just made it a lot more expensive for companies to go public and be public.

And then after that was the research settlements that Spitzer pushed through which essentially eliminated the ability for investment banks to be able to pay the research analysts based on investment banking fees. So what happened is this... these banks, the research analyst, they couldn't make money anymore from the trading, they couldn't make any money from investment banking so all the resource now is shifted to the very, very large companies which is terrible for small cap companies. And then you had the proliferation of short sellers and then a huge increase in class action lawsuits. So as a result of all of that, it's now taking companies almost 10 years to go public whereas in the past it used to take about half that time like four years, five years. And so think about that for a second, 10 years to go public. That doesn't work for anybody. That doesn't work for venture capitalists. Doesn't work for Angel investors. And most importantly, it doesn't work for employees because no one joins a company with the expectation that they're going to stay at that company for 10 years.

Pretty depressing, right? Yeah, I mean, it gets worse. So anybody... what high-frequency trading is? Can someone describe what... Around 8 billion dollars a profit a year in about $36 trillion. So what high-frequency trading is doing? What's -- They're doing... they're front running everybody else. Basically, you can provide liquidity and scalp rebates. You can run momentum. You can front run that, news events, and you can use sophisticated algorithms to pick out what mutual fund who wants to make a big buy and you jump in the middle and scuttle up all sorts to spread. In a nutshell, they're screwing the market.

Yes. In a nutshell they're screwing the market. So high-frequency trading is a way of trading where using computer algorithms and taking advantage of inefficiencies in the stock price by using high-power computers and servers that are co-located with the major exchanges. Now the scary thing is, high-frequency trading now represents over 60% of trade in the public markets; 60%. Ten years ago it was less than 10%. So we've seen a shift of all of the activity into kind of this high-frequency kind of casino type trading environments. And as a result of that, the average hold period when someone buys a share of stock in the public market has dropped. In 1970 it was five years. Today, it's 2.8 months. So think about that for a second.

So if you're a public company CEO the average buyer of your stock everyday is either going to be a computer or it's going to be someone who only cares about your quarterly earnings. And can you imagine running a company thinking only about what effect your decisions are going to have on your quarterly earnings? So I have a video for you. Was everybody watching TV on May 6th last year? Yes. OK, in front of the flash crash because hopefully this will work, volume up, ready to go? OK. Maybe... I'm only maybe I'm frustrated. You did talk about capitulation, let's take a look at P&G Alright, this is going to say, P&Ghas now gone 22 - 5... That's true. They just couldn't buy it.

...alright. This is an... OK, five minutes later. P&Gback up. It was down, what, 23% then four minutes later it was down 24% then we made that comment that that is absurd, what is... The machine is obviously broke, the system Did you hear what Kramer said? The machine obviously broke, the system broke down. So I don't usually agree with anything that Jim Kramer says, but I agree, yeah. I think the public markets are... they're permanently broken. And I think that there's an opportunity here to create an entirely new exchange, an entirely new market place that's good for companies because I'll tell you what, the New York Stock Exchange and NASDAQ, they're now focused more on consolidation, they're focused on cost cutting, they're focused on clearing and derivatives, they're not focused on small companies, on getting these companies listed on the exchange.

So we have a vision but before I tell you what the vision is I'm going to tell you what the current system has looked like. So traditionally, you would start a company and you would raise an Angel money, you raise some friends and family money, you do a venture around and then you will go public or you would sell your company. And that was kind of a five-year timeframe and that... that just doesn't happen anymore. This is the new vision. So starting at five years or beyond companies will list on SecondMarket and that listing will essentially serve as either a spring training to basically enable that company to grow to the point where they can go public if they want to or I think over time what you're going to see is more and more companies choosing to stay private and choosing to be a part of the new market structure that we've created which I'll describe in a minute. So how are we doing it? We start it off with enabling investors to set up profiles on SecondMarket. So you saw we have 60,000 participants now in the system so what we're doing is we're enabling investors to essentially tell the world who they are as an investor, what their bio is, what they've invested in the past, what they're looking to invest in. We've enabled them to connect with other investors, to share ideas, and to collaborate on investment opportunities and essentially, what we're trying to do is turn your SecondMarket profile into your investment profile like Facebook is your social and LinkedIn is your professional. And then what we've done is we've created profiles on 13,000 companies and what we're doing is we're encouraging these companies to essentially take ownership of their pages on SecondMarket...

to take over their profile. And the idea is, is this is your... the company's profile to the investing public. And what's really cool about this is we are now crowd-sourcing which are the companies that investors want to invest in. So we're capturing data from those 60,000 participants who say, "Hey, I want to invest in that company" and we're also capturing data from the people who hold stock in those companies who wants to sell. So then what we do is we take all that information and we take it back to the company. Now, we will not create a market for a company stock until they opt-in... until they list but what we're enabling them to do is to essentially make a data-driven decision about when they want to actually create a market on SecondMarket. Now, our market model as I alluded to is much, much different than what you're used to in the NASDAQ or New York Stock Exchange. What we're doing is we're enabling the market to conform to the company and not forcing a company to conform to the market.

What I mean by that is when a company decides to start trading on second market, they decide the rules. They decide when the market is open. So this is not a 24-7 market in most cases, this is a market where maybe the company has an auction once a year, maybe it's one week or quarter where they allow people to trade. The company also gets to decide who the buyers are, companies decides who the sellers are, and the companies decide how much information they want to disclose to potential investors. So why is this a great thing? Well, if we can enable companies to go the distance, to kind of go big, we're empowering them. We're empowering them to be able to not have to sell themselves and have a... I mean, you got also the Cisco flip news? Crazy, crazy, two years later and we're also enabling them to not have to try to go public if they don't want to or they're going to have some type of failed IPO. It's great for the employees because employees can finally taste some of that value that they've created starting in years 5, 6 and 7 and from a public policy perspective, it's also really good for our country because it is these companies, the smaller companies, that are going to create all the jobs and these are the ones that are going to really innovate. And this is the type of company we want to support as a country. Let's be waving the flag for you guys.

OK, so some lessons learned. Again, first time entrepreneur so I'm learning everyday still, so one is do not fear the established. When I first started the company I was really scared that we were going to be just crushed by the New York Stock Exchange or NASDAQ or Goldman Sachs and after a few years, what I realized is these large companies, they're so slow to move, they're so slow to adapt, and they just simply don't innovate. Next, launch with an MVP. And everybody know what MVP is? It's not most valuable player. Minimum Viable Product. Exactly. Minimum Viable Product. So the idea here is you don't launch when everything is perfect. You launch as soon as you're ready.

So in my opinion, you really just need a good idea, you need some good people and you need to put a lot of hard work and you've got yourself a business. And then finally, be fearless. Find something... find an opportunity in something that you're passionate about. And, you know, it's so cliche like go big, go home, just, you know, kind of trust your instincts and kind of go for it because I think, we as a generation, I think we're the luckiest generation in history because we have the tools and ability to change the world. So all you have to do is start with a blank slip of paper, blank sheet of paper or some code, or in my case, the Excel spreadsheet. Thank you. Questions. Please. So it seems like you would have made a lot more money if you get, for example, the private stock illiquid and kept the information to yourself.

Instead of creating public profiles, the one that has gone his decision to go down that... Very early on... did everybody hear the question? So very early on, we decided is that we did not want to be a traditional Wall Street company. So what Wall Street does is Wall Street controls all the information and basically acts as a principal and buys securities and what they'll typically do is they'll buy it here from one client and they'll sell it here to another client and the only way they can do that is they control the information. And so we decided very early on that we were going to be different. We are going to essentially provide as much transparency as possible and instead of buying it here and selling it here let's just kind of bring these two guys together and let them transact right here. And ultimately, we figured we'll make it up in volume but really more importantly, we think it's just going to disrupt the old system because there is such a need for this type of thing and through technology, there is an opportunity to really kind of change the way that Wall Street operates because, look, Wall Street is in serious need of disruption, I think. In the back, Columbia. So the loss of coverage for ourselves and also analysts. And also the...

like you said, this is so much high-frequency trading going on here. Do you think this is going to be a boom for fundamental investors who actually do their homework or do diligence in investing those small funds? And it is kind of I know it's kind of not related to what you are doing... but just... What I've been reading is a lot of the traditional fundamental investors in the mutual funds and folks like that, they're just sick and tired of the public market and what is really interesting is a lot of the money now is being... is flowing into these ETFs; these Exchange Traded Funds and if you look at the kind of SNP 500 from what I remember all the stocks are moving with the highest correlation that's ever existed which is they all kind of moving together as like there are a lot of different companies but they're all moving together. So what we're hearing is that these fundamental long-term investors are kind of sick and tired of the public market. The problem is they're not, generally speaking, they're not yet ready to jump into the private market and one, sometimes they just don't have the ability to do it but they're really focused on liquidity and so as much as we've created a whole new level of liquidity for these companies, it's not like a public stock. And so if you're mutual funds where someone can pull money from your mutual fund everyday, you just don't have the ability to invest in these types of companies yet. But what's exciting to see is that there's actually now funds getting created to buy private companies the game is you're investing for the long haul and you're some of them are buying multiple names, so they really are... it's kind of like the creation of like an entirely mutual fund industry where everybody knows what the game is and the game is you're investing for the long haul and you're not going to have a lot of liquidity but you're going to be able to invest in what are some of the hottest, most...

the fastest growing companies that are out there. So you talked about listing on SecondMarket, is that required because... does multiple layers of rights of first refusal that exist in... I'm just curious what listing actually involves. So that's one question. The second part is can you talk about how common and preferred gets priced differently in SecondMarket? This concept of listing is actually is a fairly new development for us. When we started and I showed you kind of the graphic of the volumes over the past three years, we would essentially trade the stock of any company where we had a willing buyer, willing seller and the company really didn't tell us no. And what we've shifted to over the past three months as it's become... I mean, the light bulb just went off... has gone off, there needs to be some type of a new market, we've decided to start working with the companies directly.

And so we actually have teams all around the country now in the world that are now working with the companies to... with that data, number of buyers, number of sellers, to decide when to open up their market. So listing for a company... it's free. All really is is the company saying, OK, we're going to allow for some type of trading, these are the rules, it might happen once a year, it might happen once, and it all has to happen on SecondMarket. So they're locking up all of the... keeping all the noise from happening. All kind of... wanted things happening elsewhere, they're following it all directly through SecondMarket. So in terms in kind of the pricing or the difference in common preferred.

We've seen the venture capitalists... they're funny. For an industry that loves to disrupt other industries, they hate getting disrupted. So when we showed this idea or presented this idea to them back in like '09 or '08 and they were saying, no, no, no, you won't be successful, no need for it, like six months later, they said, "Well, you know what, maybe there are certain situations where this does make sense. Maybe we'll allow for some employees to sell." And then six months later, they said, "Well, you know what, maybe there's actually some interesting investment opportunities for us and so we're going to start buying." And then six months later, they said, "You know what, this actually might be an interesting way for us to get liquidity ourselves." So we're now at the beginning stages of venture capitalists realizing that. You know, 10 years IPO, that doesn't work, especially when their fund life is seven years. So we have yet to see a lot of preferred stock getting sold and ultimately, for the companies that are trading on SecondMarket, they're very, very mature where the common... the preferred value kind of... they kind of met the same points, so the ones where we have traded there hasn't really been a big difference in the price between common and preferred but I think over time as we see more preferred stock trading we'll probably have to run for separate options, one for common, one for preferred. You spoke a bit about companies controlling sort of the destiny in terms of when they will allow exchanges and stuff to happen, I'm wondering if that leaves to much in their control and that they could manipulate when they want to open up a trade and I'm sure they would do it in great times and not in the middle of '08 or '09, for example.

It's an excellent question. And so we're... we've talked a bit about this which is given the companies control is a great thing but if they represent... they're going to do something, they don't do it, what exposure does the company have to their investors? And so, so far, what's happened is when they tell their investors they're going to open up a market, the lawyers gave them very good language that says, and we intend to or we'll use our best efforts that at some point in the future do this again. Now, I think we will get to the point in time where there are actually is basically a schedule where you say we will open up our market twice a year and these are the dates and companies will have to provide disclosure going into that auction of all material events. So if they're in the process of trying to do this or do that and the board deems that material, they're going to have to make that information available to buyers and sellers. But at the end of the day, every company has major things happening all the time and I can tell you that I would much rather have my stock traded once a quarter, twice a year versus every single day, every single milliseconds having my employees and investors focused on that price, there's a better way. There's got to be a better way. So what type of information does the companies give to the potential investors and also are there any SecondMarket analyst or an analyst or professional analyst to cover this things which is actually larger than some publicly traded companies now. So on the question of information disclosure, because...

depending on who the seller is there are certain information that has to be provided to buyers. So if it's an insider, manager or some type of affiliate board member, the basic information that has to be provided are things like audited financials and balance sheets, cap table, and then risk factors. And companies now choose to do more than that. If it's not a... inside of that selling, there is a lower level of requirement depending on how the stock is trading but we essentially encourage and we will start requiring companies to provide at the very least, audited financials and the balance sheet. And in terms of the analysts, it's really interesting to see, there's this ecosystem forming around this right now. And what we've seen over the past year has been... it's been awesome. There's probably five or six analyst firms... a few have actually been created to do this, that now are starting to write research on the private company market and a number of them that we've grown to be comfortable with, we then take them actually back to the company and when the company decides to open up its market, we also give them the option of getting analyst coverage.

But instead of the company paying for the analyst coverage, we pay for it. So we take out a portion of our transaction fees and we pay for the analyst coverage and we allow the buyers to determine who gets paid. So it's an exchange funded model. So there you remove the conflict from the public model where either a company pays or you have the investment bank doing the research. So with the credit crisis, I assume that the regulators ended up with some assets they didn't know what to do with. Do you get any weekend calls from FTIC or others... what did you do to help them out? So in '08 and '09 we were nearly important enough to get that type of call. Could you go back? OK, so the question is during the credit crisis do we get any late night calls from FTIC, Fed treasury and so we didn't get the phone calls but we were down there. And we were banging down doors and saying, "Hey, we've got this market place. Let us help." And honestly, we didn't see any business out of it up until about a year ago and the treasury department is now using SecondMarket and Deutsche bank and some other firms to sell off the tarp warrants.

And so when they invested in these banks they got warrants... warrants an illiquid asset and so whenever a bank buys back their... or pay back their tarp money we are helping in selling off those warrants. And what I can say is our relationships have certainly improved over time where... last week or two weeks ago I was invited to a private breakfast with Secretary Geithner to talk about these issues, so hopefully next time we'll get the call. You said that you were regulated by both the SEC and FINRA, would you talk a little bit more about your experience in navigation... navigating the regulation market in the U.S. and then expanding that into Asia? So on the regulatory front, it's pretty interesting. To become a registered broker-dealer which is the kind of the FINRA designation of regulation, it's somewhat expensive, it's somewhat time consuming and you've got to put a lot of policies and procedures in place but dealing with the regulators is not nearly as bad as people make it seem. And I think we've had a unique experience because the regulators, again, in my experience, they view us as the good guys.

We don't create toxic assets. We don't buy... invest in these assets ourselves. We're not giving advice, we're not managing money and putting people on alternative securities and so when the regulators come through, they come through probably once or twice a year for announced and unannounced visits, it's really been a part in education process. We're educating them kind of what our business is. And then it has been them just going through... and it's amazing they review emails and all types of communications and they kind of put you through your paces. And then on the SEC fronts, we are an alternative trading system which we have to basically provide... I think it's probably monthly reports the SEC on activity but it's really not that difficult to be regulated other than expensive. And as far as Asia is concerned, what's interesting is Asia is not a country.

It's like the 12, 13th major economies so we actually have to navigate lots of different countries and so we're one by one developing relationships with Hong Kong, Singapore, China, ultimately, Japan as well. So with that we're still very early in that process. Will it be allowing for short-selling and also like derivatives in the market? So it's a question that we get and... so I think we... I see the value in having short sellers. I see the value in having derivatives. But this market is... it's so nascent and the last thing that we want to do is create an environment where we bring these casino traders into our market. We're really trying to keep them out and, again, I mean, short selling and derivatives, when used correctly, it's a healthy thing... it's a good thing but I feel like we're so far away from being at the point where it's needed that I fear if we're to do that right now it just becomes a speculation game and that's what we're really trying to avoid in SecondMarket.

...former equity research analyst actually at Morgan Stanley... and I'm very glad to see this come around because I saw these changes happen while I was sitting at the desk and after as an entrepreneur. And what I wanted to ask you is what capability, you've already got a good platform, what types of capability would you like to add that you don't currently have? What do you want to do for investors and for the companies that are selling their stock which you right now are not doing?... Well, on the regulatory fronts, there's a few changes that we're certainly supportive of, they're being discussed right now. One rule that is going to prohibit our growth is when the company has more than 500 shareholders, they're forced to essentially go public. And that number was set arbitrarily in the 1960s and it's not been updated since then. And what's crazy about it is when companies issue options to their employees, when these employees vest or leave, typically they exercise and they become owners. And so if you have a very, very successful company that's issuing lots of options to employees, they're forced to go public because they're successful. And then on top of that, you have companies think private twice as long so you have twice as many employees and twice as many shareholders. So we are certainly encouraged to see that last Friday, Chairwoman

Schapiro said that the SEC is now open to increasing that 500 cap, so that's one.

Two is, to be able to buy on SecondMarket you have to be what's called an accredited investor. So an accredited investor is an individual or institution who has a million dollars in assets or makes $200,000 a year of income. And so the SEC has essentially said, the only way to measure sophistication is your income and your net worth. I think that's crap, honestly. I think that there's plenty of people out there who have a lot of money who don't know anything about investing and conversely, I know a lot of people who are very, very sophisticated, understand the markets yet don't have a million dollars or don't make $200,000. So one of my pet projects and I don't know if it will happen this year but I would like to see there be an additional designation or a carve-out where a test will be given where anybody out there can take a test to prove their sophistication. And you can take it through SecondMarket, we'll be happy to do it and happy to prepare the test materials for you and you all basically recertify each year or every two years to say you're a sophisticated investor. So I would like to see those two things happen. It will also democratize the process because there's a lot of criticism that this is keeping the type of company that public investors want to trade in and we're getting to them and only keeping them among rich investors. So a lot of the information for buyers and sellers on SecondMarket is essentially self-reported.

So I'm wondering if you've had any incidence of fraud or misrepresentation and how you've dealt with those types of instance. We have not seen that. It's something we're very focused on because as this grows, if this does become the next New York Stock Exchange, whatever may be, eventually, there will be fraud. It happens in the public market and so up until now, we've essentially required that the company will have done some type of institution round, venture capital, private equity as kind of the first filter. Now, it's not to say that a venture capitalist or private equity person could not have been taken for a ride and... but for us we're relying up on a lot of work that they have done. But over time, I think there will become call it listing standards that we'll put in place whether it is having an audit done or some type of independent board representation. I'm not sure, we're kind of in the early stages, we're trying to figure out kind of what the right... what the best practices are for this but so far, it has certainly not happened. Any more questions? A quick question, if you're actually using a test as a proxy instead of actual money test, how do you check the risk tolerance of somebody who hasn't actually demonstrated their risk tolerance with real money on a commodity.

That's a great question but maybe we can hire you to help us to figure that out. I have a question. Where do you see SecondMarket being in 10 years and what kind of stuffs are you taking whether expanding it or keeping it a good market as it expands because you keep saying how you want to increase all these different regulations on the market and how do you keep that initial spirit of the market that you started off as you expect? So where are we going? So the first thing we're doing right now is we're expanding our private company market beyond just venture-backed companies. So we'll have some announcements soon about some very, very major companies and major asset managers who are now listing their stock on SecondMarket instead of going public. So that's... if you think about that universe, I mean, the venture-backed industry which we all know and love is tiny relative to the universal private companies out there. Another area that we're starting to explore is creating markets for subsidiaries of large companies. So you think about all the companies out there that have acquired start-ups and there's... what happens is the employees of those companies, they lose any type of equity incentives. So sometimes they get shares in the parent company, often times they don't.

And I think there's just, again, a Cisco flip-type situation kind of highlights this that there's been so many failed acquisitions that start-ups are kind of less willing to get sold and then the buyers themselves, they're trying to figure out a new way to do this. And so we've had discussions with most of the major buyers to say... who said, look, if you kind of cracked this nut, we would like to put into place in our very subsidiaries some type of equity component. And then something else that we're doing probably a year from now, so I talked about SecondMarket as your investment profile. We are intending to allow you to use that profile to sign up for or work with other platforms, other exchanges, other sites. So if it's financial platform that requires you as an investor to have been vetted, to basically be an accredited investor we want to be your passport. So it's a Facebook connect for the financial services space to let you basically manage all of your alternative investing activity in one central hub. Can you tell me about the barriers to entry for your business. Is it too late for someone to come in and try to do the same thing? Definitely not. I mean, that's what I worry about most of course.

It's not Goldman Sachs. It's not NASDAQ. It's going to be you leaving here and creating third market. But I feel like we've got a pretty good head start. Look, the barriers to entry for this business, the regulatory is a big one, that takes time, takes money and the network effect, I think is very powerful. We can now put almost any assets out for sale in SecondMarket and get competitive bids. And so how do you compete with that? I mean, our... it's free to use SecondMarket, we get paid a transaction fee, so how do you create third market over here and be better than us because it's... we're free and we've got this big buyer base. And then on top of that, you know, I didn't highlight it during my prepared remarks but we're very much of a hybrid market where we do all the settlements.

We deal with so much just... I mean, it's crazy but it takes that sometimes move a share of stock from a seller to a buyer, it's a lot of work, a lot of paperwork and you really do could... you do need a pretty big legal and compliance team to be able to handle all of that. He's thinking. He's -- At the back. You talked about Goldman a couple of times, what role do you see like the larger investment banking firms playing especially like with regards to the Facebook investment vehicle and these kinds of things? Investment banks I think are... they're kind of conflicted because you have three different pretty... four different kind of very important groups in investment banks. You have wealth management, investment banking, equity trading, and then kind of the principal side of things. And they all want different things here.

Investment bankers want to take companies public, they want to sell them. Wealth managers want to get their clients out of the stock to help them manage the money. The principal guys basically want to screw everybody else and control the information and buy. And the equity capital markets, they'll trade anything. And so to date, their involvement has been... let's use Goldman as an example and all the major banks, they're buyers on SecondMarket, we're not talking about... broadly speaking across all the asset classes. The wealth management channel are very good sources of referral business for us. The trading guys, they're trying to figure out how to get involved here but haven't been able to figure it out. And I think over time, if they see money, they're going to like, go after it.

And we would love to figure out a way to kind of tap into the expertise and the distribution that exists at the major banks. But I've got to tell you, when I first started this company and we were out there in the first year, I took meetings with every single major bank because I thought that they're going to be our key to success. I thought that they're going to be the most important buyers, sellers, partners and after like a dozen meetings, it was like you want to play your brains out. They just... they can't think outside their box and they just don't innovate. So I think, again, it's going to take... there are going to be very big revenue opportunity that's I think why you saw kind of a Goldman Facebook type deal, but beyond that we're not really seeing a lot of that activity yet. But we will if there's a big opportunity. Well, over here, anybody have a question over here? No? There we go. Will you talk a bit about how changed in your leadership staff in the early days...

This maybe the last question, So my leadership style I think was... it was honed a little bit when I was an investment banker. So I was at Houlihan for 5-1/2 years and I was like the associate that they will put on deals that were like really hard and they would give me analysts that like sucked. And so I was the one that would have to like beat them to like perform well. I don't know how I got that role but that was... that's a bad way to manage people and it took a few years of kind of a bottom-up reviews. The senior people loved it because I get... the analysts will work really hard and we'd be successful. But it took me some time to realize that ultimately, the key to success for any business, it's the people. And I, as a CEO, as a first time CEO, and I'm learning everyday, but early on I didn't value the importance of me being involved in a lot of the hiring decisions.

I certainly didn't appreciate the fact that once we got to a certain point maybe a hundred employees, people just didn't know me anymore. And it was... it blew my mind that I started hearing that there were employees that were intimidated by me. I was thought that I was very approachable so what I had to do was start having more town halls, start having more one-on-one conversations and really make myself available as a leader because I'm passionate, passionate about what we're doing and everybody who's joined SecondMarket, they joined us because they want to change the world. And they see me speak on TV, they see presentations like this and... but they've not had the exposure. So as a leader I've really had to... I got rid of my big fancy office, I now sit with everybody else and, look, I'm still learning. I have 140 employees, we're growing very, very fast I'm going to have to continue adapting but it's really kind of been about hiring great people, having great lieutenants and just being accessible.