

April 8, 2011

This Week in Social Media (TWISM)

We believe Social Media is changing the world to a far larger degree than Wall Street currently appreciates. Furthermore, we believe that for the foreseeable future, the news flow on the sector will be highly positive. To keep investors abreast of the latest developments in the sector, we publish this weekly newsletter on all things Social.

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THIS WEEK IN FACEBOOK

BarackObama.com Re-launches with Focus on Facebook

President Barack Obama's re-election campaign officially started on April 4th with the launch of a revamped BarackObama.com; and Facebook is front and center.

On the homepage, where users are prompted to add their email address, the traditional "Enter" or "Submit" button was been replaced with an "I'm In!" and users can also sign in using Facebook.

Figure 1: Relaunched BarackObama.com Encourages Users To "Get In With Facebook"



Source: barackobama.com

When logged in via Facebook, a banner appears showing users which of friends are not yet "in" and encouraging users to invite friends to join the "Are You In?" app.

Figure 2: With Social Sign On, Users Can Easily Get Their Facebook Friend's Involved



Source: techcrunch.com via barackobama.com

We note that the first blog entry on BarackObama.com was made by “Christopher.” We don’t know if the entry was made by “Chris Hughes,” one of the founders of Facebook, but since Chris worked on Obama’s campaign last time, it wouldn’t surprise us.

One last note . . . President Obama will be holding a Town Hall meeting at Facebook Headquarters on April 20th. This event will be streamed online.

As we mentioned previously, one of the major risks to Facebook remains government regulations. Facebook clearly recognizes this threat and has added a competency to navigate the political landscape. Facebook’s COO, Sheryl Sandberg, is a former Clinton administration official, and Facebook’s General Counsel (Ted Ulyot) is a former clerk for Supreme Court Justice Antonin Scalia.

Figure 3: Barack Obama’s Social Media Strategy Has Yielded Over 26 MM Fans & Followers

Sort By: Name - **Fans** - Fans Today - Followers - Followers Today - Lists - Influence (Klout | PeerIndex) - Total

View:

Rank	Name	Facebook	Twitter	Total
#1	Barack Obama Politician Like Follow	19,018,580	7,298,659 87 82	26,317,239
#2	Sarah Palin Politician Like Follow	2,865,086	473,415 76 65	3,338,501
#3	George W. Bush Politician Like	919,511		919,511
#4	Mitt Romney Politician Like Follow	837,644	32,030 62 44	869,674
#5	John McCain Politician Like Follow	774,223	1,714,506 71 88	2,488,729
#6	Arnold Schwarzenegger Politician Like Follow Follow on Foursquare	630,671	2,001,440 71 60	2,632,111
#7	Queen Rania Al Abdullah Politician Like Follow	623,287	1,490,254 74 86	2,113,541
#8	Mike Huckabee Politician Like Follow	559,945	142,696 66 38	702,641
#9	Bill Clinton Politician Like	523,473		523,473
#10	Goodluck Jonathan Politician Like	523,011		523,011

Source: FanPageList.com

Facebook Announces Open Compute Project



One consistent trait of social media is the freemium business model. Typically, we think of the philosophy as enabling easy access to content, open sourced software, and free social connections. On Thursday, April 7, Facebook announced the Open Compute Project, bringing that model to the hardware world and facilitating the creation of more energy efficient and economical data centers industry-wide.

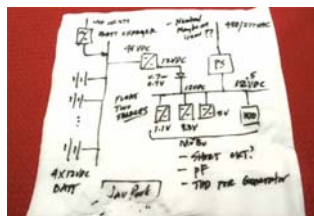
The project started two years ago with Facebook building its own custom-designed servers, power supplies, server racks, and battery backup systems. Despite following the mantra that “done is better than perfect,” Facebook’s end results were impressive as the completed Prineville data center used 38 percent less energy and costs 24 percent less to do the same work as Facebook’s earlier facilities.

Facebook was not content to keep its secret sauce internal. Instead, believing that what is good for the industry and consumers as a whole is good for Facebook, with The Open Compute Project, Facebook is publishing specifications and mechanical designs the company used to achieve these improvements, thus allowing any company to replicate the systems. Facebook’s Head of Operations, Jonathan Heiliger, explains: “It’s time to stop treating data centers like Fight Club. It’s time to demystify them.” Facebook believes that building an open community around this aspect of the business will allow significant and rapid improvements to be layered on top of what Facebook has started.

Tellingly, after Zuckerberg and Heiliger presented, a Q&A followed, but rather than involving Facebook execs, the panel was comprised of chief technologists from Zynga, AMD, Dell, Fidelity, Goldman Sachs, HP, Intel, Rackspace and Synnex. All of the panelists spoke of their excitement in adopting the Open Compute standards in order to strip out costs and increase scalability in their businesses.

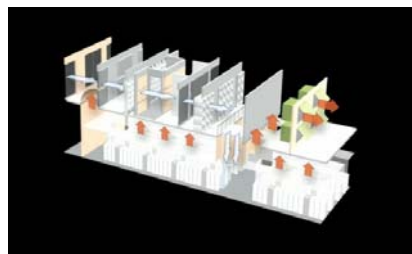
Much of the social media discussion has focused on revenue and metrics like active users and CPMs that contribute to the top line, but improvements to the infrastructure that power these businesses have dramatically improved the cost model. Facebook’s announcement is significant and will help facilitate growth, both internally and across the industry as a whole.

Figure 4: Facebook’s Plans for First Data Center Were Sketched on a Napkin



Source: Jay Park's Napkin

Figure 5: 3D Model of Facebook’s Prineville Data Center



Source: Facebook

THIS WEEK IN TWITTER

Refocusing the User Value Proposition

Last week we highlighted the return to Twitter of co-Founder Jack Dorsey and indicated product changes would follow that would be designed to make the user experience more intuitive and useful for average users. Twitter's major problem today is "onboarding," which is the process of taking a new user and helping them quickly understand Twitter and derive value so they return and become active users. On cue, this week Twitter unveiled several new features focused on improving the on-boarding experience to convert a higher percentage of registering users to become active users.

On Monday, the company updated their search engine to ease the discovery of Twitter feeds that better match a user's interests. Previously, the Twitter search engine had to contain the key term in the user name. Now, it seems Twitter has worked on indexing/profiling their users.

Tied into the push of helping its users find interesting content, on Wednesday, Twitter released a new homepage with the new call to action of "Follow your interests":

Figure 6: Twitter's New Homepage Prioritizes Following Over Creating



Source: Twitter via AllThingsDigital

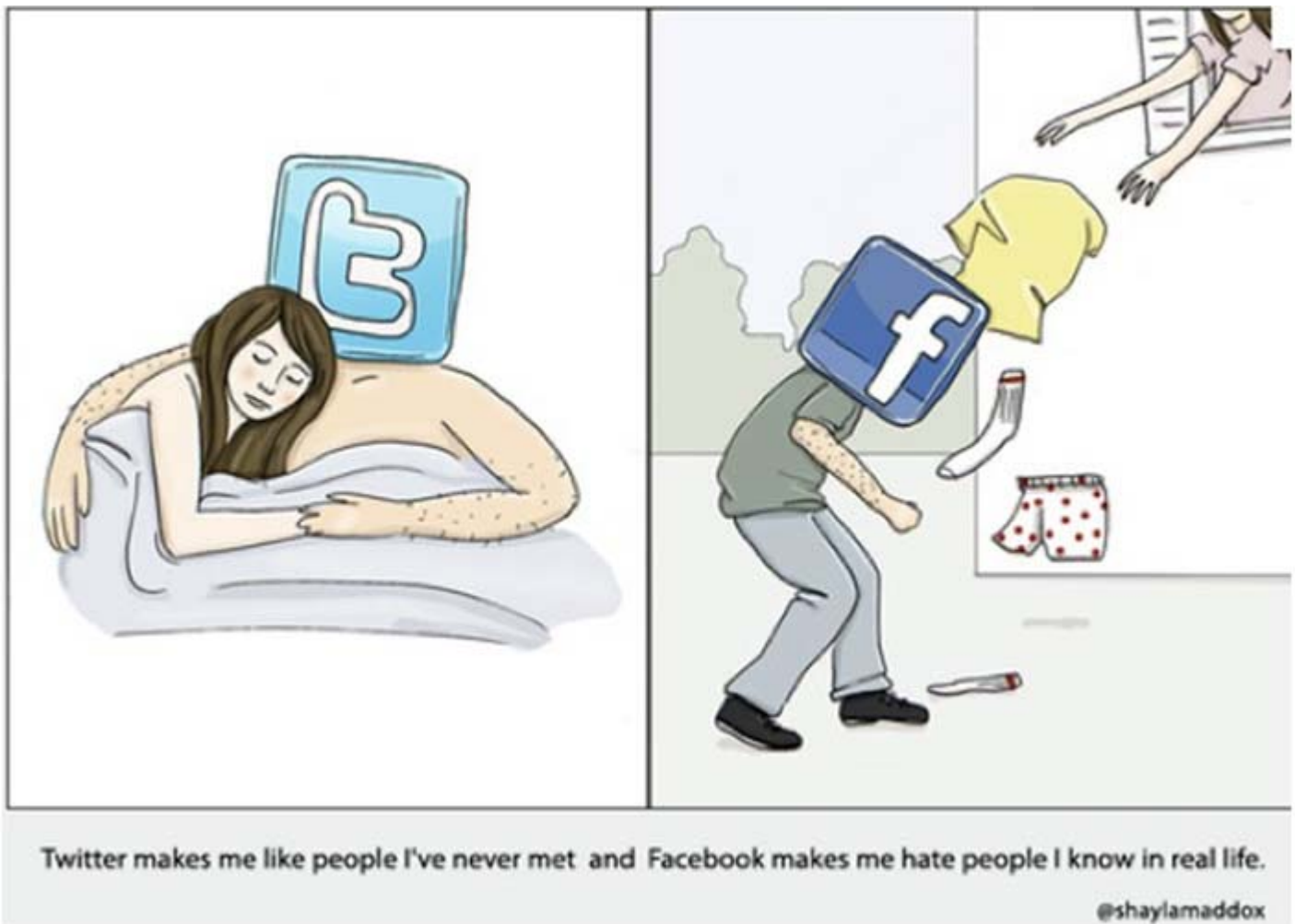
Figure 7: Twitter's Old Homepage Featured Tweets That Were Not Necessarily Of Interest



Source: Twitter via AllThingsDigital

TWISM CARTOON OF THE WEEK

Figure 8: It's Funny Because It's True



Source: @shaylamaddox on Twitter

THIS WEEK IN GUEST POSTS: MONETIZING SOCIAL

Refocusing the user value proposition for Twitter is not only designed at growing the sheer volume of the user base, if successful, this strategy will also allow Twitter to better monetize its traffic by enabling advertisers to more effectively target users with offers that match known interests.

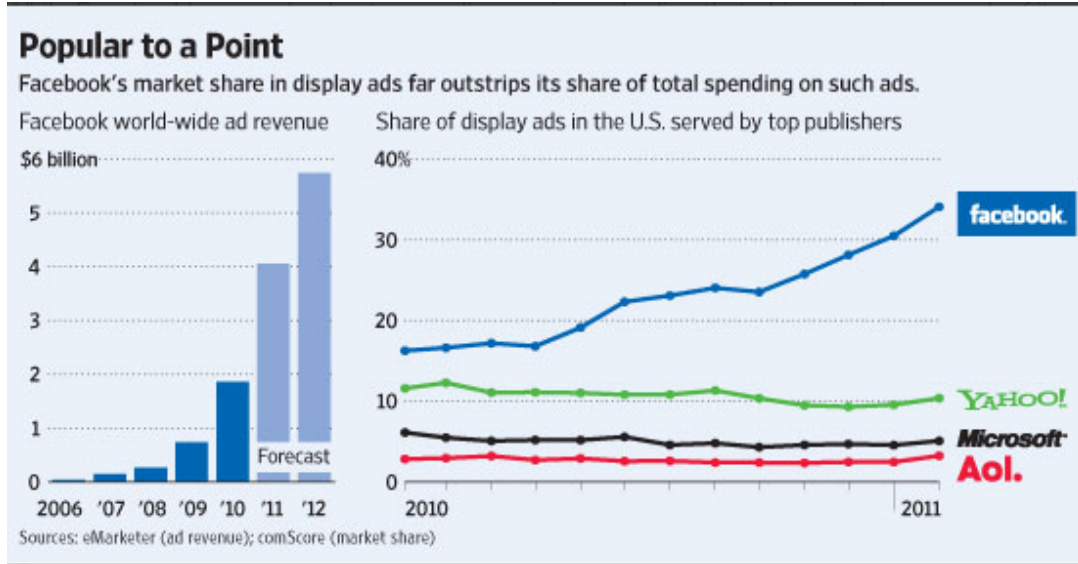
This is one example of the unique advantages that are driving revenue growth at social media companies. While the major macro trend driving social media is the shifting of advertising dollars online, we also believe that social commerce is poised for dramatic growth as well. The following guests posts from XA.net and Gigya, and Epic Social, will show different data sets that give insights into how fast the ad dollars will shift. The final three posts, from Adgregate, Bonobos and Venessa Miemis, focus on social commerce.

The Need for More Data... Facebook: Audience Targeting and Monetization Trends

Guest Post by Rob Leathern, CEO and Founder, XA.net (creator of optim.ai)

Facebook has established itself as the number-one source of online user data, and is rapidly becoming one of the premiere advertising destinations on the web. Monetization, however, still lags the amount of time users spend. It is interesting to look at some specifics of how Facebook is working on closing this gap to achieve its lofty revenue goals.

Figure 9: Facebook's Growing Share of Ad Impressions Is Outpacing Advertising Revenue Growth

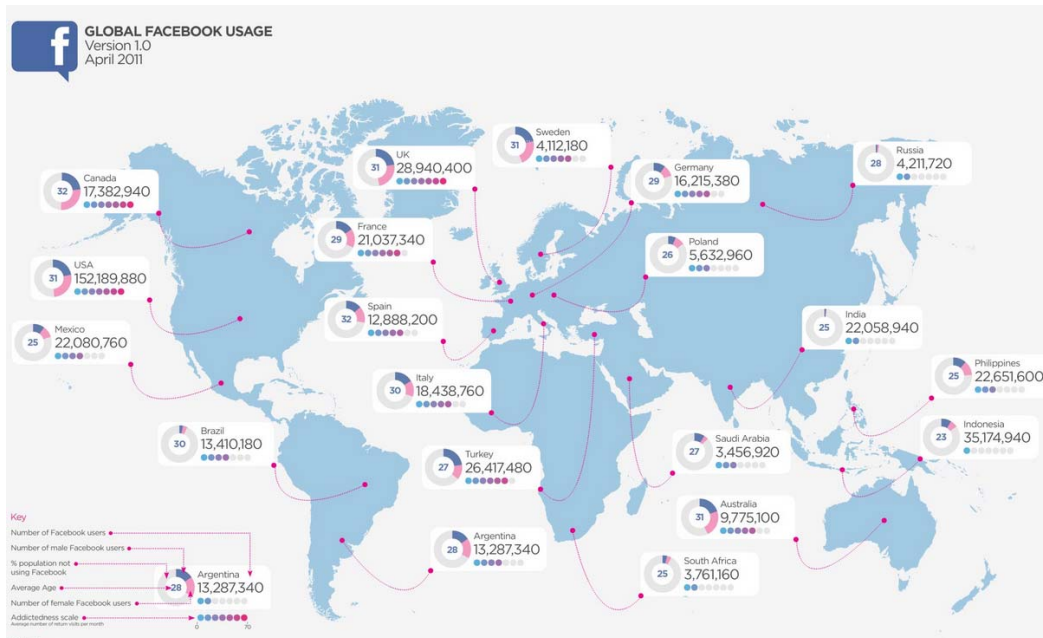


Source: WSJ.com via eMarketer

Global Platform:

Facebook really is global, with over 502 million of the 655 million total Facebook user accounts coming from non-US locations.

Figure 10: Facebook Is Global



Source: iCrossing.co.uk

Many non-US locations are proving to be fruitful hunting grounds for Facebook advertisers (and thus proving profitable for Facebook), as judged by a recent examination of “suggested” bid rates for users in various countries with at least 100,000 Facebook users.

Figure 11: Facebook CPMs per Country

Country	Users	eCPC
Russia	4,335,360	1.78
Denmark	2,657,640	1.72
Sweden	4,180,560	1.70
Kuwait	721,640	1.63
Norway	2,531,400	1.63
Nigeria	3,035,480	1.51
Ireland	1,900,680	1.48
Australia	9,871,660	1.45
United States	153,508,960	1.40
South Africa	3,867,740	1.20
Finland	1,906,820	1.19
New Zealand	1,872,260	1.19

Source: Facebook Ads API via *optim.al*, March 26th 2011

Riding the Category Train:

For any social network, the keys to creating a more compelling community and increasing monetization are getting users to engage more and to share more information with fellow network members. In this respect, Facebook is succeeding as the average Facebook user is now connected to 80 community pages, groups and events. For advertisers, more interactions mean more data which means more ways to establish relevance.

With Facebook’s self-defined category information, for the first time, we have a measurement of how much user data it considers interesting and saleable.

For its initial beta launch of broad categories, Facebook has created 8 parent categories and a total of 83 subcategories. The average Facebook user in the United States shows up in about 8 different categories, so you can look at it as 153 million users x 8.17 = 1.255 billion category-user combinations.

Facebook has a LOT more data on younger users — and if we make the simplifying assumption that older users are more valuable to advertisers, we can see that Facebook doesn’t have nearly as much targeting data on older, more valuable users.

Figure 12: Breakdown of Facebook Categories

	M13-18	M18-24	M24-35	M35+
Users	6,609,120	19,111,420	17,908,540	24,061,300
Categories	67,626,201	189,560,380	121,089,020	116,512,620
Categories per user	10.23	9.92	6.76	4.84

	F13-18	F18-24	F24-35	F35+
Users	7,678,140	22,965,420	20,061,420	33,197,680
Categories	95,377,059	271,635,701	176,259,080	208,450,440
Categories per user	12.42	11.83	8.79	6.28

Source: *Optim.al*

The nature of the categories themselves is informative as well — categories based on music or movie tastes (29 of the 83 total categories) don't monetize or predict behavior nearly as well as, say, disposable income which is not available among these data categories, of course.

The takeaway here is that Facebook will have to help convince users to share more explicit data about themselves, and better coordinate the implicit data that users leave behind in order to build a more valuable advertising environment. A good deal of this may involve coordinating and managing "likes" and making these a bigger part of the targeting world — but one way or the other, we'll see more novel/innovative uses of data and new ad formats that will convince us to share advertisers' messages with our friends and contacts within Facebook.

Permission Marketing Helping Sites Leverage Social Graph To Better Monetize

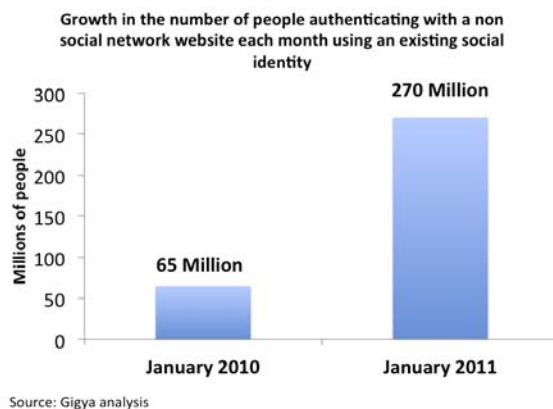
Guest Post by Liza Hausman Vice President of Marketing, Gigya

In 1999 "Permission Marketing" was the buzzword of the year when Seth Godin wrote a book about "turning strangers into friends and friends into customers." As Godin told marketers, "By talking only to volunteers, Permission Marketing guarantees that consumers pay more attention to the marketing message. It serves both customers and marketers in a symbiotic exchange."

Today, technologies like Facebook Connect and Twitter for Websites are helping to create a new concept of permission marketing. Using these technologies on their own sites, businesses are able to establish a permission-based relationship with their users and customers that complements their efforts on Facebook, Twitter or other social sites.

The Huffington Post is the poster child for this new social-data-based permission marketing approach. Readers raise their hands by using their existing Facebook, Twitter or other social identity to register, giving HuffPo access to data with which the site can socialize the user experience. Readers can see what their friends are reading and sharing on their site, giving them a powerful social filter for relevant content. It also means The Huffington Post can sell advertising on their own site based on everything they know about the user from a social perspective.

Figure 13: Social Sign On Is Up Over 400% Year over Year



Source: Gigya Analysis

The Huffington Post's application of Facebook Connect and similar technologies to create a social news experience has been the key driver of its phenomenal traffic growth over the past year plus. Social advertising is also a key source of its revenue growth.

But it is the layers on top of the Social Sign-on foundation that are the most promising for the future of advertising. In addition to basic demographic targeting, sites could offer advertising based on interest data, targeting fans of True Blood or Android. Sites could also sell against social influence and activity — factors such as the number of friends, their propensity to share and their history of driving new visitors to the site, or even the number of items "Liked" as an indicator of engagement. Reward programs driven by game mechanics are a key part of the nurturing process in this new model, where a loyal, engaged and most importantly non-anonymous audience is the new currency of marketing.

Challenges do remain, but a permission-based approach will be a competitive imperative, and those that are able to embrace and experiment with its possibilities will be able to more effectively increase customer value, command higher CPMs and ensure their social efforts deliver real ROI.

Peeling the Onion To Understand Lifetime Value of Social Media

Guest Post by Matt Monahan, Epic Social Director



Long before the Social Web was invented, email marketers and search marketers were building scalable, sustainable businesses by understanding two simple principles; their customer's life-time value (LTV) and their customer's acquisition cost. The customer LTV principle has not evaporated along with the many industries disrupted by the Social Web, but it needs to be re-embraced to ultimately define an acceptable acquisition cost for fans, followers and owned audiences on the Social Web. Measuring LTV can be like peeling an onion if you don't know how to slice the data. Below are a few measurement tips we give marketers:

1. Measure sales through tweets and status updates: Use URL shortening services to track click volume and conversions from your posts on Facebook, Twitter and anywhere else you can freely communicate with your customers. Each click generated through an owned audience channel, like a Fan Page, is a click you didn't have to pay for elsewhere.
2. Offer a native point of sale: If you are selling products online, why don't you have your store available on your Fan page? Anytime a user has to click out, you have lost some.
3. Survey your customers after they have purchased: Use a service like KissInsights to survey customers after they have made a purchase. Ask them if they are on Facebook, and if they are a Fan of your business. There is a lot you can learn about where to be spending your marketing dollars based on where your customers are coming from and what they think of your product.
4. Start measuring and attributing value the less obvious metrics:

Every time you post an update to your Facebook Fan page, your customers are being reminded you exist. Those impressions and the imprint you have left on the mind of your audience is not valueless; start to think about how much impressions, likes, retweets, video views and comments mean to your brand, start to measure how much attention you are creating, and start to realize that the cost avoidance created through your owned audience is worth something.

Figure 14: Example of a Social Activity Ad Unit Served by Appssavvy

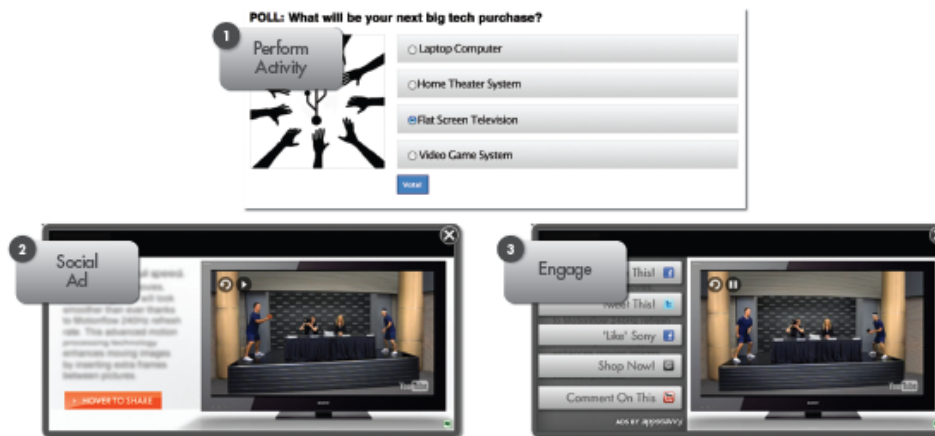


Figure 2: Example Social Activity Ad Unit

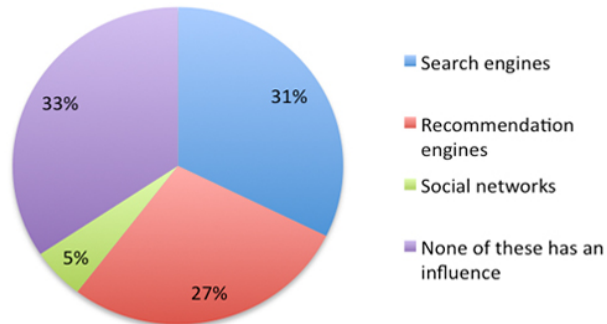
Source: <http://socialactivityindex.appssavvy.com/>

We Have a Different Take from Goldman Sachs on Its Recent Facebook Commerce Survey

While online advertising is the primary revenue source for many social media companies, we believe that social commerce will become an increasingly significant revenue source. Earlier this week, however, Goldman Sachs released the following chart indicating that social sites have little influence on online shopping activity:

Figure 15: Goldman Sachs Survey Claims Social Sites Have Little Influence on Online Shopping Activity

Search Engines Have The Highest Influence On Online Shopping Activity
Question: Rank order the influence each of the following have on your shopping activity:



Source: Goldman Sachs (March 2011)

Source: BusinessInsider via Goldman Sachs

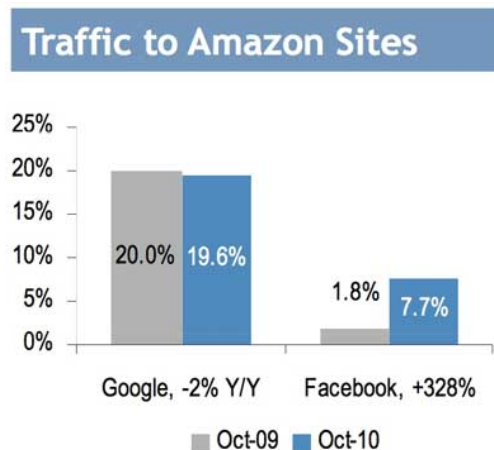
This survey data was so out of line with what we have heard from numerous online retailers, that we thought it would be interesting to get the perspective of two companies that are working to understand how social media drives online sales.

Adgregate - Provider of Secure Social Commerce

Guest Post by John Underwood, COO Aggregate

The Goldman chart was based on surveying users, not research into actual user behavior. Actual user behavior reveals a greater social network influence. For example, Amazon referral traffic data indicates that Google is now only about 2.5x ahead of Facebook as a source of traffic (far lower than the 6x in the GS survey chart) — with Facebook referral traffic rapidly growing year over year.

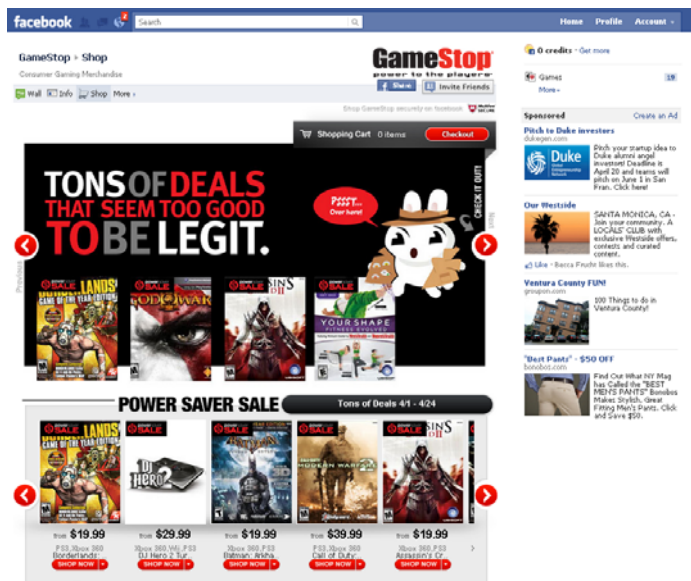
Figure 16: Traffic to Amazon Sites Increasingly Coming From Facebook



Source: <http://www.clickz.com/clickz/column/1938862/facebook-commerce-stronger>

In a white paper we produced with Webtrends, we documented the ongoing traffic shift from websites to Facebook pages. While the shift is significant in the case of brand websites, the shift is much more modest for eCommerce websites. Our conclusion is that there's pent-up demand to do more in Facebook — including eCommerce — but that the social shopping experience in Facebook hasn't yet caught up with that demand. And we think it's just now truly catching up.

Figure 17: Facebook Stores Can Now Rival Experience on Retailer's Website



Source: <http://apps.facebook.com/gamestopshop>

Lastly, it's still early for physical-goods social commerce. Ten years ago, while social virtual goods sales were exploding in places like South Korea, no one thought it could happen here. It took a few years, but once the right user experience was found, sales took off, with now an estimated \$1.6B in virtual goods sales last year on virtual farms, cities and such. We think physical-goods will follow a similar trend.

Bonobos (Men's Clothing That Really Fits): Conversational Social Media

Guest Post by Richard Mumby, VP Marketing at Bonobos

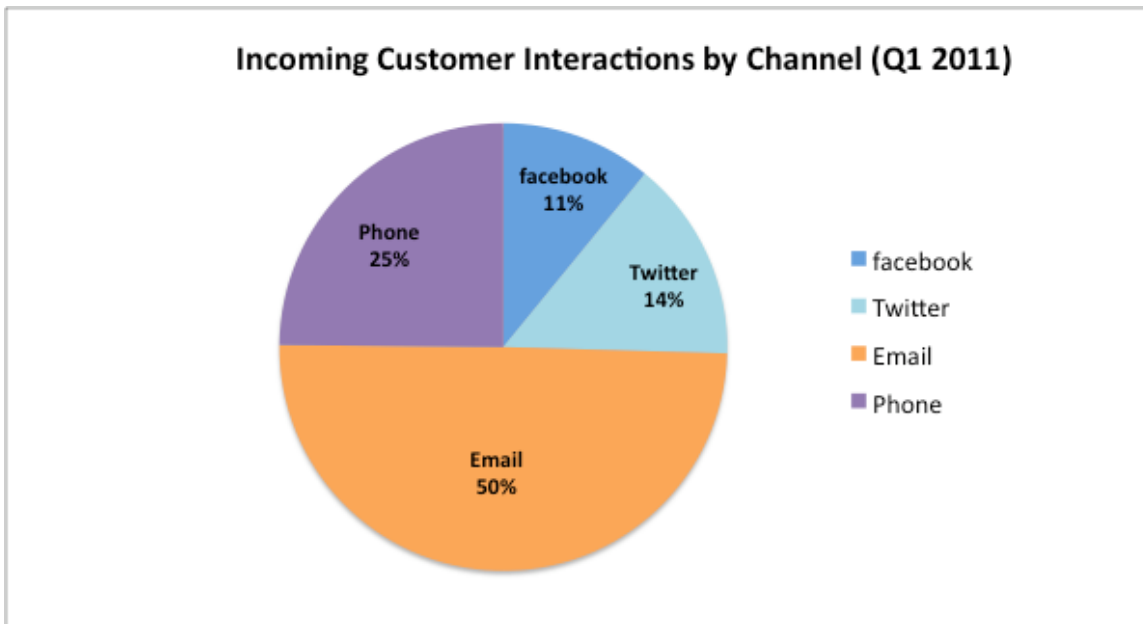
Bonobos is the largest apparel brand ever launched purely over the Internet. Because we use a web-driven model, customer interactions are not just to drive immediate sales. Every touch point is an opportunity to better serve the customer. Social media is an ideal platform to connect with customers. Due to people's transparency in social media, we are able to get a dynamic read on what our consumers are thinking.

Bonobos learned early on that social media affords a unique exchange with customers. Social media platforms are a great channel for research, development and better service. The value is less in direct sales and promotions than in developing a lasting connection with our customers and leveraging unique insights. We experienced the added value of these channels as we developed our dress shirts in early 2010. We casually started asking fans and followers what shirt brands they like, what they'd pay for the perfect shirt, and where shirts typically fall short. That initial conversation gave us a peak into the customer mindset, opening ongoing communication. We have used these dialogues to understand better their views on our products, other brands they like, fashion, and their interests and passions. We have a rich understanding of our customer — across a wide spectrum of areas — and this informs our marketing and product development.

Last spring, Bonobos was finalizing details for a line of jersey polos, and we couldn't decide whether to include a chest pocket. Within an hour of posing the question to Facebook fans, Bonobos received over 50 opinions, which helped the design team focus on details they knew people liked. A quick question asked via social media informed our product development to ensure customers would like it.

Some 25% of our incoming volume of customer interactions is through social media. Customers want to engage through these channels. Would you consider not picking up the phone if it rang? Then how can you consider not taking advantage of the opportunities for engagement offered through social media?

Figure 18: Bonobos Acquiring 25% of Customers from Social Media Channels



Source: Company data

While the Goldman Sachs chart claims that social media has little effect on online purchases decisions, we've found that customers are more likely to come back to a brand or store they trust and feel they have a relationship with. The data in the chart may be accurate, but misses the broader point regarding how companies should think about social media. It's not just about a narrow definition of "shopping" as we traditionally think about it. Recommendation engines and comparative searches are great at facilitating a traditionally defined "shopping" event but social media campaigns allow you to engage with customers outside of that store-to-checkout experience. Social Media allows you to receive feedback on products, get input about the brand's voice and build trust, intimacy, and reliability by giving customers greater access to a live, dynamic conversation that drives loyalty, word of mouth, traffic and eventually sales.

Most recently, Bonobos' Super Bowl social media promotion accounted for more than 2x the average new customer volume in one weekend. Bonobos created a fairly straightforward discount promotion on select items and added an element of play by allowing people to "vote" on who they wanted to win. We've had big, fun promotions before, but because this lived on social media, the bar for customers to spread the offer through their social network was very low. The majority of people that participated didn't hear about the promo through us, but through their friends.

Overall, social media allows Bonobos to meet customers and interact with them in a format in which they like to engage. We aren't pulling teeth to get information. We learn more about the customers and open up a greater conversation, one that mailers and ads in magazines don't permit. Today Bonobos has over 11,000 Facebook "fans", nearly 5,000 Twitter followers and was named one of Inc.com's "20 Awesome Facebook Fan Pages" (March 2011).

How will Facebook and the Global Economy Interact in the Future?

Guest Post by Venessa Miemis, The Future of Facebook Project, excerpts from full blog post at EmergentByDesign.com



Credits as Currency

Facebook Credits are a virtual currency used within Facebook for the purchase of virtual goods related to applications managed on the Facebook platform. They're like tokens you'd use to play games at Chuck E. Cheese's — great for casual entertainment, but not particularly threatening to the real world economy. Yet.

"Increasingly, as we move later into the decade, physical currency will be harder to differentiate from virtual currencies like Facebook Credits," said Brett King, author of *Bank 2.0*. "We'll start to see a new economy emerging through social media where virtual currencies will be a very real part of the way people trade and sell information, collaborate on ideas and value various products and services."

"We may see a kind of gamification of the real world take place through Facebook Credits, where a variety of outside vendors, businesses, and service providers can give us Facebook Credits, enable us to pay with Facebook Credits, and reward us with Facebook Credits for taking actions that they want us to take," explained Nova Spivack, a technology entrepreneur and founder of Lucid Ventures.

Identity as Currency

Every time you upload a photo, make a comment, add a friend, click a link, or make a purchase, that data is being harvested to create a map of you. By analyzing slices of this data, a wealth of information can be extracted and predicted about you. As a related example, Google vice-president Marissa Meyer claimed at this year's SXSW festival, credit card companies can look at spending habits and predict with 98% accuracy, two years in advance, when a couple is going to divorce. "[Identity] will become the battleground within which this entire learning will take place, because today all the artifacts of a human being belong to physical and logical governments, and not to social networks. But the ability to move any form of asset between the virtual world and the physical world needs a commonality of understanding of identity," said JP Rangaswami, Chief Scientist for salesforce.com.

Reputation as Currency

Just as a positive score in your eBay account matters if you plan to continue doing business there, we're on the verge of having robust social scoring metrics that will become increasingly important for businesses and individuals to consider.

When the opinions about a brand can be displayed more robustly, we'll know not only that you "like" a brand, but why. This gives information on both sides — the reputation of the brand, and the values of the individual. As Brett King pointed out, "Social metrics, and the use of platforms like Facebook will have very real feedback in respect to the valuation of a brand economically, and obviously that will have an effect directly on revenues that are possible for providers in that space. So unless you're playing in the social brand space, unless you're engaged in the conversation, your social metrics are going to be affected in a negative way, and that will have an effect on revenue, profitability, and the value of your brand."

Conclusion

As technology writer Kevin Kelly said, "What we know from our very short history of living online is that community precedes commerce; there's no commerce without community. What Facebook is doing is sort of blowing up the community to be 500 million or even a billion very soon. When we have a community of a billion, it means that the potential for commerce is enormous, is immense, and we've never seen that before."

Facebook will continue to grow and face new challenges as it threatens the control that traditional institutional structures have had over currency and personal identity. The implications of one entity owning this amount of information is beyond the scope of this article, but it certainly deserves a critical assessment. That huge privacy breach and wake up call hasn't happened yet, so it's not too late to ask what's at stake when your data is contained in someone else's silo.

THIS WEEK IN PRIVATE SHARES TRADING

Facebook Value Stays Steady at \$77.8B

The market for trading private shares is still in its infancy, and while there are hundreds of private companies with shares available for trading, Facebook continues to dominate trading actively, with Twitter, Groupon, LinkedIn, Zynga & Yelp also getting investor attention, but with limited trading activity to date.

For the fourth straight week, this week's Facebook auction took place on Wednesday and cleared at a price of \$31.50 implying a value of \$77.8 billion.

Figure 19: Recent Weekly Auctions of Facebook Shares



Source: Wedbush Securities, Inc.

Other Private Company Trading Activity:

- **Twitter (230 million shares issued):**
 - 70k shares traded \$32 on 3/28/2011 implying a \$7.4 billion valuation.
 - 27k shares traded \$31 on 3/16/2011 implying a \$7.1 billion valuation.
 - 35k shares traded \$34.50 on 3/4/2011 implying a \$7.9 billion valuation.
- **Groupon (300 million shares issued):**
 - 25k shares were traded at a pre split price of \$47.67 or a \$7.2 billion valuation on 3/10/2011 (Groupon shares have split 2:1 resulting in 300 million shares issued)
- **Zynga (310 millions shares issued):**
 - \$9.3 billion valuation implied by trade on 2/26/2011
- **LinkedIn (91 million shares issued):**
 - \$2.8 billion valuation implied by trade on 3/21/2011

General Questions & Considerations of a Secondary Market Transaction

Guest Post by Mitchell C. Littman, Esq.

So, what is a Secondary Market Transaction?

A Secondary Market Transaction is a negotiated private sale of restricted securities of an Issuer whose securities are not publicly traded. Some transactions are effected directly from Seller to Buyer and in some instances one or both parties may be represented by a broker-dealer who may earn a commission on the transaction.

Who are the Issuers?

The Issuers that have attracted the most market attention have been social networking and technology firms that have chosen to remain private but that have (i) used equity and equity-linked reward systems in attracting and incentivizing employees and (ii) received private equity or venture capital investments from some combination of angels and institutional investors.

Who are the Sellers?

The overwhelming majority of Sellers have been founders or early-stage employees that have left the employ of the Issuer, though there has been some selling by early stage investors (primarily angels, rather than VCs who have tended to participate in follow-on rounds). Ex-employees have typically obtained their Shares through the exercise of stock options or by receipt of restricted stock grants.

What securities are they selling?

Most sales are of Common Stock, although there have been some sales of Preferred Stock. Some Issuers have two classes of Common Stock — a class with super-voting rights and a plain vanilla class of Common Stock. In such cases, the vanilla class is invariably the security being sold. All such shares are typically deemed to be “restricted securities” under applicable Federal and state securities laws.

Additional Hurdles To Effecting a Purchase and Sale: ROFR's and Co-Sale Rights

In addition to the outright prohibition on Transfers, most Restricted Stock Purchase Agreements or Option Exercise Agreements include provisions granting a "Right of First Refusal" (a "ROFR") under which the Issuer (or its designee), within a prescribed period of time after receipt of a Transfer Notice, may elect to purchase the Shares on substantially the same terms as those proposed in the Transfer Notice.

In some instances, particularly where the Shares to be transferred consist of Preferred Stock, other early stage investors in the Issuer may also have ROFR's and/or Co-Sale rights entitling them to also sell Shares along with the Seller.

The exercise of any of these rights by the Issuer or another stockholder effectively derails the purchase by the Buyer.

Virtually all ROFR and Co-Sale provisions provide that, in the event the rights are NOT exercised, the Seller has a fixed number of days in which to complete the Transfer to the Buyer. In the event the transaction is not completed within the allotted time, any subsequent attempt at Transfer must once again pass through the ROFR and/or Co-Sale process.

Effecting the Purchase and Sale: The Stock Transfer Agreement

The core document for effecting the purchase and sale of the Shares is the "Stock Transfer Agreement" (also sometimes called a "Stock Purchase Agreement") (the "STA").

The typical STA contains:

- The principal terms of the sale, i.e., number of Shares to be sold, price and the like
- Representations and warranties of the Seller include Title to Shares; Absence of any lien or encumbrance; Power and authority to sell.
- Representations, warranties and covenants of Buyer include Power and authority; Sale was not effected through any public advertising or general solicitation; Buyer is taking for investment intent; Buyer is sophisticated and has sufficient access to information.
- Buyer absolves Seller for any liability due to the fact that Seller may have superior information regarding the Issuer. Buyer agrees to be bound by same restrictions as were applicable to the Shares in the hands of the Seller.

Closing Mechanics

Assuming the ROFR is not exercised, the parties may proceed to a closing. Generally speaking, the Seller and Buyer execute and deliver the STA to the Issuer for its approval.

Seller delivers Stock Certificates to the Issuer or its Transfer Agent.
(Some Issuers actually require that all Stock Certificates be held in escrow by Issuer's counsel to facilitate transfer in the event of a ROFR exercise. In that case, the other parties will only receive photocopies of the certificates.)

Once approved, a virtual closing is conducted, with the Purchase Price being wired by the Buyer to the Seller and the STA signatures and the opinion of Seller's counsel being released to the parties. Subsequently, the Issuer issues a new Stock Certificate in the name of the Buyer.

About Mitchell C. Littman, Esq.

Mitchell Littman is a founding partner of Littman Krooks LLP and heads the firm's corporate and securities department. His practice includes public and private offerings, broker-dealer and investment banking matters, secondary market transactions, venture and private equity capital investments and mergers and acquisitions

About Wedbush Securities Private Shares Group

The Private Shares Group of Wedbush Securities covers the growing base of privately traded securities, with an emphasis on those in the social media space. The mandate of the group is to build our trading network in all private shares, source deal flow in the space (including “initial private offerings”), and to build funds and create other alternative investment opportunities across private shares for our institutional and accredited retail clients.

About Lou Kerner



Lou Kerner is Managing Director of the Private Shares Group within Wedbush Securities' Equities Division. Prior to this, Lou was Wedbush and Wall Street's first recognized Social Media equity research analyst.

Before becoming an internet executive in 2000, Lou was an equity analyst following media and internet related companies for Goldman Sachs and Merrill Lynch. Lou started his internet career as CEO of The .tv Corporation, which licensed the top level domain .tv from the tiny island nation of Tuvalu. .tv was acquired by Verisign in 2001. Subsequently, Lou acquired one of the early leaders in social networking,

Bolt Media, which grew to over 20 million monthly uniques under his three years of leadership. Lou has a BA in Economics from UCLA and an MBA from Stanford University.

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About Wedbush Securities

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Company	Disclosure
Facebook (private)	12
Klout (private)	12
Google	1
Salesforce.com	1

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