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NEA's Peter Barris: Secondary Markets Are A 'Sideshow'

By Scott Austin and Russ Garland

Secondary markets for private company stock are a "sideshow," limited to just a handful of companies with premium investor demand, says Peter Barris, managing general partner of New Enterprise Associates.

"Places like SecondMarket are trading about 50 different names," said Barris, who spoke in a keynote interview at the Dow Jones Private Equity Analyst Conference in New York on Tuesday. "And half of the volume is one name—Facebook. Toss in Twitter and Zynga, and you have the lion's share of the volume."

Nevertheless, Barris said, "I'd love to see the secondary markets become more widespread in terms of their adoption."

NEA took advantage of the extreme demand in Groupon by redeeming some of its stake as part of a Series G financing, regulatory filings show. That deal netted the firm \$70 million, on top of a \$14.8 million investment, and it still owns a 14.9% stake.

Barris, a Groupon board member, declined to talk about the company, which is in IPO registration, but speaking hypothetically said that taking some money is "not necessarily inappropriate" when you're looking forward to an IPO.

"One of the problems with any offering is the overhang of venture capital ownership," he said. "If you start metering that out at that point in time by taking 5% to 10% of your interest off the table — if the entrepreneurs take a little of their interest off the table so that there's still plenty there to incent them—you could argue that actually lets you run the table," said Barris, who led the firm's first \$4.8 million investment in Groupon back in January 2008 when it was called ThePoint.

But Barris also said, "there have been situations where entrepreneurs have tried to take what we thought was an inappropriate amount off the table. It didn't represent the right balance."

Speaking on a subsequent panel on private stock sales, David Wachter, a managing director at W Capital Partners, which has been quietly doing secondary deals for years, said calling the secondary market a "sideshow" at least indicates that it is getting some attention.

He said W Capital supports the secondary exchanges such as NEA-backed SecondMarket, but said they face many challenges, not the least of which is that so far valuations of hotly traded

companies such as Facebook and Twitter have been on upward trajectories. “We’ll see what happens when Groupon finally has a market price,” he said.

Bob Ackerman, founder and managing director of venture firm Allegis Capital, complained about the lack of transparency in some secondary sales, saying that “at the end of the day somebody’s going to get sued.”

Ackerman said the disclosure standard should be the S-1 document that companies must file when they register for an initial public offering. “Anything short of that I think has the potential to disrupt the capital markets that we depend on for the venture ecosystem.”

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