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WHITEPAPER

Methods for Facilitating Liquidity with Private Investments

Abstract

Liquidity has been a serious need in private finance for many years, especially recently as the IPO market has softened. One reason for this liquidity challenge is that, unlike in public markets, generally only high net worth investors may engage in private equity transactions. This means that a private company CFO must oversee every purchase or sale to assure compliance. Furthermore, the CFO needs to be aware of fiduciary duties, including fairness to all shareholders. Managing a private company's stock book can be an onerous task, particularly if anxious investors seek liquidity.

A separate legal structure can serve as a mechanism to aggregate investors and place their interests into a walled garden that is isolated from many constraints typical of private investing. This structure largely frees their stock from many restrictions placed on private investors, thus facilitating liquidity. Blockchain technology then can be used to govern transactions, best assure regulatory compliance, and serve as a platform for buying and selling within the walled garden.

For important disclaimers, please see the last section of this white paper.

Background

Private equity has grown dramatically in recent years. From its nascent beginnings in the 1970s, private equity assets under management (AUM) eclipsed $1T in 2005, surpassed $2.4T in 2016, and could exceed $10T by 2025.[1][2][3] This surging demand for private investment has fueled the mega-buyout trend among PE firms, and ushered in the age of “unicorns” for venture capitalists. In 2010 only a handful of new ventures were valued at a billion dollars or more. By March 2018 unicorn club membership had ballooned to 279.[4][5]

In the meantime, new public issues have struggled, hampered by burgeoning compliance costs, increasingly passive investment strategies, and quarterly and often unforgiving investor scrutiny. The thrill of going public has faded. Since 1997 both the number of U.S. public companies and the number of IPOs have dropped in half.[6] The impact on venture capital has been profound: “On an annual basis, IPOs [now] represent less than 1% of all [VC] realization activity. Thus, an overwhelming majority of private companies stay private.”[7]

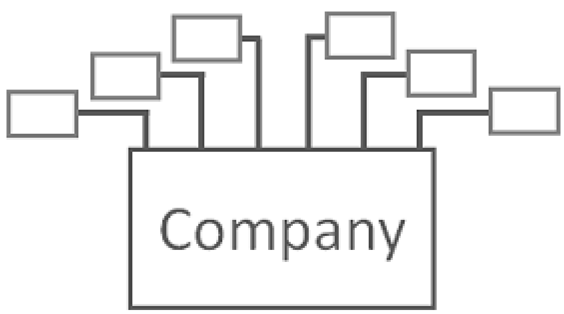
This IPO drought presents a conundrum to venture capitalists and angel investors alike: “When and how can we monetize our investment?” In fact, the liquidity challenge goes further. Private companies of all types and sizes eventually find themselves confronted by similar questions. Owners who have toiled long and hard, often with patient investors, eventually wonder, “What’s the end game? How can we cash in?” It’s a familiar recant in the hallways of small partnerships, as well as in the boardrooms of large closely-held enterprises.

One solution may be to sell the company to a PE firm, or to a strategic buyer. Both alternatives tend to be prolonged, expensive, and risky processes. Almost always a company sale involves extensive due-diligence. And if the deal falls through, everyone is disappointed, especially the seller because critical competitive information may have been released.

In some cases, company founders seek only to sell a portion of their business. Perhaps an equity restructuring can alleviate certain organizational problems. Maybe the need is merely for flexibility to reward a lifelong employee, or to accommodate an anxious investor. Regardless, available options almost always are clouded by one or more of the following issues:

- Stock restrictions
- Rights of first refusal
- Limited price discovery
- Fiduciary responsibilities
- Compliance with securities laws

In summary, private company owners, executives, and investors all face vexing issues with regard to their stock, its illiquidity, and related constraints.



While beyond the scope of this paper, the most telling symptom is the well-documented illiquidity discount or DLOM (discount for lack of marketability). Routinely used in formal valuation exercises, this factor typically ranges from 20-40%, and can reach as high as 50% in certain circumstances.[8]
Undoubtedly many owners, investors, and portfolio managers would celebrate more liquidity, unleashing their stock with a commensurate rise in the value of their holdings.

What is needed is a simple, fast, and flexible mechanism to facilitate liquidity for private stock, as well as for other kinds of private securities (debt, equity, LP/LLC units, etc.). To be viable, the solution must comply with federal and state securities laws, including Securities and Exchange Commission (SEC) regulations, and afford fairness and transparency to all stakeholders. Preferably owners, executives, and investors all face vexing issues with regard 2 it would reduce the need for annual tax filings such as K-1 and 1099-DIV. Ideally, it would encourage open and efficient price-discovery while maintaining the specific privacy and controls needed by each company and its investors. In many ways, the perfect solution would offer the best aspects of being public, while preserving the many benefits of being private.

Conceptual Framework

At a high level the fundamental goal is to separate, indeed isolate, investors from the constraints generally associated with holding private securities while still allowing the investors to keep their beneficial interest in the underlying company. In this manner the investors can participate in value appreciation while being free to monetize their investment at any time. By providing an “air gap” between the company and the investor, neither the company nor the investor need worry about being interlocked and thereby constrained.

Crucial is the notion that all participants, both existing and new, must meet investor requirements: i) imposed by the SEC, and ii) desired by the company. For instance, the exemption from registration for resales under Section 4(a)(7) of the Securities Act of 1933 (Securities Act), requires that securities be sold only to accredited investors (as defined in Regulation D promulgated under the Securities Act). In addition, neither the seller nor any person that will receive compensation for their participation in the transaction can be a “bad actor,” and general solicitation or advertising is not permitted.[9][10] As for the company, specific needs may vary, but presumably the company would like to know something about any new participants, and have the ability to control access to the private secondary market for interests in their company.

The Walled Garden

In our earlier white paper, A Semi-Fungible Token for Regulatory Compliance, we describe the mechanism used to control access to a specialized token, SAIF, restricted to accredited investors (U.S. Application Serial No. 62/560,018 Systems and Methods for Specialized Cryptocurrency Transactions).[11] SAIF uses the Ethereum blockchain and intentional “catch-22” logic embedded into its smart contract so that only accounts “seeded” with a bit of SAIF can receive additional SAIF. Any attempt to send to an unseeded account will be rejected by the SAIF smart contract. For SAIF, seeding is a self-affirming process which relies on the user representing his/her financial status as an accredited investor.

To strengthen a given company’s walled garden, SAIF’s self-seeding logic can be replaced by an adminOnly function. In this manner, only the company CFO (or a delegate) is authorized to seed new accounts. This process creates a walled garden with one narrow gate—only authorized users can participate. Once admitted, participants are free to buy and sell interests in the company. If desired, the company CFO also may be empowered to reclaim lost certificates and/or unseed accounts that have become associated with a “bad actor.”

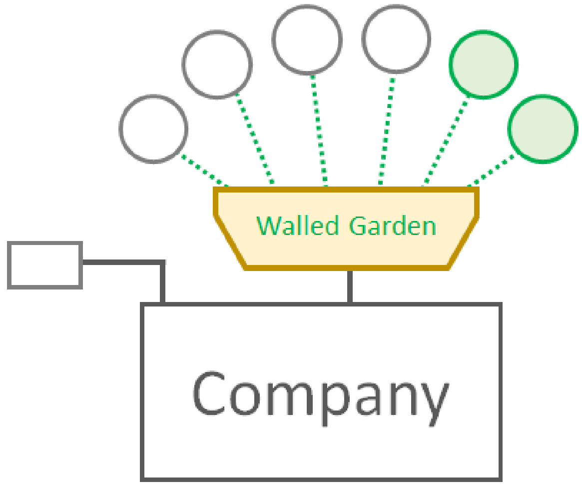
Going forward, if the company desires a broader market, groups of known accredited investors may be seeded collectively. In addition, the CFO may authorize one or more pre-existing white lists of qualified participants. Conceptually, various companies may agree to share participant lists, thereby cross-pollinating their walled gardens with groups of welcome accredited investors.

So, what exactly is this walled garden? Rather than being the underlying company itself, it is a separate device created specifically to serve as the isolated private marketplace and the investment vehicle. As such it has three main features:

1. It is a dedicated entity, vehicle, or arrangement whose sole purpose is to serve as a permanent investor in the underlying company.
2. It issues its own certificates to the original investors, reflecting their collective interest in the underlying company.
3. It permits authorized participants to buy and sell their interests.

One could think of this entity or arrangement as a “sidecar” vehicle, channeling multiple individual investors into a single investor group. While the investment in the underlying company is permanent, the individual participants may come and go as they please.

The process for establishing this vehicle is straightforward. Participants who wish to join contribute their certificates in the underlying operating company to the vehicle in exchange for new certificates in the vehicle. The original certificates are surrendered to the underlying operating company in exchange for a single new certificate issued to the vehicle. In this manner the new vehicle serves as the sole investor representing its participants, including absorbing and abiding by all constraints. Now to a large extent, as determined by the company, the original investors, as participants in the new vehicle, are free from the limitations so often associated with private equity.



The 8832 LLC

One convenient legal structure for the device or vehicle described above is a limited liability company or LLC. Unlike normal corporations, the LLC and its membership are governed by a special operating agreement. This agreement can stipulate the LLC's role as a dedicated investor. The operating agreement also can anticipate the specific requirements of the company as well as the needs of the investor group. For example, it can specify that membership units are recorded on a distributed ledger and managed by a smart contract that controls all membership interest transfers—the walled garden.

To isolate members from annual tax filings, the LLC may wish to submit IRS Form 8832 affirmatively electing to be treated as a corporation (not as a partnership) for tax purposes. Often the underlying company will neither pay dividends nor make cash distributions, particularly if it is a new venture. That simplifies tax issues substantially. Furthermore, in many cases, the LLC may be able to prepare its tax return using the cash basis.

Finally, it may be prudent to select a favorable state in which to form the LLC. Several states offer low or no state capital gains taxes which may be particularly attractive. Also, if a distributed ledger is used to govern transactions and the participants desire privacy, certain preferred states [12] generally are considered “crypto friendly.”

The Voting Trust

Another method to create a walled garden is to use a somewhat long-forgotten approach: a voting trust. Originally used in the 1860s, voting trusts primarily were deployed by company owners in an effort maintain control.[13] One of the first proponents, John Pierpont Morgan, Sr. (1837 – 1913) was the trustee of voting trusts for six major railroads.[14] As a result of some abuse, voting trusts came under scrutiny during the turn of the century, but eventually were absolved “if grounded upon a proper motive or bona fide business purpose.”[15]

The passage of the 1948 Internal Revenue Code ushered in modern estate planning, including our current concept of estates and trusts.[16] By that year the highest estate tax rate had skyrocketed to 77%.[17] As lawyers began focusing on modern trusts, as well as other vehicles to minimize inheritance issues, voting trusts fell into relative obscurity. Now there may be compelling reasons to revitalize voting trusts.

The SEC (through the Investment Company Act of 1940) recognizes voting trusts. It provides sample agreements on their website.[18][19] Also, essentially every U.S. state has a statute permitting security holders to participate in a voting trust. Appendix A recites the Delaware statute.[20]

A 1999 SEC no-action letter provided guidance on the definition of a voting trust: “a single-purpose trust that is formed to allow the stockholders of a company to retain all of the economic benefits of stock ownership, while transferring their voting rights in the company to the trustee of the trust.”[21] Generally, as described above, the participants’ original stock certificates are surrendered and a new stock certificate is issued by the operating company to the voting trustee, followed by the issuance by the trust of trust certificates to each of the participants.[22]

Here are some compelling advantages of a voting trust arrangement:

- Participants keep their beneficial interest in the operating company.
- Joining the trust does not involve an asset sale, so there is no taxable event.
- There is no statutory limit on the number of participants.
- Since a new certificate is issued to the trust, the underlying company can assert that some or all transfer restrictions now apply to the trust, and not necessarily to the individual holders. These restrictions can be “tuned” as the company wishes, so long as everything complies with federal and state laws.
- The trust agreement can anticipate transfer of interests and govern such transfers.
- Participants may withdraw from the trust relatively easily with little or no adverse effect.
- VC participation, now entrusted, remains a “Qualifying Investment.”[23]
- Voting trusts generally are exempt from registration under the Investment Company Act of 1940.[24]

In summary, the voting trust is a nearly ideal arrangement to meet the conceptual framework described earlier for facilitating liquidity in private equity.

Regulatory Considerations

A great deal has been written regarding Regulation D promulgated under the Securities Act, particularly Rules 506(b) and 506(c), and the SEC’s focus on accredited investors.[25][26][27] We will not discuss these topics more here except to highlight that in some circumstances compliance also may rely on establishing a “substantive, pre-existing relationship.” A 2015 no-action letter written by the SEC addressed possible ways to form such a relationship in an online context.[28][29]

There are three exemptions from registration that may be available for the resale of private securities: (i) Rule 144 “safe harbor” under the Securities Act; (ii) the so-called Section 4(a)(1 1⁄2) exemption; and (iii) Section 4(a)(7) exemption under the Securities Act. Rule 144 requires that restricted securities of a non-reporting company, which are generally securities acquired in an unregistered private sale (e.g., seed financing, a private placement, or a Reg D offering), or as compensation (e.g., for professional services or as an employee benefit), be held for at least one year before being resold in a public sale.[30] If the seller is an affiliate, the non-reporting company also must make public certain information about the company including a list of officers and directors, as well as current financial statements. If the requirements of a resale under Rule 144 6 are met, restrictive legends can be removed from the certificates, making the securities unrestricted.[10]

More conventionally, investors can resell restricted securities by relying on the so-called “Section 4(a)(1 1⁄2)” exemption, which is not a statutory exemption, but one that securities lawyers and the SEC have inferred and developed over time by combining the Section 4(a)(1) exemption for transactions by any person other than an issuer, underwriter or dealer and the Section 4(a)(2) exemption for transactions not involving a public offering. The following criteria generally apply for a resale under Section 4(a)(1 1⁄2):[31]

- Hold the securities for at least six months
- Offer to a limited number of purchasers who must be sophisticated
- Provide adequate information on the issuer (ideally, such information as would be required in an issuer’s initial private placement of securities)
- Assure purchasers are sophisticated enough to evaluate risks

- Obtain purchaser representation: investor suitability and investment intent
- Securities should be legended

The Fixing America's Surface Transportation Act (FAST Act) of 2015 streamlined and codified certain aspects the Section 4(a)(1 1⁄2) exemption by adopting a new Section 4(a)(7) exemption which requires that purchasers be accredited investors.[9][10] In some ways, the Section 4(a)(7) exemption imposes more rigor than the Section 4(a)(1 1⁄2) exemption because, among other things, it requires purchasers to be accredited investors, has specific informational requirements, and "bad actor" disqualification provisions. However, Section 4(a)(7) provides more legal certainty, does not require a holding period (as long the securities have been outstanding for at least 90 days), has no limit on the number of purchasers, and securities sold under Section 4(a)(7) are "covered securities" which are exempt from compliance with state "blue sky" laws. In contrast to Rule 144, securities sold under Section 4(a)(7) and Section 4(a)(1 1⁄2) exemptions retain any requisite legends and remain restricted. Generally speaking, in a private resale, the most conservative approach may be to hold the restricted securities for at least six months, and then sell only to well-informed accredited investors.

The LLC and voting trust vehicles described earlier may be construed as investment companies and subject to registration under the Investment Company Act of 1940. Normally applied to "40- Act companies" such as mutual funds and closed-end funds, the legal definition as "a company that issues securities and is primarily engaged in the business of investing in securities" is broad enough to sweep up many types of businesses.[32] While unilateral application of this language has been a point of some debate, the clearest means to avoid the "inadvertent" investment company trap is to qualify for an explicit investment company exemption.

In our view, the proposed LLC structure described above is a single-purpose holding company and not really “in the business of investing in securities.” Nevertheless, and certainly if needed, the 7 Section 3(c)(1) exemption of the Investment Company Act can apply.[24] Private companies with fewer than 100 shareholders commonly rely on this exemption. In addition, the Section 3(c)(7) exemption can apply if the LLC participants are qualified purchasers.

As to the voting trust arrangement described above, the Investment Company Act offers an explicit Section 3(c)(12) exemption covering: “Any voting trust the assets of which consist exclusively of securities of a single issuer which is not an investment company.”[24] In a 1999 no- action letter, the SEC affirmed this position and allowed for voting trusts also to receive dividends so long as that cash is distributed promptly.[21]

While voting trusts are not limited per se in number of participants, Section 12(g) of the Exchange Act does establish thresholds at which any non-bank issuer with assets greater than $10M must register securities under the Exchange Act and become subject to its reporting requirements (e.g., filing Form 10-Ks and Form 10-Qs).[33][34] As part of the JOBS Act and FAST Act, this threshold was increased from 500 total holders of record to i) 2,000 total holders of record, or ii) 500 holders of record who are not accredited investors.

In summary, the various requirements of the Securities Act and the Investment Company Act do not seem overly onerous or restrictive insofar as the two solutions that we have proposed—the LLC entity and the voting trust arrangement. Companies and investors that seek liquidity, while desiring some privacy and control, can design and implement an appropriate solution relatively quickly and easily; one that will be fair to all participants and meet all regulatory requirements.

Distributed Ledger

Once the legal framework has been established, a distributed ledger (i.e., blockchain) can serve in several important roles: as the custodian, as the supervisor, as the transfer agent, as the auditor, and perhaps most importantly as the trusted transaction platform for buying and selling. In effect, a properly configured smart contract can handle many duties normally associated with the office of a company CFO, and more. Before delving into each of these functions, let’s take a moment to understand how and why a distributed ledger is uniquely suited for these critical tasks.

At their core, distributed ledgers simply are accounting systems with one profound difference: immutability. Once entries are verified on a distributed ledger, nothing can change those entries, not even the most skillful hacker. This is an accountant’s dream. Immutability is perhaps the most remarkable and valuable attribute of blockchain technology. Few if any systems ever have provided so much security: in effect perfect tamper resistance. For example, immutability is what allows the oldest and largest blockchain, Bitcoin, to be entrusted with over $100 billion of value with no conventional security or central oversight. Rather, many thousand “nodes” around the world simultaneously check and recheck integrity by agreeing (reaching consensus) that their local copy of the complete blockchain is 100% identical to every other copy around the world. Thus, a peer-to-peer network that is wide-spread, highly-distributed, and properly incentivized (earning “mining fees”) can be trusted more so than any central authority.

Today, newer blockchains such as Ethereum, allow programmers to configure sophisticated transaction controls using smart contracts often written in a strongly-typed language called Solidity. Using smart contract logic, designers can create customized tokens with hard-coded (immutable) functions that govern and control every transaction, even before the entries are made. Once written, smart contract functions are completely tamper-proof and constantly verified/re-verified by thousands of consensus nodes. This means that users can rely on the system to allow only permissible transactions and deny all others. Control decentralization has enormous potential since it embeds trust deeply and can eliminate the need for human oversight.

As discussed already, one reason for the liquidity challenge is that, unlike public markets, generally only high net worth investors (accredited investors or qualified purchasers) may engage in private equity transactions. As a result, a private company CFO must oversee every purchase or sale. Furthermore, the CFO needs to be aware of fiduciary duties, including fairness to all shareholders. Blockchain technology provides a highly trustworthy and reliable solution for managing a private stock book with the following functionality.

- **Custodian** It can record immutably the number of shares (tokens) belonging to each holder. These records serve as proof of ownership and can be viewed anywhere and anytime.

- **Supervisor** A properly configured smart contract can embed tamper-proof functions that permit only the transfers allowed by the company, and between invited participants. The smart contract never sleeps, so transactions can occur day or night.

- **Transfer Agent** Since transfers occur inside the smart contract, ledger entries faithfully adjust the token balances of participants, thus affecting the transfer without a third party transfer agent. These entries are immutable, so there is no need for additional outside paperwork.

- **Auditor** The contract administrator (the CFO or her delegate) can observe all token balances and transaction history whenever desired. If required, misplaced tokens (or tokens that become associated with a “bad actor”) can be reclaimed.

It is important to note that tokens used as a representation of equity (or other certificate or security), are symbolic by nature. Unlike gold or bitcoin, equity tokens in and of themselves do not have intrinsic value. Rather, they serve as proof of ownership. Like anything, they can be lost. But unlike gold or bitcoin, the smart contract can be configured so that lost tokens can be recovered. This is an important distinction, and one that relies on the fiduciary duties of the contract administrator, likely the CFO.

Trading Platform

Beyond recording balances and transactions, the smart contract can be further configured to facilitate activities associated with buying and selling securities. In this manner the system becomes a fully decentralized bulletin board or listing service, albeit limited to buying and selling just one security within the confines of a carefully protected walled garden. Users should be able to create bids or asks, in effect requests for interest in buying or selling tokens. Users also should be able to see the complete list of standing bids and asks. If desired, a user can select and accept a given request, thus closing and fulfilling that request. Because all aspects of the transaction are handled in one computational block, settlement can be assured and essentially instantaneous.

A private user interface (a distributed application or DApp) can be created for participants within the walled garden such as shown in Appendix B. For compliance, in addition to restricting access, this website should make readily available important notices, like risk factors, and current company information, such as financial statements and letters to shareholders. A fully featured interface should include general price and volume history, as well as detailed transaction history for the current user. Preferably the system would facilitate private transactions, whereby two parties could agree to payment outside the contract (for example via wire transfer of dollars), and then fulfill the transaction by conveying tokens from the seller to the buyer. Even though the payment might be "off-chain," the token transfer necessarily must be "on-chain" and immutably recorded on the distributed ledger.

The administrator should have exclusive access to all transactions and balances. The administrator also should be able to invite (seed) new accounts, mint or burn tokens, make appropriate transfers as needed, and in extraordinary circumstances, reclaim tokens or even pause the entire system. In essence, the administrator should have the same level of access and control as he or she would have governing a conventional private company stock book.

At a higher level, one can imagine more sophisticated users being welcomed to participate in multiple walled gardens. Accordingly, these super-users should be able to browse various companies easily, and enjoy a uniform and intuitive experience for gathering necessary materials to make informed investment decisions. As the universe of opportunities expands, advanced users should be able to filter, search, and browse companies based on a variety of parameters such as size, sector, industry, technology, etc. Ideally, for sophisticated participants, investing in private equity would feel just as natural as trading in public markets.

Future Directions

Despite what earnest cryptocurrency advocates might proclaim, U.S. regulators indeed have modernized securities law and seem committed to the right balance between encouraging financial innovation and protecting unwitting and vulnerable citizens. The Securities Act has been upgraded substantially to include Section 4(a)(6) crowdfunding, Rule 504 small cap offerings, Rule 10 506(c) advertising, and Regulation A+ mini-public offerings. In addition, Section 4(a)(7) now allows resale of private securities without the holding requirement of Rule 144.

We envision a future where the stark contrast between public companies and private companies begins to blur, and enterprises of all sizes can find their own “sweet spot” on a continuum between today’s notions of public and private. In such a future world, companies will be able to define how much liquidity they wish to facilitate for their securities, and how broad they desire their investor audience to be.

Disclaimers

The purpose of this white paper is to present a proposed structure that can serve as a mechanism to facilitate a new means of liquidity for private investments. The information set forth in the white paper should not be considered exhaustive and does not imply any elements of a contractual relationship. Its sole purpose is to provide relevant and reasonable information to potential users of this proposed structure in order for them to determine whether such proposed structure would be appropriate for their company.

Nothing in this white paper shall be deemed to constitute a prospectus of any sort of a solicitation for investment, nor does it, in any way, constitute or pertain to an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction. Nothing contained herein should be interpreted as financial, tax, or legal advice. Information is provided for illustrative and educational purposes only. Please consult with your appropriate licensed professional before making any financial decisions or transactions, including any investments related to ideas or opinions expressed, past, present, or future in this white paper. Certain information contained in this white paper is based on or derived from information provided by or published by third party sources. Nth Round does not guarantee the accuracy of such information. Nth Round does not express financial, legal, tax, or any other advice and does not make any representation or warranty to any recipient of this white paper.

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Appendix A

Delaware Code Title 8. Corporations§ 218 Voting trusts and other voting agreements

(a) One stockholder or 2 or more stockholders may by agreement in writing deposit capital stock of an original issuewith or transfer capital stock to any person or persons, or entity or entities authorized to act as trustee, for the purpose of vesting in such person or persons, entity or entities, who may be designated voting trustee, or voting trustees, the right to vote thereon for any period of time determined by such agreement, upon the terms and conditions stated in such agreement. The agreement may contain any other lawful provisions not inconsistent with such purpose. After delivery of a copy of the agreement to the registered office of the corporation in this State or the principal place of business of the corporation, which copy shall be open to the inspection of any stockholder of the corporation or any beneficiary of the trust under the agreement daily during business hours, certificates of stock or uncertificated stock shall be issued to the voting trustee or trustees to represent any stock of an original issue so deposited with such voting trustee or trustees, and any certificates of stock or uncertificated stock so transferred to the voting trustee or trustees shall be surrendered and cancelled and new certificates or uncertificated stock shall be issued therefore to the voting trustee or trustees. In the certificate so issued, if any, it shall be stated thatit is issued pursuant to such agreement, and that fact shall also be stated in the stock ledger of the corporation. The voting trustee or trustees may vote the stock so issued or transferred during the period specified in the agreement. Stock standing in the name of the voting trustee or trustees may be voted either in person or by proxy, and in voting the stock, the voting trustee or trustees shall incur no responsibility as stockholder, trustee or otherwise, except for their own individual malfeasance. In any case where 2 or more persons or entities are designated as voting trustees, and the right and method of voting any stock standing in their names at any meeting of the corporation are not fixed by the agreement appointing the trustees, the right to vote the stock and the manner of voting it at the meeting shall be determined by a majority of the trustees, or if they be equally divided as to the right and manner of voting the stock in any particular case, the vote of the stock in such case shall be divided equally among the trustees.

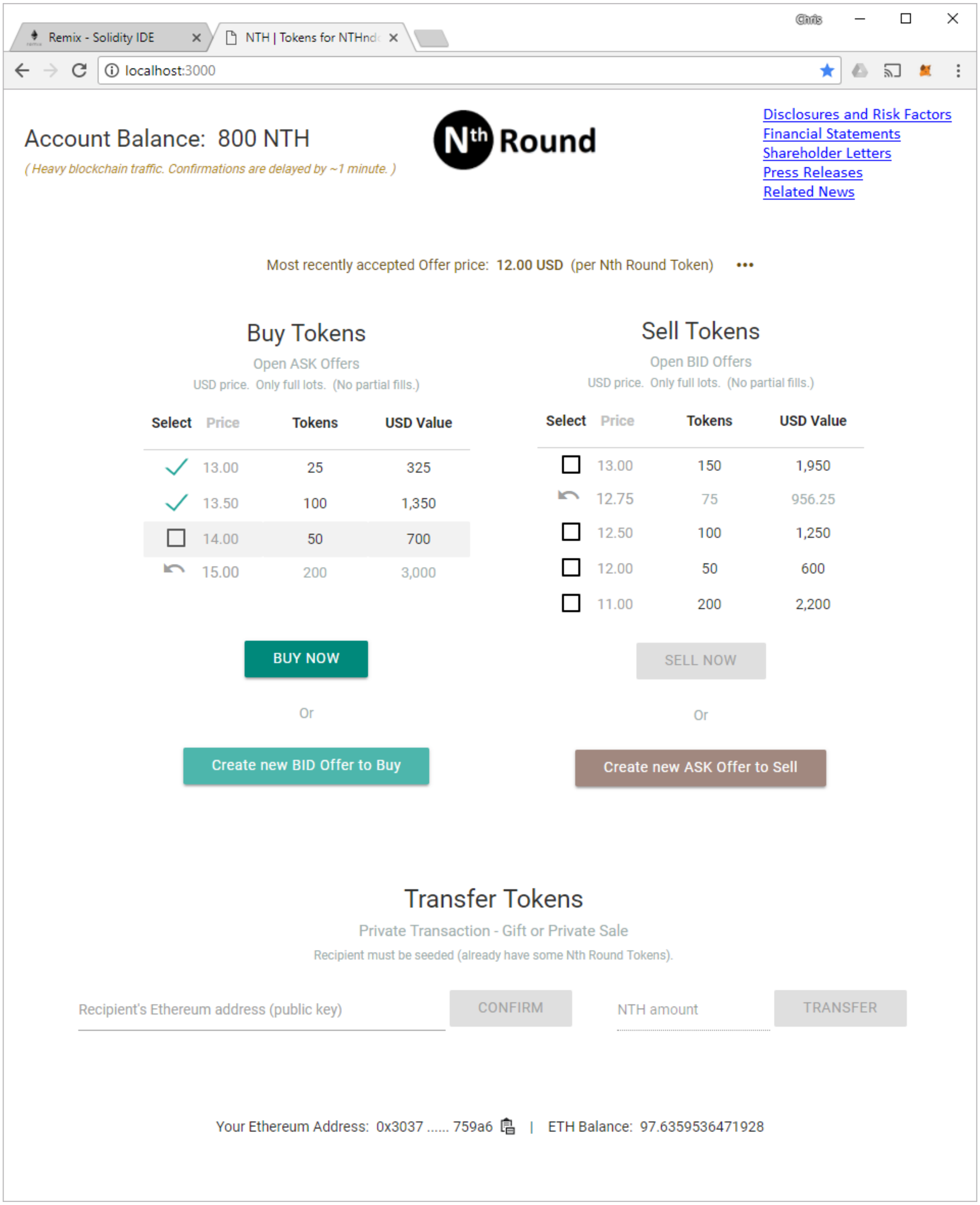
(b) Any amendment to a voting trust agreement shall be made by a written agreement, a copy of which shall be delivered to the registered office of the corporation in this State or principal place of business of the corporation.

(c) An agreement between 2 or more stockholders, if in writing and signed by the parties thereto, may provide that in exercising any voting rights, the shares held by them shall be voted as provided by the agreement, or as the parties may agree, or as determined in accordance with a procedure agreed upon by them.

(d) This section shall not be deemed to invalidate any voting or other agreement among stockholders or any irrevocable proxy which is not otherwise illegal.

Appendix B

Example User Interface for Buying and Selling within the Walled Garden


Remix - Solidity IDE
NTH | Tokens for NTHnd
localhost:3000
Account Balance: 800 NTH
(Heavy blockchain traffic. Confirmations are delayed by ~1 minute.)
Nth Round
Disclosures and Risk Factors
Financial Statements
Shareholder Letters
Press Releases
Related News
Most recently accepted Offer price: 12.00 USD (per Nth Round Token)
Buy Tokens
Open ASK Offers
USD price. Only full lots. (No partial fills.)
Select Price Tokens USD Value
13.00 25 325
13.50 100 1,350
14.00 50 700
15.00 200 3,000
BUY NOW
Or
Create new BID Offer to Buy
Sell Tokens
Open BID Offers
USD price. Only full lots. (No partial fills.)
Select Price Tokens USD Value
13.00 150 1,950
12.75 75 956.25
12.50 100 1,250
12.00 50 600
11.00 200 2,200
SELL NOW
Or
Create new ASK Offer to Sell
Transfer Tokens
Private Transaction - Gift or Private Sale
Recipient must be seeded (already have some Nth Round Tokens).
Recipient's Ethereum address (public key)
CONFIRM
NTH amount
TRANSFER
Your Ethereum Address: 0x3037 ...... 759a6 | ETH Balance: 97.6359536471928

SECTIONS

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