

**SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN FRANCISCO**

CHRISTIAN HELLUM, DAVID BOOTH, BRIAN RUSSOM
AND MICHAEL DELGRECO, individually and on behalf of
all other similarly situated,
Plaintiffs,

vs.

PROSPER MARKETPLACE, INC., a Delaware Corporation;
CHRISTIAN LARSEN; ED GIEDGOWD; KIRK T. INGLIS;
DOUG FULLER; JAMES W. BREYER; LARRY W. CHENG;
ROBERT C. KAGLE; and JOHN AND JANE DOES 1-100,
Defendants.

Case No.: CGC-08-482329

NOTICE TO CLASS MEMBERS

Dept.: 304
Judge: Honorable Curtis E.A. Karnow

TO: ALL PERSONS WHO PURCHASED LOAN NOTES (“NOTES”) THROUGH PROSPER’S LOAN UNDERWRITING AND SALES MARKETPLACE AT WWW.PROSPER.COM DURING THE PERIOD FROM JANUARY 1, 2006 THROUGH OCTOBER 14, 2008 (“CLASS PERIOD”), EXCLUDING DEFENDANTS, THEIR EMPLOYEES, AND MEMBERS OF DEFENDANTS’ FAMILIES.

PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. YOUR RIGHTS MAY BE AFFECTED BY PROCEEDINGS IN THIS LITIGATION.

If you purchased a Note sold by Prosper during the Class Period, you could get a payment from a class action settlement (the “Settlement”). The Settlement website is www.prosperclassaction.com.

- If approved by the Court, the Settlement will provide \$10,000,000 in installment payments over the course of three years, plus interest earned thereon (the “Settlement Amount”), to pay claims of purchasers of Notes sold by Prosper during the Class Period, costs of litigation and settlement, attorneys’ fees, awards to Named Plaintiffs, and any taxes. Payments will be made in proportion to the aggregate amount of losses resulting from defaulted promissory notes purchased by Class Members from Prosper during the Class Period. The formula for allocating payments is described below.
- Attorneys for the Class Representatives (“Class Counsel”) intend to ask the Court to award them fees of up to one-third of the Settlement Amount, and reimbursement of litigation expenses not to exceed \$315,000. Class Counsel also intends to ask the Court to grant Named Plaintiffs monetary awards, the sum of which will not exceed \$30,000. If approved by the Court, these amounts will be paid from the Settlement Fund as defined below.
- The Settlement resolves the lawsuit as to whether Defendants Prosper, Christian Larsen, Ed Giedgowd, Kirk T. Inglis, Doug Fuller, James W. Breyer, Larry W. Cheng, and Robert C. Kagle (collectively, the “Defendants”) allegedly violated securities laws due to Prosper’s selling securities without qualifying or registering them and acting as an unlicensed broker-dealer. The Defendants deny the allegations in the lawsuit and deny any wrongdoing.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT

EXCLUDE YOURSELF NO LATER THAN MARCH 25, 2014	Get no payment. This is the only option that allows you to be part of any other lawsuit against Defendants about the legal claims in this case.
OBJECT NO LATER THAN MARCH 18, 2014	Write to the Court about why you do not like the Settlement.
GO TO A HEARING ON APRIL 8, 2014	Speak in Court about the fairness of the Settlement.
DO NOTHING	A payment will be mailed if you are an Eligible Recipient, as defined below. Give up right to object to or exclude yourself from the Settlement. Instructions for updating your address to ensure you receive payment are set forth in Section 6, below.

INQUIRIES

Please do not contact the Court regarding this notice (“Notice”). All inquiries concerning this Notice, or any other questions by Class members, should be directed to:

Prosper Securities Litigation
Settlement Administrator
c/o Strategic Claims Services
P.O. Box 230
600 N. Jackson Street, Suite 3
Media, PA 19063
Tel: (866) 274-4004
www.prosperclassaction.com

COMMON QUESTIONS AND ANSWERS CONCERNING THE SETTLEMENT

1. Why did I get this notice?

This Notice has been sent to you pursuant to an Order of the Superior Court of the State of California in San Francisco County. The purpose of this Notice is to inform you of the proposed settlement (the “Settlement”) of this class action litigation (the “Class Action”) and of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the Settlement (the “Final Approval Hearing”). This Notice describes the rights you may have in connection with the Settlement and what steps you may take in relation to the Settlement and this Class Action.

This Notice is not an expression of any opinion by the Court about the merits of any of the claims or defenses asserted by any party in the Class Action or the fairness or adequacy of the proposed Settlement.

2. What is this lawsuit about?

The case is known as *Hellum, et al. v. Prosper Marketplace, Inc., et al.*, Civ. No. 482329, and the Court in charge of the case is the Superior Court of the State of California in San Francisco County (the “Court”).

Since early 2006, Prosper Marketplace, Inc. (“Prosper”) has operated an online peer-to-peer lending platform through which lenders may bid on loan requests posted by borrowers. On November 28, 2008, Plaintiffs Christian Hellum, David Booth, Brian Russom, and Michael DelGreco filed the Class Action on behalf of themselves and all others who purchased Notes from Prosper during the Class Period of January 1, 2006 through October 14, 2008 as against Defendants Prosper, Christian Larsen, Ed Giedgowd, Kirk T. Inglis, Doug Fuller, James W. Breyer, Larry W. Cheng, and Robert C. Kagle.

The Class Action alleges that Prosper was selling securities without qualifying or registering them and was acting as an unlicensed broker-dealer, and alleges that Prosper’s officers and directors were liable as control-persons for those activities. The Defendants deny the allegations asserted in the Class Action and deny that they engaged in any wrongful conduct as alleged in the Class Action in connection with the sale of the Notes. Class Counsel has conducted extensive discovery regarding the claims alleged in the Class Action.

3. Why is this a class action?

In a class action, one or more persons and/or entities, called Class Representatives, sue on behalf of all persons and/or entities that have similar claims. All of these persons and/or entities are referred to collectively as a Class, and these individual persons and/or entities are known as Class Members. One court resolves all of the issues for all Class Members, except for those Class Members who exclude themselves from the Class.

4. Why did the parties agree to the proposed settlement?

Class Representatives and Defendants do not agree regarding the merits of Class Representatives’ allegations with respect to liability or the damages that would be recoverable by the Class if Class Representatives were to prevail at trial. The issues on which the Class Representatives and Defendants disagree include: (1) whether Defendants violated securities laws due to Prosper’s selling securities without qualifying or registering them and acting as an unlicensed broker-dealer; (2) whether Prosper’s officers and directors who are Defendants are liable as control-persons of Prosper; and (3) the amount of damages, if any, suffered by the Class Members.

This matter has not gone to trial and the Court has not decided in favor of either Class Representatives or Defendants. Instead, Class Representatives and Defendants have agreed to settle the Class Action.

The Parties have negotiated the terms of a Stipulation and Agreement of Compromise, Settlement, and Release (the “Settlement Agreement”) in the Class Action, which is on file with the Court. The Settlement Agreement was only reached after arm’s-length negotiations between the Parties, who were all represented by counsel with extensive experience and expertise in class action litigation. During the negotiations, all parties had a clear view of the strengths and weaknesses of their respective claims and defenses.

While Defendants have vigorously denied, and continue to deny, any wrongdoing or liability with respect to the claims, events, and transactions complained of in the Class Action, Defendants have agreed to settle and compromise the Class Action in order to avoid the expense, risk, and inconvenience of a trial on the merits and any subsequent appeals, and in order to put to rest and finally terminate the Class Action and all Settled Claims, as defined in the Settlement Agreement.

Based on a thorough analysis of applicable law and facts, and after taking into account the material benefits afforded to the Class through settlement of this Class Action, and the risk, delay, and expense of a trial on the merits against Defendants and any subsequent appeals, the Class Representatives and Class Counsel concluded that a settlement of the Class Action on the terms set forth in the Settlement Agreement is fair, reasonable, adequate, and in the best interests of all members of the Class.

5. What are the basic terms of the proposed settlement?

The proposed Settlement consists of four annual payments from Prosper into an escrow account (the “Settlement Fund”) out of which an independent professional settlement administrator, Strategic Claims Services (the “Settlement Administrator”), will disburse funds to the Class Members. In exchange for a full release of claims as to all Class Members against all Defendants, Prosper agrees to pay the total Settlement amount of \$10,000,000, according to the following schedule:

- \$2,000,000 within ten days of January 3, 2014, the date the Court entered its order granting preliminary approval of the Settlement Agreement (the “Preliminary Approval Order”);
- \$2,000,000 on the one-year anniversary of the Preliminary Approval Order;

- \$3,000,000 on the two-year anniversary of the Preliminary Approval Order; and
- \$3,000,000 on the three-year anniversary of the Preliminary Approval Order.

The costs incurred with respect to providing notices to Class Members and administering the Settlement (the “Costs of Administration”) shall be paid out of the Settlement Fund.

Class Counsel intend to petition the Court for, and Defendants have agreed not to oppose, an order awarding to Class Counsel payment of attorneys’ fees (the “Class Counsel Fees”) not to exceed one-third of the Settlement Fund, plus reimbursement of actual expenses incurred in this Action (the “Litigation Costs”) not to exceed \$315,000, and monetary awards to Named Plaintiffs, the sum of which will not exceed \$30,000. Any such award entered by the Court shall be paid proportionately out of each of the First, Second, Third, and Fourth Settlement Payments as set forth above.

The amount of the Settlement Fund available for distribution to the Class Members following each scheduled payment date, referred to as the “Net Settlement Fund,” shall be net of deductions necessary to pay the Costs of Administration, Class Counsel Fees, Litigation Costs, and awards to Named Plaintiffs, and taxes due on interest earned by the Settlement Fund, if necessary. The amount of the Net Settlement Fund available for distribution to the Class Members following each scheduled annual payment date shall be referred to as the First Annual Distribution, Second Annual Distribution, Third Annual Distribution, and Fourth Annual Distribution, respectively, as described below.

The Net Settlement Fund shall be distributed to all eligible Class Members (“Eligible Recipients”) in proportion that their losses from defaulted notes bear to the total losses of all Class Members from defaulted notes, according to the “Plan of Allocation,” described below.

An Eligible Recipient means a Member of the Class who purchased one or more Notes sold by Prosper during the Class Period (“Class Period Notes”), and who incurred a financial loss as a result of at least one note defaulting during the Class Period. Thus, a purchaser of at least one Class Period Note is an Eligible Recipient if he or she paid more money to purchase a note than he or she received in principal and interest on that note.

Eligible Recipients who do not choose to exclude themselves from the Class will receive a portion of the Net Settlement Fund, according to the ratio or proportion that their losses in defaulted notes bear to the total amount of defaulted notes for all Class Members, as set forth in the Plan of Allocation below. Under the Plan of Allocation, Eligible Recipients will receive their portion of each of the First Annual Distribution, Second Annual Distribution, Third Annual Distribution, and Fourth Annual Distribution (which correspond to the First, Second, Third and Fourth Settlement Payments, less attorneys fees, expenses and costs of administering the Settlement) , calculated as follows:

First Annual Distribution:

$$\text{First Payment to Eligible Recipient} = \text{First Annual Distribution} \times \text{Multiplied By } \frac{A}{B}$$

A equals the losses suffered by the Eligible Recipient (calculated as the difference between the face value of all defaulted notes for that Eligible Recipient and the sum of interest and principal payments received on those notes by that Eligible Recipient), and B equals the total losses from defaulted Notes for all Eligible Recipients (\$28,446,925 – calculated as the difference between the face value of all defaulted notes for all Eligible Recipients and the sum of all of the interest and principal payments received on all of those notes by all Eligible Recipients).

Second Annual Distribution:

$$\text{Second Payment to Eligible Recipient} = \text{Second Annual Distribution} \times \text{Multiplied By } \frac{A}{B}$$

Third Annual Distribution:

$$\text{Third Payment to Eligible Recipient} = \text{Third Annual Distribution} \times \text{Multiplied By } \frac{A}{B}$$

Fourth Annual Distribution:

$$\text{Fourth Payment to Eligible Recipient} = \text{Fourth Annual Distribution} \times \text{Multiplied By } \frac{A}{B}$$

Class Counsel estimates that the total amount of losses suffered by all Class Members is \$28,446,925. By way of example only, a Class Member who lost \$1,000 in the purchase of defaulted notes during the Class Period would calculate their proportionate share of the Net Settlement Fund by dividing \$1,000 (“A” in the formula) by \$28,446,925 (“B” in the formula) and then multiplying that number by the amount for each distribution. In this hypothetical example, the Class Member’s share of the total Settlement Amount, before deducting legal fees, expenses and costs of Settlement administration would be approximately \$351. The exact amount of legal fees, expenses and costs of settlement administration are not yet known, but based on current estimates, the estimated amount of payout for the claim in this hypothetical example would be approximately \$208, divided among the First, Second, Third and Fourth Annual Distributions from the Net Settlement Fund.

The Plan of Allocation is a matter separate and apart from the proposed Settlement, and any decision by the Court concerning the Plan of Allocation shall not affect the validity or finality of the proposed Settlement. The Plan of Allocation may be modified in connection with, among other things, a ruling by the Court on an objection filed by a Class Member, without further notice to the Class.

Eligible Recipients shall be distributed their proportionate payment of the First Annual Distribution from the Settlement Fund once the Settlement is finally approved by the Court and can no longer be appealed. Eligible Recipients shall be distributed their proportionate payment of each subsequent Annual Distribution from the Settlement Fund by no later than 20 days following the date that each Settlement Payment is made by Prosper to the Settlement Fund.

The method of distribution by the Settlement Administrator to Eligible Recipients shall be by check sent by first-class U.S. mail by the Settlement Administrator to Eligible Recipients' last-known address.

Once the Settlement is finally approved by the Court and can no longer be appealed, all Class Members who do not exclude themselves from the Settlement release the Defendants and each of their respective representatives, attorneys, owners, stockholders, members, managers, predecessors, successors, directors, officers, employees, parents, subsidiaries, and affiliates (and agents, members, managers, directors, officers, employees, representatives, and attorneys of such parents, subsidiaries, and affiliates) (collectively all of the foregoing are herein the "Released Persons"), from any and all charges, claims, liabilities, agreements, damages, causes of action, suits, costs, losses, debts, and expenses (including attorneys' fees and costs actually incurred) (herein, "Claims") whether known or unknown, which the Class Members have or may claim to have against each or any of the Released Persons that were alleged, asserted, claimed, raised or set forth in the Class Action, or that could have been alleged, asserted, claimed, raised or set forth in the Class Action, or in any other court, tribunal, forum or proceeding, by the Releasing Persons against each or any of the Released Persons relating to whether the Released Persons offered or sold unqualified or unregistered securities, relating to whether the Released Persons acted as an unlicensed broker or dealer of securities, or relating to any other facts, events, transactions, acts, occurrences, statements, representations, or omissions as alleged in the complaints filed in the Class Action (collectively all of the foregoing are herein the "Settled Claims").

6. How can I get a payment?

If you are an Eligible Recipient you need not take any action in order to receive a payment. The method of distributing funds to Class Members is described in response to question 5, above.

You can update your address information to ensure timely receipt of your share of the Net Settlement Fund by contacting the Settlement Administrator at (866) 274-4004 or info@strategicclaims.net or by going to the website at www.prosperclassaction.com and following the instructions on the website.

7. How and when will the Court decide whether to approve the settlement?

A settlement approval hearing (the "Final Approval Hearing") will be held before the Honorable Curtis E.A. Karnow, Judge of the Superior Court of the State of California, County of San Francisco, 400 McAllister Street, Department 304, San Francisco, California on April 8, 2014 at 4:00 p.m. PST to determine (i) whether the proposed settlement of the Class Action on the terms and conditions provided for in the Settlement Agreement is fair, reasonable, and adequate to the Class pursuant to California Rules of Court, Rule 3.769, and should be approved by the Court; (ii) whether a Final Order and Judgment as provided should be entered; (iii) whether to award Class Counsel their requested attorneys' fees and reimbursement of expenses; and (iv) whether to award the Named Plaintiffs their requested incentive payments. The Court may continue or adjourn the Final Approval Hearing without further notice.

8. What are my rights and obligations to participate in the approval hearing?

Any Class Member may enter an appearance in the Class Action, at his or her own expense, individually or through counsel of his or her own choice. If Class Members do not enter an appearance, they will be represented by Class Counsel.

Any Member of the Class who seeks to comment on any aspect of the Settlement Agreement, on Class Counsel's application for fees and expenses, or on the Named Plaintiffs' request for incentive awards may appear and be heard at the Final Approval Hearing. Any Class Member who wishes to make a written objection to the Settlement or to any aspect thereof must either submit their objection through the Settlement Administrator's website at www.ProsperClassAction.com on or before March 18, 2014 or mail or email such objection so that it is received by Class Counsel on or before March 18, 2014, at the postal or email address set forth below:

Laurence M. Rosen
THE ROSEN LAW FIRM, P.A.
275 Madison Avenue, Suite 3400
New York, NY 10016
info@rosenlegal.com
Attorneys for Plaintiffs and the Class

Any Member of the Class who does not make their objection in the manner provided in this Notice shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the proposed settlement set forth in the Settlement Agreement or any aspect thereof, unless otherwise ordered by the Court.

Attendance at the Final Approval Hearing is not necessary.

To be valid, an objection must indicate the case name (*Hellum, et al. v. Prosper Marketplace, Inc., et al.*, Civ. No. 482329) and also include the following information: (1) name, address, and telephone number of the Class Member, (2) all grounds for the objection, including any legal support known to Class Member or their counsel, (3) if represented by counsel, the name, address, and telephone number of all counsel who represent the Class Member (4) a statement confirming whether they plan to appear at the Final Approval Hearing, (5) the name, address, and telephone number of any counsel that will appear at the Final Approval Hearing, and (6) the number of times a Class Member filed an objection in the previous five years and the nature of each objection to each case in which a Class Member filed an objection in the previous five years.

9. What am I giving up to get a payment or stay in the Class?

Unless you exclude yourself, you will remain in the Class. That means that if the Settlement is approved by the Court, you and all Class Members will release (agreeing never to sue, continue to sue, or be part of any other lawsuit) all claims against Defendants and the other Released Persons, defined above, in connection with your purchase of Notes sold by Prosper during the Class Period, except that you do not release the Released Persons from any claim or action to enforce the Settlement. It also means that all of the Court's orders will apply to you and legally bind you. Unless you exclude yourself, it also means you will accept a share in the Net Settlement Fund as sole compensation for any losses you have suffered in connection with your purchase of Notes sold by Prosper during the Class Period. If you do not exclude yourself from the Settlement you will be considered to have agreed to the Release of Claims unless you exclude yourself from the Settlement by following the instructions in the answer to the following question.

Also, if you previously filed a timely, valid Request for Exclusion, then you are not a member of the Class.

10. How do I get out of the Settlement?

If you do not want to receive a payment from this Settlement, and you want to keep the right to sue or continue to sue Defendants on your own based on the legal claims raised in this Class Action, then you must take steps to get out of the Settlement. This is called excluding yourself from – or “opting out” of – the Settlement. To exclude yourself from the Settlement, you must send a letter or email to the Settlement Administrator stating you want to be excluded as a Class Member in the lawsuit entitled *Hellum, et al. v. Prosper Marketplace, Inc., et al.*, Civ. No. 482329, or you can submit an online Request for Exclusion at the website www.ProsperClassAction.com. Be sure to include your name, address and telephone number. Requests for Exclusion submitted either online or by mail must be submitted on or before March 25, 2014. Mailed Requests for Exclusion must be postmarked no later than March 25, 2014. The addresses for mailed or emailed Requests for Exclusion are:

Prosper Securities Litigation
Settlement Administrator
c/o Strategic Claims Services
P.O. Box 230
600 North Jackson Street—Suite 3
Media, PA 19063
info@strategicclaims.net

You cannot exclude yourself by telephone. If you properly exclude yourself, you will not receive a settlement payment, you cannot object to the Settlement, and you will not be legally bound by anything that happens in this Class Action.

11. If I do not exclude myself, can I sue Defendants for the same thing later?

No. Unless you exclude yourself, you give up any right to sue Defendants for the claims that this Settlement resolves. If you have a pending lawsuit, speak to your lawyer in that case immediately, since you may have to exclude yourself from this Class to continue your own lawsuit.

12. Do I have a lawyer in this case?

The Court appointed the Rosen Law Firm, P.A. and Green & Noblin, P.C. to represent you and the other Class Members. These lawyers are called Class Representatives' Counsel or Class Counsel. If you want to be represented by your own lawyer, you may hire one at your own expense. Contact information for the Rosen Law Firm, P.A. is provided in the response to question 8, above.

13. How will the lawyers be paid?

Class Counsel have expended considerable time litigating this action on a contingent fee basis, and have paid for the expenses of the litigation themselves with the expectation that if they are successful in recovering money for the Class, they will receive attorneys' fees and be reimbursed for their litigation expenses from the Settlement Fund, as is customary in this type of litigation. Class Counsel will not receive attorneys' fees or be reimbursed for their litigation expenses except from the Settlement Fund. Therefore, Class Counsel will file a motion asking the Court at the Final Approval Hearing to make an award of attorneys' fees in an amount not to exceed one-third of the Settlement Amount, plus reimbursement of reasonable litigation expenses not to exceed \$315,000. The Court may award less than these amounts. Any amounts awarded by the Court will come out of the Settlement Fund.

14. What is the difference between objecting and requesting exclusion?

Objecting is simply telling the Court you do not like something about the Settlement. You can object only if you stay in the Class. Requesting exclusion is telling the Court you do not want to be part of the Class and Settlement. If you exclude yourself, you cannot object to the Settlement because it no longer concerns you.

15. Additional Information

You can get more information by contacting the Settlement Administrator at 1-866-274-4004.

This Notice is a summary and does not describe all of the details of the Settlement Agreement. For full details of the matters discussed in this notice, you may desire to review the Settlement Agreement that is posted at www.prosperclassaction.com. It is also filed with the Court, and may be inspected during business hours, at the office of the Civil Clerk of the Court, San Francisco Superior Court, 400 McAllister St., Room 103, San Francisco, California 94102. The case is entitled *Hellum, et al. v. Prosper Marketplace, Inc., et al.*, Civ. No. 482329.

PLEASE DO NOT CALL OR WRITE TO THE COURT FOR INFORMATION OR ADVICE.

DATED: JANUARY 3, 2014

**BY ORDER OF THE SUPERIOR COURT OF THE STATE OF CALIFORNIA,
COUNTY OF SAN FRANCISCO**

Prosper Securities Litigation
Claims Administrator
c/o Strategic Claims Services
P.O. Box 230
600 N. Jackson Street, Suite 3
Media, PA 19063

PLEASE FORWARD

PRESORTED FIRST CLASS MAIL U.S. POSTAGE PAID PERMIT NO. 138 PHILADELPHIA, PA

FIRST CLASS MAIL

PLEASE FORWARD—IMPORTANT LEGAL NOTICE