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Private exchange to aid startups seeking more cash

By Rachel Metz

Since June, a Web site called SharesPost has been helping a small pool of qualified buyers and sellers trade shares in fast-growing startups that have not yet gone public. Now, the private stock exchange is hoping those same startups will use its site to search for funding.

Next week, SharesPost plans to add a Private Placement Marketplace that will let larger startups — with a market capitalization of at least \$100 million — connect with investors directly. Previously, the site was meant for shareholders — such as employees — to sell shares among themselves and other investors.

SharesPost founder Greg Brogger said there are currently few ways for privately held startups of such size to raise capital. As they burn money on operations, he said, venture capitalists — often a good source for startup funding — aren't so willing to write \$50 million or \$100 million checks.

Raising money through an initial public offering isn't a good option these days, either, given the poor economy and the costs and regulatory burden that come with trading publicly.

SharesPost is hoping to fill the gap.

Brogger said investment banks that help startups obtain funding will be able to post funding requests on a special bulletin board for so-called private placements — in which qualified private parties invest in a company in exchange for shares. Qualified potential investors, such as hedge funds, can view the listings and decide if they want to invest.

SharesPost also wants to let companies get more involved on the site overall, so starting next week startups will be allowed to join and set restrictions over who buys or sells shares there. A company could, for example, restrict SharesPost trades to people who are already holders of its stock.

This would be in addition to any other restrictions already in place. One common rule imposes the "right of first refusal," which generally means employees who find buyers

for their shares have to let the company decide if it wants to buy back the stock instead, for the same price.

If SharesPost's overall activity thus far is any indication, the site may see some companies interested in logging in.

Since its launch, 25 trades have been completed through the site for shares of companies like social network Facebook, electric car startup Tesla Motors and business networking site LinkedIn. The average transaction is priced at \$75,000, three times the minimum price. Brogger estimated that another 25 deals started on SharesPost but were completed off the site.

As with other private exchanges, only individual accredited investors and institutional investors — organizations like venture capital firms or pension funds that manage at least \$100 million in assets — can buy and sell shares on the site.

The site currently has 7,000 registered users — more than 75 percent of whom are accredited investors, Brogger said, which means they have a net worth of at least \$1 million or salary of at least \$200,000 for the last two years.