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Ways to Cash in Stock Options Before an IPO
By Cindy Vanegas

Employees holding on to a privately-held company's stock options used to have to sit patiently waiting for the big payday. But now they have some other options, like this one.

Nicholas Manousos was working as an engineer at Slide.com, where he was offered stock options as part of his compensation plan. After holding them for some time, he decided it was time to cash out -- but his company was still private. So he found another option.

"I put my options on SharesPost because I felt like, with the state of the market, there was not going to be any type of IPO or acquisition," said Manousos. "Oh and I also wanted to propose to my then girlfriend."

Since June of 2009, SharesPost -- an online marketplace for shares in private companies -- has been giving buyers and sellers a place to find each other and to learn more about the value of private company shares.

"Private company shares are a lot more difficult to transact in than public company shares," said SharesPost founder and former securities attorney Greg Brogger. "I would frequently run across employees who had a substantial amount of their net worth in stock options and found it difficult to liquidate."

The company partnered with research firms like Liquid Scenarios, VC Experts, NeXt Up Research, Research 2.0 and Blueshift Research to provide users the information necessary to access a fair value for the shares.

Since launch, almost 16,000 members have registered for free. Those members can look at research reports for 140 companies, some as well known as Facebook, eHarmony and Twitter, to the more obscure like eBags, LoveFilm and Zettacore.

When it comes time to actually buy or sell shares, SharesPost makes money by offering its members the services of a third-party broker-dealer. For free, members can also access any forms necessary to conduct these transactions on their own.

According to the company, an average of 30 transactions have occurred each month since launch, with transactions averaging $250,000.

But before you run off to buy a piece of the next big IPO, remember the Securities and Exchange Commission limits pre-IPO investing to accredited investors. According to SEC law, an accredited investor has a net worth exceeding $1 million, or income between $200,000 and $300,000.

Advice for the employer from Patrick Sweeney of ODIN Technologies:
"I wanted to make sure we offered something that would keep employees around and that vested over a period of time. You don't want to give them (employees) everything on day one. You may have a rock star head out the door with their options. We instituted a four-year vest with a one-year cliff plan. For example, I grant you 40 shares of the stock. In the first year you get 1/4th of the allocation. Every month after that you get 1/36th of the remaining amount."

Advice for the employer from Damon Lewis of Sensiba San Filippo:
"An early stage company getting a valuation once a year meets the Safe Harbor requirement. As companies are larger and closer to an IPO, they want to get those valuations more frequently. Depending on the complexity of the company, these valuations can cost from $5,000 to $10,000."

Advice for the employee from Greg Brogger of SharesPost:
"Have a council take a look at the agreement. If a company offers you 100,000 shares, it may seem like a lot, but you want to know what percentage of the company that amount of shares represents."