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INVESTMENT TRENDS

Ways To Invest In Private Companies

Want In On Facebook?

IPO freeze opens door to deals via Web bulletin boards and exchanges

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Want a piece of equity in Facebook or Tesla or Twitter? The fact that they're private no longer matters.

A handful of exchanges are springing up that specialize in private-company stock.

This widens the door to investment opportunities that have long been largely reserved for institutional investors, venture capitalists and early employees.

The new access is partly a reaction to the slowdown in the initial public offering market. As fewer companies have been able to go public, early investors in promising companies have been unable to cash in their shares. The new exchanges are a way for shareholders to find buyers.

"We're facilitating the sale of equities in companies that have not been able to unlock their stock value because the IPO market has virtually shut down," said Greg Brogger, chief executive of SharesPost.

XChange, one of the new online stock bazaars, unabashedly calls itself an exchange.

But several of its rivals instead describe themselves as bulletin boards or marketplaces. That's to avoid the regulatory burdens on exchanges.

It also means bulletin-board buyers

and sellers must negotiate off-site.

Some of the trading sites provide access to research or data about companies whose shares they post.

Buyers should find out the source of information. Is it public? Is it from the company? Have data been cherry-picked, deleting unfavorable information? And who vouches for its accuracy?

One trait the sites share is a requirement that buyers be sophisticated and accredited. Using a Securities and Exchange Commission definition, that means buyers must have at least a net worth of \$1 million or \$250,000 annual income (\$300,000 for couples).

Costs vary. SecondMarket charges both buyers and sellers 2% of the transaction value.

SharesPost charges \$34 a month for access, plus \$2,500 from both the buyer and seller. XChange bills buyers and sellers a combined 1%.

Cost Comparisons

Buyers should ask if a site includes all required paperwork and escrow.

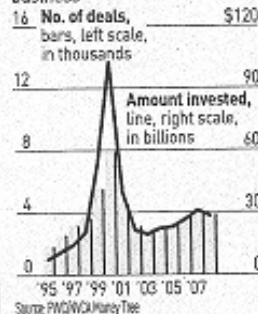
"Our flat fee includes all document prep," Brogger said. A \$1 million private-stock transaction can cost tens of thousands of dollars for brokerage and attorneys fees, he says.

Whatever they call themselves, all of the new trading posts are trying to address more or less the same problem. Each wants to help early investors in private companies land deals with buyers for their stock.

But each trading post offers a slightly different solution. XChange is an exchange — or will be when it opens

Attracting Notice

Private equity exchanges are popping up to tap a growing business



Source: PWC/VCU MoneyTree

for business after securing approval from the Securities and Exchange Commission and Finra, which it expects in the fourth quarter.

SecondMarket runs what company chief executive Barry Silbert likens to a Sotheby's for stock. "We have an online platform, free to access, where people can see what's for sale, what the bids are," Silbert said. "We also provide a high level of service to buyers and sellers."

But it is the companies themselves that SecondMarket caters to.

"Companies do not want employees calling all of their friends, lawyers and other outsiders to sell stock," Silbert said. "Companies don't know what information is being provided. And they don't want employees giving out information that may be proprietary or that may help a competitor."

Silbert's firm creates what he calls

a micro-market for a company's stock. "The company decides who participates," he said.

SecondMarket staff try to match potential buyers and sellers. SecondMarket starts with its list of 3,200 people who have expressed interest in private equity investments. For any given stock, SecondMarket ranks buyers by a number of variables. The idea is to find people who will be most likely to buy.

"We find maybe the top 10 or 20 potential buyers," Silbert said. "Then we reach out to them by phone."

Letting firms decide who takes part may appeal to many of them. But do those restrictions thwart buyers and sellers? Silbert says no.

"I call it an organized market, not a restricted one," he said. "You maximize the value of a company by making sure people have the same information, compete for shares and make the best price."

Finding Facebook

SharesPost is a bulletin board where accredited buyers can check out lists of companies whose stock is available. Firms such as Facebook, Tesla and Twitter are here.

Buyers can also scan boards for individual companies. Details of done deals are posted. So are postings from would-be buyers. They detail how many shares they'd like and what they're willing to pay.

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