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Startup hopes to create new market for pre-IPO shares

By Scott Duke Harris

Imagine a lake formed by all the sweat equity earned by workers at Silicon Valley startups. Now imagine that lake frozen and dotted with shivering techies who can't figure out how to turn their equity into cash for a new coat in the coldest recession in generations.

Now a startup called SharesPost is trying to light a fire in the frigid economy with a novel members-only marketplace for willing sellers and buyers of shares issued in advance of an initial public stock offering, or IPO.

SharesPost debuted late Monday, coming out of a private beta with an initial transaction of 2,500 shares of Tesla Motors at \$10 per share. Tesla, dubbed the "poster child of green mobility" on a research report published for SharesPost subscribers, was valued just over \$1 billion in the deal.

Anticipated soon: Deals and valuations involving such startups as Facebook, Twitter, LinkedIn, Linden Labs, Ning, Slide, SolarCity, SugarCRM, XDx and others.

Early reviews from Silicon Valley observers are mixed. Adeo Ressi, founder of the entrepreneurship Web site TheFunded, calls SharesPost "the coolest thing I've seen in a while." But Larry Albuquerk, the managing partner of EB Exchange Funds who helps entrepreneurs do private deals, was skeptical.

"I completely see it from the sell side. There's a huge demand to sell. But there's not a lot of demand to buy the stuff," Albuquerk said. He also questioned whether buyers would feel they have sufficient information to make the minimum \$25,000 deal.

If SharesPost succeeds in helping hard-pressed techies convert equity into cash, it also figures to add some hard data to the sometimes dubious art of startup valuations, which now involves "a lot of bull," Ressi said.

SharesPost founder and CEO Greg Brogger, a former associate at powerhouse valley law firm Wilson Sonsini Goodrich & Rosati and former chief operating officer of CarsDirect, likened the site to a cross between Craigslist and eBay. Sellers and "accredited" buyers,

expected to have a net worth exceeding \$1 million, can interact for a monthly subscription of \$34.

There is no charge for transactions on the site, which includes third-party research reports for startups and a discussion forum. The initial reports showed Linden Labs, known for creating the virtual world Second Life, valued from \$450 million to \$590 million; the business services firm SugarCRM at between \$195 million and \$252 million, and the molecular diagnostics startup X Dx between \$139 million and \$166 million.

SharesPost, Brogger said, aims to replace an obscure niche of the economy in which such private transactions are usually guided by chance relationships and require substantial legal fees. SharesPost's customizable transaction software reduces legal costs by 80 percent, Brogger said.

SharesPost was founded as a means to address an economic crisis that has turned initial public offerings into a rarity and made merger and acquisitions few and far between, frustrating venture capitalists and entrepreneurs.

The new service, Brogger said, may appeal primarily to early employees, founders or angel investors eager to liquidate stock for any reason.

Over time, he said, SharesPost could represent “the third exit” for venture firms that are unable to execute IPOs or M&A deals. SharesPost, Ressi suggested, could “potentially” interest pension funds and endowments to make direct investments in hot startups, rather than rely on venture firms.

SharesPost is among a flurry of financial startups that address the problem from different angles. While SharesPost is largely designed for individuals, InsideVenture and Second Market serves to help venture firms find new investors for mature startups.

With support from the New York Stock Exchange, InsideVenture is trying to interest companies in what it calls the Hybrid Private-Public Offering, or HPPO, as a new kind of IPO. Xchange, backed by venture capitalist Tim Draper, is envisioned as a private exchange for institutional investors to trade shares of startup companies in a controlled system for sharing private company information.

“Right now if you're running a company with tens of million in revenues, but not hundreds of millions, there is no liquidity for any of your employees, except for rare and unusual circumstances,” Ressi said. “If you want people to be entrepreneurs, there's got to be a shot for them to make money in situations that aren't home runs.”