



socalTECH.com

June 17, 2009

Interview with Greg Brogger, SharesPost

By Benjamin F. Kuo

Yesterday, Santa Monica-based SharesPost (www.sharespost.com) launched a new service of particular interest to the venture capital and high tech startup market, a new, online service which facilitates the buying and selling of private company stock. We caught up with Greg Brogger, the firm's CEO, to understand the service and how it might help private investors.

Explain how your service works?

Greg Brogger: What we're trying to do, is to connect buyers and sellers of private company stock. The way we do that, is through bulletin boards. If you look at the site, it's comprised principally of individual bulletin boards for private companies. Companies we've selected are those that are the most exciting, and high profile, that people will want to invest in. We organize those that are interested in buying and selling shares. We allow them to post their requests, with the highest price posting for shares at the top of the list for buyers, and the reverse for sellers. That makes it easy, so that when someone comes to a page and wants to transact in shares, they can see what the most attractive bid and ask prices are.

Who is this aimed at, in terms of sellers--employees, or institutional shareholders?

Greg Brogger: Where we're starting today, is angel investors and founders--the senior management team of the company. Those people are not necessarily looking to sell all of their position in a company, but want some amount of liquidity for their shares. Some of the more successful companies we are making bulletin boards for are companies who have been around for five, six, or maybe even ten years. They've built successful companies, but looking at the IPO market they're essentially stuck. They're looking to get some measure of liquidity.

Do you run into any issues with securities laws by offering this service?

Greg Brogger: By way of background, I started at Wilson Sonsini as a securities attorney. I became general counsel, an investor, and an entrepreneur, and played a bunch of different roles at companies--so I know security laws intimately. Wilson Sonsini, in fact, represents us. We're architected not just for buyers and sellers, but also for companies, and also to be compliant with securities laws. If you take a step back, we've architected

our service so that it works within existing securities laws. The transactions that happen on the shares rely on the security exemptions that apply in any private company stock transaction, such as Rule 144, Section 41 exceptions, 144A exceptions, etc. It's architected to generally make those sort of exemptions available. For example, only qualified institutional or accredited, sophisticated buyers are allowed on the bulletin boards. Similar, only sellers who have held shares for one year, inclusive of options holding periods, are allowed to post shares.

Can you talk about a bit about BrightHouse, and how this company came out of that incubation effort?

Greg Brogger: I founded BrightHouse in the middle of 2007, along with Scott Painter. We co-founded Zag together, and I was the COO of CarsDirect. He has been a great partner in a number of the businesses that I've been involved in. Towards early 2007, Scott and I had taken Zag to a level of some measure of stability, and we were thinking about the next thing. We came back to BrightHouse as an interesting possibility. We put together a group of angels we'd worked with in the past, put some money to work, and prototyped some companies. SharesPost was one of the first ideas we had. We came to it, because we'd been around private equity, and it's always surprised me how inefficient the marketplace is. If you look at any other financial market in the world, no other market has been less impacted by communications technology, or the Internet. The way sales are handled is as old as the 1930's securities laws. People are matched up over the phone, through ad-hoc referrals, and a system of brokers and finders. Given the advances in communications technology, and the Web 2.0 tools available, not to mention the growth and size of the private equity market--it's a 2.5 trillion asset class---we realized there was a real opportunity here.

Do the companies on your site agree to list with you, or how does that work--it seems you have a number of companies listed on the site already?

Greg Brogger: We have 150 companies. There are some companies on our home page, which are our featured companies. If you click on the "all companies" link, there's basically page after page of private companies. We're focused on late stage, hundred million dollars in market cap or above. With any marketplace, the challenge is getting enough buyers and sellers together. To do that, you need to get in front of them, and get the companies people are most interested in talking and transacting. We started making bulletin boards on the most interesting companies, and the next step is to talk to those companies, and share the ways in which SharesPost realizes an improvement over what is happening in the marketplace right now. We're not making bulletin boards for startup companies, we're making it for mature companies, where there are already active, secondary markets. They are companies like Facebook, which has shares trading daily, or at least a weekly basis. What we think we represent to those companies, is a much more effective, orderly market. It's a forum for buyers and sellers to meet, and provides a level playing field where the information is all in one place, with analysis and expertise on top of it, which makes sure that each seller has access and visibility to all available buyers, and vice versa. It creates an orderliness that companies will appreciate.

Having worked for startups, aren't there lots of limits on employees selling their private stock?

Greg Brogger: That was one of the four or five key problems we had to solve when we started this project six months ago. The way we've gone around this is a library of contracts. Each contract essentially addresses a different transfer restriction. There are three most prevalent transfer restrictions--the Right of First Refusal, co-sale, and investors rights agreements. The system is set up, so when a seller posts that they'd like to sell some shares, they will be walked through a multi-step process. They will mark that their stock is subject to transfer restrictions, and based on that response, we select the right form of agreement in our library. For example, in a Right of First Refusal, we explain what it is, and provide a referral to a securities law attorney to help with the process. Plus, they upload the document containing the Right of First Refusal, which we insert into the purchase agreement. Any buyer that comes, can look at the seller's proposed contract, and the exhibit, and see the transfer restrictions they would have to jump through. The buyer's purchase then will be subject to a company's Right of First Refusal, so that if for some reason the company decides to exercise that right and buy all of the shares, the seller would have no problem with the buyer. Similarly, we work through the other possible variations of those transactions. On the other side of the transaction, we have US Bank processing our transactions, once a buyer and seller agree on terms. U.S. Bank contacts the company, and creates accounts for the buyer and seller, providing a low cost transaction which eliminates commissions and legal fees--it's just a flat escrow fee to U.S. Bank.

Are you transacting sales through the site yet?

Greg Brogger: We actually started with a transaction for shares in Tesla Motors. The sort has effectively been open for only a handful of hours, and we have literally hundreds of users --a substantial number of registrations--and seeing posts take off. One of the interesting things about the site is our investment bank style analysts reports on the site. For example, if you check out Tesla Motors, you can download a 45 page report, to really analyze the company's value. Down to capital structure and common stock liquidation preferences. One of the other problems we're trying to solve, is what information you need to price a transaction. We've teamed up with a bunch of research providers, with more over time, to help members reach a reasonable conclusion. We've launched with two--VC Experts, which as been out there and has the most credible research and covers around 2000 companies--and Next Up Research. The CEO of Next Up is Michael Moe, who has won a number of awards in research, and is one of the most respected people we know in the private equity world. He's also a member of our board.