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New marketplaces match buyers and sellers of private firm shares

SecondMarket and SharesPost have emerged as virtual Big Boards for shares of private firms such as Facebook from a slowdown in recent years in the conventional path to an IPO.

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Reporting from New York — Robert Morley owns one of the hottest commodities in Silicon Valley — shares of Facebook Inc. — and he's looking to unload the stock.

Morley got the shares as part of his pay when he was controller of the social-networking giant in 2007 and 2008. The likely reason for the Internet company's popularity and business prospects surged. Soon the stake accounted for an uncomfortably high percentage of his net worth. Morley wasn't the only Facebook shareholder in that predicament.

"There are a whole bunch of early employees who have big bunches of shares, and I'm sure a lot of them want to get rid of them," Morley says. "I'm not sure how many start-ups."

But Facebook is privately held, meaning its shares don't trade on an exchange, so there was no easy way for Morley to cash out.

Then he learned about SecondMarket, a start-up that matches buyers and sellers of shares of private firms. Since late last year, he has sold chunks of his Facebook stock at lofty prices. (Morley declined to say how much he sold or still owned.)

SecondMarket and a smaller rival, SharesPost, have emerged as virtual Big Boards for the tech and financial elite who create wealth in Silicon Valley and elsewhere. The development stems from a slowdown in recent years in the conventional path to an initial public offering.

One reason fast-growing new firms have been slow to go public is that until recently many of them haven't had a choice. They were often shut out in 2008 and 2009 as investors scrambled to avoid risk during the financial crisis and deep recession.

The number of IPOs picked up last year, but some market observers say longer-term trends, including increasingly tighter credit conditions, mean start-ups are in no hurry to go public — making the new private-share marketplaces increasingly important venues.

"They are filling a real need in the market," said David Weild IV, founder of Capital Markets Advisory Partners, which advises private companies.

Since launching its private-share market about two years ago, SecondMarket, with offices in New York and Palo Alto, has seen trading volume doubling last year from the year before.

The company's market differs from real exchanges because trades typically require the participation of the firm's team of buyers and sellers. The average transaction size is about \$2 million. SecondMarket takes a commission of 3% to 5%.

The brokers, who number about 10, sit together in the company's Wall Street office 10 floors up from the famous statue of Liberty. The board lists "active deals" in blue marker.

SecondMarket handles trades of shares in about 40 companies, said Adam Oliveri, the 28-year-old head of the firm's private-market division. It will rise quickly to 500 companies, with each stock traded on a more regular basis.

"There's immense growth ahead," Oliveri said.

SharesPost, based in San Bruno, Calif., was founded in 2009 in Santa Monica and quickly outgrew that space and moved to San Francisco.

Aiming to look more like a traditional stock exchange, SharesPost lists bids to buy and sell shares of about 150 private companies. The firm also provides contract forms so buyers and sellers can transact on their own or through affiliated brokers.

The futures of SecondMarket and SharesPost depend on how quickly the IPO market rebounds.

A number of mature start-ups — most notably Facebook — have stayed private even though their healthy revenue and earnings candidates, market experts say. One reason cited for that reluctance is an increase in the amount of information that public

Regulatory changes also have made some investment banks less interested in helping small companies go public, said Marc financial advisors Blue Mesa Partners.

Last year there were 172 public debuts of U.S.-listed stocks, up from 64 in 2009 but still down from 288 in 2007 — and nov in the tech bubble of the late 1990s.

In any event, the current volume of IPOs means a substantial number of shareholders of private companies are potential se SharesPost.

Interested buyers must be so-called accredited investors — an individual with assets of at least \$1 million or an institution v part in transactions on SecondMarket and SharesPost. That's because private companies have few or no disclosure require

"How do you protect investors when these private companies do strange things?" asked Aswath Damodaran, a finance prof risk of disaster."

The risk is worth it for some investors who want a piece of fast-growing companies whose shares aren't yet public, SharesP

"It's for sure a high-risk and speculative investment. But for those investors who think that it is appropriate, this is the only

For sellers, the new marketplaces provide not only an new exit route but also the opportunity to second-guess themselves.

"You have a little seller's remorse," said Morley, who saw Facebook's valuation skyrocket to \$50 billion and beyond after he billion. Now it's at \$70 billion and I'm going, what was I doing? But you can't be greedy."

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