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Tech shares in high demand on private market

TEXT OF STORY

Bob Moon: 2010 was a great trading year for Facebook, Twitter and Groupon. Yes, I said trading, even though their stock doesn't trade yet on a public exchange. Their share value has soared on a secondary market. But it seems that trading may be getting too popular for its own good. Word is the SEC is taking a closer look.

Here's Marketplace's Janet Babin.

Janet Babin: The value of Twitter is up to $3.7 billion. Facebook? More than $40 billion.

New York securities attorney Mitchell Littman says these sky-rocketing values are based on what investors are willing to pay on the private secondary market.

Mitchell Littman: The valuations are obviously difficult to ascertain, other than pure market forces. This is classic supply-and-demand type of situation.

Supply of private shares comes from employees who have the company OK to sell, or early investors who want to cash out. The demand for the shares comes from what the Securities and Exchange Commission calls "accredited investors."

Dave Weir: You have to have a million dollars of net worth.

That's SharesPost CEO Dave Weir. His company matches buyers with antsy insiders who don't want to wait for a company to go public. The big payday after all, comes when a company makes an initial public offering.

Weir: The time to achieve an exit through an IPO has expanded from about 4.5 years to about 10.5 years today.

But these investments can be risky. There's no guarantee what the shares will fetch if a company does go public. That may be one reason the SEC is reportedly investigating private trading.

Securities attorney Lance Kimmel says these privately held firms may be getting too many shareholders.

Lance Kimmel: If a company has more than 500 shareholders, that company has to become a fully reporting company.

Meaning the firm would have to release detailed financial information.

In New York, I'm Janet Babin for Marketplace.