When Elon Musk released a white paper in August 2013 detailing his idea for a series of elevated vacuum tubes that could shoot travelers between Los Angeles and San Francisco in 35 minutes, it seemed like an idea out of a “Jetsons” cartoon that would take decades to become reality, if ever.

Yet, El Segundo’s Hyperloop Transportation Technologies Inc., formed three months after Musk posited his hyperloop idea, is gearing up to build a five-mile prototype that it hopes to complete in two to three years. And in an industry based on a novel idea, Hyperloop Transportation’s plan to raise the roughly $100 million it needs to build the track is equally unusual.

Rather than scoring the money entirely from venture capitalists or through an initial public offering, Hyperloop Transportation is planning a different, arguably harder path. The company is pursuing a hybrid model that combines direct investment from its employees, private investment from both strategic investors and institutional firms as well as some sort of public offering, said Dirk Ahlborn, its co-founder and chief executive.

In the coming weeks, its 400 part-time team members, made up of moonlighting professionals from NASA, Boeing Co., Space Exploration Technologies Corp., Tesla Motors and other places, will be given the chance to invest in the company directly through convertible notes. Members of the development team now work in their spare time in exchange for an undisclosed number of stock options.

Next, Ahlborn hopes to close a large private funding round, claiming to have already received commitments from a number of sources.

“More than we will be able to fulfill,” he said.

The final piece of the puzzle will come next year, when he plans to offer shares to both accredited and nonaccredited investors in a new type of crowdfunding effort. That offering could be registered under new Securities and Exchange Commission Regulation A+ rules that allow businesses to raise up to $50 million from nonaccredited investors, those who earn less than $200,000 a year.

Or, said Ahlborn, the company could opt for a direct public offering, which, unlike an initial public offering, does not require an underwriter and also opens up investment to nonaccredited investors. The decision will depend largely on how things shake out with its team members and the private firms, said Ahlborn.

Ahlborn is also founder of El Segundo’s JumpStartFund, a crowdsourcing platform and Hyperloop Transportation’s parent company, which might go some way toward explaining the funding strategy.

A direct public offering, said Jennifer Post, a partner at Raines Feldman in Beverly Hills and chair of its securities practice group, would be time-consuming and expensive due to the heavy scrutiny of these offerings by the SEC.
"It’s a really tough process because obviously the SEC is concerned about protecting investors from companies that are not qualified to be publicly traded," said Post, adding it’s typically initiated by companies looking to raise smaller amounts of capital.

When you consider that the technology has yet to be proved safe or cost-efficient, the prospect of raising tens of millions of dollars becomes daunting. However, in Ahlborn’s mind, the technology has been proved.

“We’re done,” he said emphatically, noting there will always be further refinement. “We’ll be moving people.”

Hyperloop Transportation also has some heavy hitters on its side.

The firm announced late last month that it had struck deals with L.A. architecture and engineering giant Aecom and German industrial vacuum manufacturer Oerlikon Leybold Vacuum to help it build the track. The track will serve as a main source of transportation for a new town called Quay Valley, a proposed 7,500-acre community on private land between Bakersfield and Fresno in Kings County.

**Competitive landscape**

Another big obstacle Hyperloop Transportation faces is the similarly named Hyperloop Technologies, founded last year and headquartered in downtown L.A.’s Arts District.

Though their names are confusingly alike, the companies have taken different approaches to fundraising and organizational structure. The chairman of Hyperloop Technologies is Shervin Pishevar, managing director of San Francisco venture capital firm Sherpa Capital. Pishevar’s company has gone the private funding route, raising $20 million from, unsurprisingly, Sherpa and other institutional firms.

Hyperloop Technologies has plenty of other high-powered and well-connected muscle behind it. Last week, it hired Rob Lloyd, former president of Cisco Systems Inc., as its chief executive, and named ex-Snapchat Inc. Chief Operating Officer Emily White as an observer to its board and strategic adviser.

Additionally, former PayPal Inc. Chief Operating Officer David O. Sacks is its co-chairman. Board members include Jim Messina, former deputy chief of staff to President Barack Obama; X-Prize Foundation Chairman and Chief Executive Peter Diamandis; and Joe Lonsdale, a Silicon Valley venture capitalist who also co-founded Palantir Technologies, a Palo Alto data analysis company valued at $15 billion. Co-founder and Chief Technology Officer Brogan BamBrogan is a former engineer at Musk’s Space Exploration Technologies, or SpaceX.

Forbes reported earlier this year that the company is planning to raise $80 million to build a test track, half of which could come from Pishevar himself, whose net worth Forbes pegged at $500 million based on investments in Uber Technologies Inc. and other tech companies.

Back in El Segundo, Ahlborn says he isn’t fazed by his competitor’s progress.

“I know for a fact they’re far behind,” said Ahlborn, claiming to have secured deals for 20 more tracks in various locations around the world.

However, Ahlborn said there is room in the market for more than one firm. “There's plenty of space and I’m sure we can both learn something from each of us,” he said.
Center of attention
With the two entrants leading the pack in chasing Musk’s hyperloop dream, Los Angeles is proving to be the epicenter of the technology’s innovation.

The reason both companies are able to pursue the same technology is because Musk released the 57-page white paper as an open-source document, meaning he did not patent any of its concepts or ideas. Musk is not personally involved with either company and has pledged to build a five-mile hyperloop track in Texas that would be available to any company wishing to test its designs.

Unlike the test track planned by Musk, Hyperloop Transportation’s prototype is envisioned as a fully functioning transportation system that will generate revenue for the company.

While Hyperloop Transportation does plan to raise private money, there are potential upsides to its crowdfunding ambitions versus raising money from venture capitalists, said John Katovich, president of Oakland’s Cutting Edge Capital, which aids companies through the public financing process.

“You are probably keeping more control of the direction of the business,” he said. “If you’re negotiating with two VCs on Sand Hill Road, likely they are going to force you to accept terms you might otherwise not accept. But if you spread it out, you have the opportunity to say here are the terms, take it or leave it.”

The German-born Ahlborn has also opted to use a different model to build and manage his team. Using his online platform, which allows groups of people to share ideas and build project-based communities, Ahlborn’s large team has been able to work together no matter where they live.

Ahlborn previously worked in business development at El Segundo’s Girvan Institute of Technology, an incubator for early stage high-tech companies. Prior to 2009, he founded several companies in Europe that manufactured and sold heating and cooking appliances, and he also worked as a broker and investment specialist at a large commercial bank in Berlin.

Securities lawyer Post said building a large base of public support through a crowdfunding campaign, which in turn would generate news coverage and attention from politicians and regulators, is also a possible motive to go the crowdfunding route.

While Ahlborn said the company is looking into a number of private-public partnerships internationally, California has already pledged $68 billion to build a statewide bullet-train line that finally broke ground this summer outside Fresno, any public backing within the state for a hyperloop seems like another huge roadblock for both companies should they choose to build in the state.

“It’s as much a marketing and relations-building exercise as it is a capital-raising exercise,” said Post.