

Morgan Stanley to reimburse investors ripped off by Facebook trades... as embattled social network may switch to New York Stock Exchange over bungled IPO

- Underwriter says it will adjust prices for investors who overpaid for shares
- Two congressional panels reviewing IPO debacle
- Facebook CEO Mark Zuckerberg saved \$174 million by selling off 30.2 million shares at \$37.58 each
- Shares rose about 2 per cent on Wednesday to \$31.60
- Shareholders filed a lawsuit alleging banks that underwrote the IPO downgraded revenue projects for the company but never released the information to the public
- The Securities and Exchange Commission is investigating the accusations
- A Facebook insider warned privileged clients before the IPO that revenue would fall short of expectations and that stock price would drop

By [Daniel Bates](#) and [Michael Zennie](#) and [Thomas Durante](#)

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Amid a flurry of lawsuits over Facebook's initial public offering, the company's top underwriter says it's prepared to pay back investors who were burned when they bought shares.

Morgan Stanley announced in a memo on Wednesday that it is reviewing Facebook trades and would adjust prices for some retail customers who overpaid.

The IPO mishaps have sparked numerous lawsuits against Morgan Stanley, the Nasdaq stock exchange and Facebook itself by shareholders who claimed they hid the social networking company's weakened growth forecasts just before it went public,

The allegations raised questions about whether top investors profited at the expense of smaller buyers.



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Zucked Mark Zuckerberg saved \$174 million by cashing out tens of millions of shares of Facebook stock early Friday when the price was above \$38 a share

Meanwhile, Facebook is in talks with the New York Stock Exchange to move its stock from the Nasdaq Stock Market after the botched IPO on Friday, according to a person familiar with the matter.

The person spoke on the condition of anonymity because they were not authorized to speak publicly. Facebook's much-anticipated IPO was delayed by a half-hour on Friday because of technical glitches on the Nasdaq.

After pricing at \$38, Facebook's stock closed up 23 cents on Friday and has been down since. On Wednesday, it closed up \$1, at \$32, still down nearly 16 per cent from the IPO price.



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Decline One prominent plaintiffs lawyer said what happened with Facebook was reminiscent of the dot-com bubble

NYSE declined to comment. A Nasdaq spokesman did not immediately return a call for comment.

The news comes as even Facebook CEO Mark Zuckerberg dumped his own shares in the company, making \$1.13 billion as the stock nosedived, according to company filings.

On Wednesday, shareholders filed a lawsuit against Facebook and the banks behind the company's stock, Morgan Stanley and Goldman Sachs.

Additionally, both the Securities and Exchange Commission and the Financial Industry Regulatory Authority have begun looking into the matter.

The U.S. Senate Banking Committee has also launched an inquiry and the state of Massachusetts has subpoenaed Morgan Stanley, demanding answers.

The House Financial Services Committee said that it was also gathering information for their own review.

Facebook stock rose 3.3 percent in trading on Wednesday, rising to \$32 a share.

However, a new analysis said the stock could fall to as low as \$9.59.

That's a far cry from the \$37.58 that Zuckerberg fetched for 30.2 million shares he unloaded on Friday.

By the end of trading on Tuesday however the price had dropped to \$31 meaning Zuckerberg saved himself a cool \$174 million by getting out early.

The 28-year-old still holds a vast amount of Facebook stock but his decision to sell off so much will leave investors wondering about his confidence in the company.

The drop is based around the realization that Facebook might not be growing as quickly as initially thought. And the company's second-quarter growth will likely fall short of expectations as fewer new users join the social networking giant.



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Faceplant Nasdaq may lose the Facebook listing entirely after having just obtained it

Shareholders filed a lawsuit on Wednesday, alleging that Zuckerberg, Facebook and the banks that backed the Initial Public Offering, Morgan Stanley and Goldman

<http://www.dailymail.co.uk/news/article-2148839/Facebook-IPO-Morgan-Stanley-reimburse-investors-ripped-trades.html>

Sachs, knew this information, but weren't forthcoming with it.

On Tuesday, Reuters revealed that the banks' analysts downgraded their estimates about the future earnings of the company while they were rolling out the IPO.

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Business Insider called the move 'unprecedented.'

Furthermore, the website reported that the banks revealed to privileged major investors that the share price was likely to tank, but left smaller stock buyers in the dark about this information.

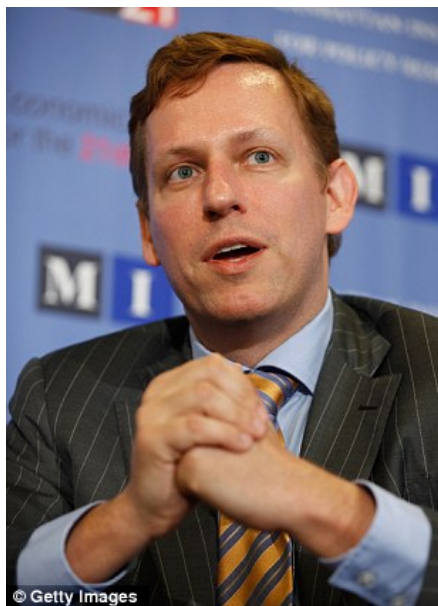
The Securities and Exchange commission is investigating these allegations and the state of Massachusetts has filed a subpoena demanding Morgan Stanley release information about the IPO.

Zuckerberg's plans to sell were revealed in documents filed in advance of the IPO on Friday, but the problems that have happened since cast them in a new light.

Venture capitalist Peter Thiel also announced his plans early too but his return was beyond anything he could have hoped for.

He wrote Zuckerberg a cheque for \$500,000 in 2004 but has offloaded 16.8 million shares for the tidy profit of \$633 million.

Among the others to cash out was Mark Pincus, the chief executive of online gaming company Zynga.



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Big returns Peter Thiel (left), the co-founder of PayPal, earned \$633 million for an initial investment of \$500,000. Zynga CEO Mark Pincus gave Zuckerberg a check for \$40,000 in 2004 and cashed in \$38 million in stock

Eight years ago he gave Facebook a cheque for \$40,000 but now has sold \$38 million worth of stock.

Venture capitalists Accel Partners, which handed over \$12.7million back in 2005, sold \$1.9billion of stock but retained \$5.8billion.

Whilst the big players were making a fortune however, small investors have seen their attempts to get in on the Facebook bubble fall flat.

As of close of trading on Tuesday shares were a staggering 18 per cent below what they had been at the opening on Friday.

At one point they had slumped 31 per cent from the \$45 peak hit shortly after they started trading.

But according to analysts StarMine this could not be the end of it and the slide could carry on until stocks are just \$9.59 each.

It has examined estimates from Wall Street experts and concluded that Facebook is currently vastly overpriced, though its forecasts do tend to be gloomier than others.

Eddy Elfenbein, editor at finance website Crossing Wall Street, said: 'Facebook right now is going for far more than what it's worth, it's like buying \$1 for \$1.98, it just doesn't make sense at this price.'

'Just from basic modelling the stock should be around \$17 to \$20, and that is with a lot of variables.'



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Cleaning up Facebook's IPO has caused a mess that is being investigated by two congressional panels

'I would call that an ideal price. I would be interested in buying and I think that is a good deal for investors.'

Among those who did not cash out on Friday when Facebook shares were trading at \$38 each was the company's former president Sean Parker.

His stock is still worth over \$2 billion but the price slump meant his fortune decreased by a staggering \$300 million.

In a sign of how feeling is changing against Facebook, some commentators have begun comparing its activities to the most reckless behaviour of Wall Street banks.

They have also coined the word 'Zucked', which means to get shafted on the sale of Facebook shares.

In a withering article in Time magazine Sam Gustin wrote: 'Facebook's highly-vaunted IPO -- which was supposed to be a shining moment for the social network, as well as its lead banker Morgan Stanley and the Nasdaq exchange - has morphed into a debacle that's reinforced some of the worst stereotypes about Wall Street: that corporate executives and their bankers engineer IPOs to maximize profits at the public's expense; that Wall Street's own systems have become too complex for its personnel to handle; and that the entire game is a hype-fueled casino, rigged for the house with a sucker played by the average investor.'



© EPA

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Hyped The Facebook IPO was one of the most widely-anticipated stock offers in recent history

These major sell-offs comes as new allegations are emerging the the over-hyped Facebook stock sale may have been rigged against small, every-day buyers.

Two separates lawsuits have been filed against the company and the banks that organized the IPO, Morgan Stanley and Goldman Sachs, alleging the executives knew second-quarter revenue would not meet expectations as Facebook's growth slows.

Business Insider says this information was shared with the banks by a Facebook insider. As Zuckerberg went on his pre-IPO roadshow, touting his company, the banks downgraded their revenue projections for Facebook.

This information could have reduced the value of Facebook's initial stock offering. In turn, this could have decreased the amount of money Zuckerberg and his early investors made when they dumped tens of millions of Facebook shares on Friday as trading opened.

However, the banks failed to widely disclose the downgrade, the lawsuits say.

Business Insider says they told only large, institutional investors so they would know to stay away from Facebook stock on the first day of trading.

Facebook denies the allegations in the lawsuit and said it will 'vigorously defense itself.'

Morgan Stanley says it followed the same procedure it would for any IPO.

FACEBOOK'S BIG WINNERS CASHED IN EARLY BEFORE THE PRICE TUMBLED

Here is a list of the early investors in Facebook who made a bundle by cashing in portions of their stock Friday before share prices tumbled. Value is estimated at \$38 a share. Also included is how much money each saved by getting out Friday, before shares sunk to \$31.

Mark Zuckerberg

Shares sold: 30.2 million

Value: \$1.13 billion

Saved: \$174 million

Accel Partners, venture capital investor

Year invested in Facebook: 2005 for \$12.7 million

Shares sold: 49 million

Value: \$1.86 billion

Saved: \$341 million

Peter Thiel, PayPal co-founder

Year invested in Facebook: 2004 for \$500,000

Shares sold: 16.8 million

Value: \$640 million

Saved: \$119 million

DST Global Ltd, investment firm based in London and founded by Russian oligarch

Year invested in Facebook: 2009 and late 2010 for \$200 million

Shares sold: 45.7 million

Value: \$1.74 billion

Saved: \$323 million

Goldman Sachs, investment bank

Year invested in Facebook: 2011 for \$450 million

Shares sold: 28.7 million

Value: \$1.09 billion

Saved: \$200 million

Elevation Partners, private equity firm with Bono as spokesman

Shares sold: 4.6 million

Value: \$176 million

Saved: \$3.3 million

Greylock Partners, venture capital investor

Year invested in Facebook: 2006 for \$27.5 million

Shares sold: 7.6 million

Value: \$289 million

Saved: 53.4 million

Read more:

- [Business Insider: EXCLUSIVE: Here's The Inside Story Of What Happened On The Facebook IPO](#)



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[Chris Northern](#), Bideford, 1 year ago

If you bet that other people are even more stupid than you are and loose... tough.

[1](#)
[9](#)

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[Paul](#), Lansdale, PA USA, 1 year ago

1) I do this professionally and i warned people off FB as best i could. There were too many unanswered questions 2) the company's stupid enough to be giving erroneous or worst informatino only to special clients are in deep deep trouble. This violates some of the most basic federal laws that regulate the trade of securities. TRUST me on this, that is the key stone of the licencing exams.

[0](#)
[24](#)

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[Ollie Bourque](#), Toronto, Canada, 1 year ago

The owner leaves the country to avoid taxes, what did you expect. Of course he cashed in early. He probably expected this drop, as many here did. My question is why did he raise the initial price? That was either pure folly or pure greed, methinks.

[2](#)
[12](#)

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[Ol Bristol cabby](#) Torreveija, 1 year ago

i was amazed at that opening price ,for a company that makes nothing and sells nothing exept advertising. I wouldnt have touched it with a barge poll at that opening price ,or nothing near it.

[0](#)
[27](#)

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[Just me](#) Over here in Essex, 1 year ago

I read that the Facebook growth forecast had been downgraded before flotation, so how come they didn't?

[2](#)
[21](#)

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[The DUKE](#) West Bromwich United Kingdom, 1 year ago

Investor saddos who cannot use their own judgement should never be compensated. Everyone knows that shares can go down as well as up. They should suck it up and get on with their rich lives. They cannot lose if they are compensated when the shares slump.

[12](#)
[21](#)

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[ERNST](#) Los Angeles CA/London UK , 1 year ago

I'm so fed up with this "its not my fault" attitude.. we're not making money, so lets sue..! Facebook was/ is grossly overvalued, it doesn't take a rocket scientist to work that out. How much money do you really need...? So over it.

[4](#)
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[Mute Requiem](#) England, 1 year ago

A fool and their money....

[1](#)
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[Ed Williams](#) Blighty, 1 year ago

Surely common sense prevails at some point doesn t it. Before you buy shares you do your research and evaluate the price of those shares from that research. The ask price on these shares didn t stack up from the get go.....I also wonder how many of those people who bought in would be crying "stinking fish" if their shares had appreciated instead of depreciated !!

[3](#)
[33](#)

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[John](#) Perthshire, 1 year ago

Has bounced back to \$32.55 but that's no guarantee it's not heading down to 38c! Zuckerberg clearly planned to bail while the going was good. No faith in his own product evidently.

[3](#)
[41](#)

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