Probe may push Facebook to early stock offering

January 6 2011, by Ron Bousso

A US probe into Goldman Sachs's 450-million-dollar investment in Facebook could drive the hugely popular social networking site to go public earlier than planned, analysts said Wednesday.

A US probe into Goldman Sachs's massive investment in Facebook could drive the hugely popular social-networking website to go public earlier than it hoped for, analysts said.

The investment, reported at 450 million dollars, has exposed the thin line between private and public markets and underscored companies' reluctance to launch an initial public offering (IPO) of shares that results in oversight by regulators.

"Companies are doing everything they can do to avoid going public. Facebook is a prime example," said James Angel of the McDonough

School of Business at Georgetown University.

"We've made it much more difficult in the United States to be a public company. We've made it much more expensive, the legal risks and the trading environment have also changed."

US media earlier this week said that Goldman invested 450 million dollars, together with Russian investment firm Digital Sky Technologies (DST) which sank another 50 million dollars into the social-networking site.

The 500-million-dollar deal values Facebook at a whopping 50 billion dollars, more than longstanding giants such as Boeing, Time Warner and Yahoo!.

Traders sit in the Goldman Sachs' booth on the floor of the New York Stock Exchange. A US probe into Goldman Sachs's 450-million-dollar investment in Facebook could drive the hugely popular social networking site to go public earlier than planned, analysts have said.

The Financial Times reported the prestigious Wall Street investment bank will close its 1.5-billion-dollar offering of privately traded shares in

Facebook on Thursday after receiving billions of dollars in orders from its wealthiest investors as well as Goldman executives.

The Goldman-DST deal allows Facebook to tap capital markets, while avoiding some of the constraints of trading publicly.

"The big incentive to be a public company is that it is easier to have a trading market for your shares, but if there is a shadow market that provides as much liquidity as the public trading market than companies will not be interested in going public," said Adam Pritchard of the University of Michigan Law School.

But the investment has raised questions about the fairness and safety of such deals.

"Some people might (ask) 'why should only Goldman's favored friends get the chance to invest in Facebook?'" said Angel.

There are also concerns the investment could create a shadow exchange market beyond the scrutiny of regulators, exposing investors to potential risks due to the lack of transparency rules.

"Facebook may not necessarily want to disclose a certain amount of what they are doing. Part of the price of being public is the need to disclose finances and aspects of business and they might not want to disclose all their trade secrets," Angel said.

News of the deal has sparked a swift response from the US market regulator, the Securities and Exchange Commission, which has begun examining disclosure rules for private firms, according to media reports.

"One potential consequence of the SEC investigation would be the SEC filing an enforcement action compelling Facebook to register as a public company," said Pritchard.

"If that were a possible consequence, Facebook would rather do an IPO than be forced to go public."

The fast-growing Facebook website has more than 500 million active users per month worldwide as subscribers "friend" their contacts and share their activities.

Facebook reportedly netted 200 million dollars in profit in 2010, and analysts have said its revenues in 2010 could be as high as two billion dollars.