Will Facebook deliver an IPO surprise?

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In this May, 26, 2010 file photo, Facebook CEO Mark Zuckerberg talks about the social network site's new privacy settings in Palo Alto, Calif. Zuckerberg turns up at business conventions in a hoodie. “Cocky” is the word used to describe him most often, after “billionaire.” He was Time's person of the year at 26. So when he takes Facebook public, why would he follow the Wall Street rules? The company is expected to file as early as Wednesday, Feb. 1, 2012 to sell stock on the open market in what will be the most talked-about initial public offering since Google in 2004, maybe since the go-go 1990s. Around the nation, regular investors and IPO watchers are anticipating some kind of twist - perhaps a provision for the 800 million users of Facebook, a company that promotes itself as all about personal connections, to get in on the action. (AP Photo/Marcio Jose Sanchez, File)

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"Pandemonium is what I expect in terms of demand for this stock," says Scott Sweet, senior managing partner at IPO Boutique, an advisory firm. "I don't think Wall Street would want to anger Facebook users."

The most successful young technology companies have a history of doing things differently. Google's IPO prospectus contained a letter from its founders to investors that said the company believed in the motto "Don't be evil."

Facebook declined to comment, but Reena Aggarwal, a finance professor who has studied IPOs at Georgetown University's McDonough School of Business, believes Zuckerberg will emulate Google's philosophy, at least in principle.

Founders Larry Page and Sergey Brin wanted an IPO accessible to all investors, and said so in their first regulatory filing. Facebook may say something similar when it files to declare its intention to sell stock publicly.

Facebook is expected to raise as much as $10 billion, which will value the company at $75 billion to $100 billion, making it one of the largest

IPOs. A stock usually starts trading three to four months after the filing.

The highly anticipated filing will reveal how much Facebook intends to raise from the stock market, what it plans to do with the money and details on its own financial performance and future growth prospects.

Along with Wall Street investment banks, Google used a Dutch auction, named for a means of selling flowers in Holland, to sell its shares. It took private bids and allowed investors to say how many shares they wanted and what they were willing to pay.

The process wasn't smooth, though, and Google had to slash its expected offer price at the last minute. If you bought at the IPO, for roughly $85 a share, you still did well: Google closed Tuesday at $580.

More recently, when it filed for an IPO last June, Groupon, which emails daily deals on products and services to its members, added a letter from its 30-year-old founder, Andrew Mason.

"We are unusual and we like it that way," the letter said. "We want the time people spend with Groupon to be memorable. Life is too short to be a boring company."

It's almost become conventional for tech companies to include an unconventional letter when they make their stock market debut. It's widely expected that Zuckerberg, in the very least measure of showmanship, will write one.

But IPO watchers wonder whether there might be a provision specifically designed to give the little-guy investor, even the casual Facebook user who doesn't invest, a piece of the debut.

"There is a feeling that there will be something unique in store for

Facebook users," Aggarwal says.

When most companies go public, they let Wall Street investment banks handle everything, with the sweet ground-floor stock price reserved for big institutional investors.

But that probably won't do for Facebook, created in a Harvard University dorm room eight years ago. Or Zuckerberg, whose antiestablishment credentials include spurning a $15 billion takeover offer from Microsoft.

Few expect Zuckerberg to offer a Dutch auction because of the Google experience. But he is at least as unorthodox as Google's founders. People expect him to be in the driver's seat on Wall Street, rather than hand over the controls to bankers.

Facebook is a vital part of people's Internet lives and the most successful company in the history of social media. Its closest competitor, Google+, has less than a tenth the active membership - 60 million people.

"While there is no such thing as untouchable, Facebook is getting near there, with even Google imitating it," says Sweet, of IPO Boutique.

In "really hot IPOs," 90 percent of the shares go to institutional investors and 10 percent to everyday investors, Sweet says. It's a perk for the banks' biggest clients, like Fidelity Investments or T. Rowe Price or hedge funds.

The funds pay big commissions to the banks for regularly trading large blocks of stocks or bonds. Those relationships are deep and long-lasting - and lucrative for the banks. The funds expect to be rewarded.

But Morgan Stanley and Goldman Sachs, the banks expected to guide the

Facebook IPO, are in an awkward place: They don't want to tick off 800 million Facebook users - but they don't want to tick off Fidelity, either.

Most IPOs are underpriced, and the stock usually shoots up the first day. Lucky large investors get the basement price and usually a big payday if they sell on the first day. Smaller investors buy on the open market, after the price has spiked, and pay more.

And most early investors do sell. One university research paper found that about 70 percent of the new stock changes hands in the first two days. Groupon introduced 35 million shares, but on the first day its shares were traded almost 50 million times.

Ann Sherman, associate professor and IPO expert at DePaul University, raised the possibility that Facebook could set aside a portion of its shares for the small investor and use a lottery system if there is a lot of demand.

She says the U.S. is the only country without IPO rules that put traditional investors on an equal footing.

"Given that this is such a huge and popular IPO, I've been hoping that Facebook would use this opportunity to try a new method to bring in retail investors - a public offer where shares are set aside for only individual investors," Sherman says.

But Zuckerberg will also probably be careful how he plays his cards. He doesn't want to anger Facebook users, but his primary goal is to raise money.

The recent experience of Groupon's faltering IPO holds tough lessons for young entrepreneurs. After analysts started questioning its accounting, Groupon had to amend its regulatory filing several times.

Trying to salvage the IPO, founder Mason shed his trademark jeans and T-shirt and donned a suit. He dropped the irreverent talk and spoke about the company's growth prospects at the IPO "roadshow" to impress investors.

Other companies have encountered problems when they went public and tried to reward customers. Upstart Internet phone company Vonage wanted to give customers a chance to buy up to 15 percent of its 31 million shares at its IPO at $17 apiece.

But when the shares fell 13 percent on the first day of trading, many of its small investors that had put in orders to buy didn't want to pay the offer price. It gained the dubious title of one of the worst IPOs that year, something Facebook wants to avoid.

It's also more expensive to sell shares to many people. When thousands of small investors want to buy in, it becomes a logistical nightmare to make sure each investor gets a prospectus with all the important information.

Banks like large investors because it costs about the same to process an order of 50 shares as 50,000. But William Hambrecht, founder and CEO of WR Hambrecht & Co., a firm that runs IPO auctions, says companies that value their customers benefit in the long run.

He gives the example of Boston Beer, maker of Samuel Adams, which went public in 1995. Its founder, James Koch, wanted to reward the people who made his company successful: the buyers of Sam Adams.

Koch set aside a quarter of his shares for the small investor. The deal was a big success and attracted more interest from his beer drinkers than there were shares available. Some people left out were dissatisfied.

Hambrecht says about two-thirds of the investors who bought those shares still owned the stock two years after the IPO. Even today, about a third still own it. Hambrecht says that's because these investors appreciate the company's product.

"Our argument has always been that true buyers of your stock ought to be your own customer base," says Hambrecht. "As the great investor Peter Lynch said: Invest in what you know."