Questions and answers on blockbuster Facebook IPO

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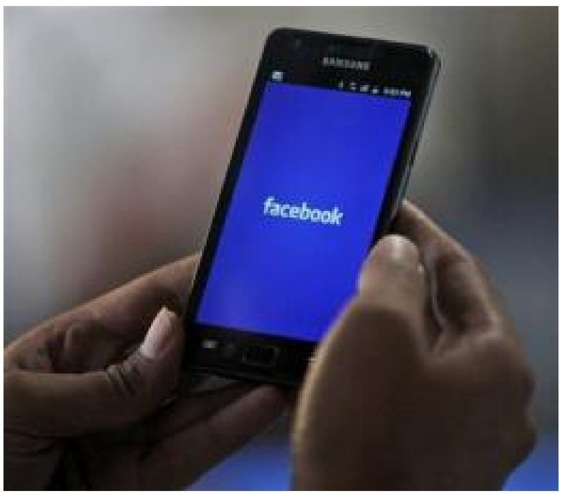

An Indian man opens a Facebook page on his mobile phone in Hyderabad, India, Thursday, May 17, 2012. The company's shares are expected to begin trading on the Nasdaq Stock Market on Friday under the ticker symbol "FB". Facebook is likely to have an estimated market valuation of some $100 billion, making it worth more than Kraft Foods, Ford or Disney. (AP Photo/Mahesh Kumar A.)

(AP) -- A company started in a Harvard dorm room in 2004 has just raised $16 billion and is valued at $104 billion. All that from an initial public offering of stock.

But taking a company public isn't as simple as clicking on "like." Even for Facebook.

When the social media company's stock starts trading Friday under the symbol FB, buyer demand is expected to explode. At its initial offering price of $38 a share, the 8-year-old upstart is now worth more than established heavyweights Disney and Kraft.

The nearly $16 billion raised in the IPO will flow to the company and its early investors.

As with any initial offering, Facebook's IPO follows lots of negotiation - over price, paperwork, selling and buying. Here are some questions and answers about its public debut:

Q: So why is Facebook going public?

A: The same reason many other fast-growing companies do: to raise money. Selling stock to the public gives companies money to run their businesses, expand and buy other companies. Sometimes companies go public even if they have no plans for the money. Facebook says it wants to establish a public market for its shares in case it needs to raise money from investors in the future.

Q: What happens in an IPO?

A: The company sells ownership stakes to the public for the first time. Facebook plans to sell up to 421 million shares. That represents a 15 percent stake in the company. The sale is expected to raise $16 billion.

Q: Who owns shares of Facebook now?

A: Well-connected investors, employees and top insiders like company directors. They are selling 241 million shares, or more than half the total being sold. The company has said it's selling shares at $38 each. At that price, those early owners will pocket $9 billion, or an average of $230 million each. The company will get $7 billion.

Q: Who will buy the shares?

A: In an IPO, there are two buyers. The first are the investment banks that helped the company file IPO documents with regulators and contacted pension funds, mutual funds and other big institutions to gauge a price for the shares. These investment banks are called underwriters. In Facebook's case, 33 banks are helping out; Morgan Stanley has the lead role. The underwriters guarantee to the company that they'll buy all of the shares at the IPO price.

Q: When do the underwriters buy the shares?

A: Before shares start trading publicly. Facebook's underwriters were expected to buy all the sellers' shares Thursday night. But first, the underwriters had to negotiate a price with a second group of buyers - the institutions that will buy the shares from them. They did that Thursday night, settling on a price of $38. In a document filed with regulators this week, Facebook had estimated that the price would be between $34 and $38.

Q: Is this negotiated price the IPO price?

A: Yes. But that's not what the underwriters pay the company and insiders. After settling on an IPO price, the underwriters subtract a commission for their work. With big IPOs like Facebook's, that's typically 3 percent. At $38, that would mean Morgan Stanley and the other Facebook underwriters would get $1.14 off for each share. They'd pay $36.86 a share. Underwriters have five days to transfer the money to the company and other sellers.

Q: What do the underwriters do with their shares?

A: They sell them to big institutions, along with some favored individual investors, before public trading starts. They do this usually the night before. In Facebook's case, all of the underwriters' shares are expected to be sold by Friday morning before the stock exchanges open at 9:30 a.m. in New York.

Q: Is that when trading of Facebook begins?

A: No. The new owners who want to sell their Facebook shares must call their traders first. The traders will call "market makers" at the Nasdaq stock market, where Facebook's shares will be listed. Market makers are firms that agree to hold shares in a company so buyers and sellers can easily trade them. The market makers negotiate among themselves to find a price between what most buyers and sellers are demanding. That can take up to two hours, after which the first Facebook shares will exchange hands. The price will appear under the symbol FB.

Q: I read that Facebook will be worth more than $100 billion after the IPO. What does that mean?

This is the so-called market value of the company. It's what investors trading a portion of its shares think the whole company would be worth if all its shares were trading. At $38 per share, Facebook would be worth $104 billion.

Q: Who are the early investors who are selling?

A: One of the biggest is DST Global Ltd., a London firm founded by Russian investor Yuri Milner that first invested in Facebook in 2009. DST and its affiliates plan to sell 45.7 million shares. At $38, Milner's firm would get $1.74 billion. One of the earliest investors, Reid Hoffman, a co-founder of LinkedIn Corp. who put money into Facebook in 2004, is expected to sell stock worth up to $36 million.

Other sellers include Goldman Sachs, which invested last year. It expects to get as much as $1.1 billion for its shares.

Q: What about Mark Zuckerberg?

The Facebook CEO plans to sell 30.2 million shares. He would pocket up to $1.15 billion. Part of Zuckerberg's holdings include special shares that give him voting rights on shareholder proposals. After the IPO, he will control 56 percent of votes.

Q: Where will the Facebook IPO rank among IPOs?

A: In terms of money raised, it will be the third-biggest U.S. IPO in history, edging out AT&T Wireless. That company's IPO in 2000 raised $10.6 billion according to Renaissance Capital, an IPO advisory firm. The biggest IPO was Visa Inc. in 2008. It raised $17.8 billion.