SEC questioned Facebook about Zynga, mobile

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(AP) — As Facebook's much-anticipated public stock offering approached, federal regulators wanted to know more about the revenue it gets from mobile devices, its $1 billion deal to buy Instagram and the control CEO Mark Zuckerberg has over the company.

Documents filed Friday show the back-and-forth the social-networking company had with the Securities and Exchange Commission on a variety of issues. As all companies do, Facebook Inc. amended its regulatory documents several times ahead of its initial public offering of stock. But the communications leading to those changes weren't public until now.

Facebook disclosed its letters with the SEC in regulatory filings Friday. The filings are a usual part of the IPO process. The letters are typically confidential until about 30 days following an IPO. Facebook's IPO took place May 17.

The communications in the months leading to Facebook's IPO have received greater scrutiny in part because of investor concerns about the company's ability to make money from its growing mobile audience. Facebook's stock price has lost more than a fifth of its value since the IPO. Many analysts, however, hold positive long-term opinions.

Facebook faces more than 40 lawsuits over the IPO. The lawsuits allege that analysts at the large underwriting investment banks cut their second-quarter and full-year forecasts for Facebook just before the IPO and told only a handful of clients. Facebook has called the lawsuits "without merit."

In a separate filing Friday, the company sought to consolidate the lawsuits in New York and laid the groundwork for its case, arguing that it did not violate any rules and followed "customary practices" throughout the process. They also suggest that trading problems at the Nasdaq Stock Market contributed to the stock price drop.

Much of the SEC's questions asked Facebook to clarify or explain things better. In its first letter in February, the SEC asked Facebook what it would mean if more of its users accessed the site through mobile devices rather than traditional computers. The SEC wanted Facebook to fully address "the potential consequences to your revenue and financial results rather than just stating that they 'may be negatively affected.'"

At first, Facebook said that users "could" decide to access the site on mobile devices. The SEC responded that they already do.

That led Facebook to amend its documents on May 9 — the week before the IPO. There, Facebook disclosed that the number of users logging in on mobile devices was growing faster than revenue, largely because it showed relatively few ads on mobile devices. The company's ability to make money from its mobile users has been one of the main concerns investors have and part of the reason Facebook's stock price has fallen.

In another letter, the SEC wanted to know how much of Facebook's $1 billion price for the photo-sharing app Instagram would be in stock rather than cash. The answer: $300 million in cash plus about 23 million shares. Based on Facebook's current stock price, the deal is now worth about $960 million.

Regulators also wanted to know about Zuckerberg's ability to designate a successor given that the Facebook co-founder has more than half of the company's voting rights. Facebook replied that Zuckerberg had no power to decide who would be the next CEO or get his voting rights when he dies. But, like all other shareholders, he is able to designate people who will receive his stocks in the event of his death.

The SEC asked Facebook about online game company Zynga Inc. because it relies heavily on revenue from the game company. In April, the SEC wanted Facebook to disclose that 7 percent of its revenue last year came from ads shown to users using Zynga apps on Facebook, while another 12 percent came from payments processing fees related to Zynga's sale of virtual goods and direct advertising purchased by Zynga. Facebook added the information to a subsequent filing.

On an upbeat note, Facebook's stock gained value for the week for the first time. The stock climbed $1.72, or 6.1 percent, to close at $30.01 on Friday. That's up nearly 11 percent for the week, though it's still down 21 percent from its IPO price of $38.