Twitter accused of ruse to pump up share price (Update)

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Two financial firms sued Twitter on Wednesday, saying it supported their own world tour to sell its shares last year, only to disallow the sales in a ruse aimed at boosting the company's valuation above $10 billion for an initial public offering.

Precedo Capital Group Inc., based in Scottsdale, Arizona, and Continental Advisors, based in Luxembourg, sought $124 million in damages, including $100 million in punitive damages, for misrepresentations that it said were "wanton and egregious."

Expected to go public before Thanksgiving, Twitter's plan to sell 70 million shares will be the biggest technology IPO since Facebook went public last year. In a regulatory filing last week, Twitter set a price range of $17 to $20 per share for its offering. At the $20 share price, Twitter would be valued at about $12.5 billion.

The two financial companies said they took the roadshow through several countries and three continents in September 2012, lining up institutional funds, asset managers and high net worth individuals to buy $278 million in Twitter shares.

The lawsuit accused San Francisco-based Twitter of seeking an artificial market to ensure at least a $19-per-share price, injuring the public because the initial offering price for its shares will not be based on price-to-earnings ratio and balance sheet valuations.

"The public will now be purchasing shares at an inflated price, based upon Twitter's pre-IPO fraudulent misrepresentations," the lawsuit said.

In a statement, Twitter Inc. said: "We've never had a relationship with these plaintiffs. Their claim is completely without merit."

The lawsuit said the financial firms took to the road looking for investors after a Twitter shareholder, GSV Asset Management Inc., claimed in March 2012 that it had negotiated a deal with Twitter to sell $50 million to $278 million worth of Twitter stock owned by employees, contractors and other stockholders. GSV Asset was not named as a defendant in the lawsuit.

In the 18-day international roadshow, 47 presentations were made in eight countries by GSV Asset and Continental Advisors while Precedo Capital made presentations to investors and 10 broker dealers in New York, Chicago, Florida, Virginia and Pennsylvania, the lawsuit said. It said GSV Asset provided information at the roadshows including non-public information that came from Twitter.

After obtaining more than $50 million in commitments at $19 per share, Twitter blocked the sale nine days after the roadshow ended, causing the plaintiffs to lose millions of dollars in commissions, fees and expenses, besides damage to their reputations, the lawsuit said.

The firms said they were told that Twitter wanted to avoid a pitfall of Menlo Park, California-based Facebook Inc.'s initial public offering last year by removing an overhang of Twitter shares. They said they believed Twitter wanted to see if U.S. and international buyers would support a $19 share price in what amounted to a de facto public offering.

"Twitter never intended to complete the private sale of Twitter stock," the lawsuit said. "Twitter's intention was to induce Precedo Capital and

Continental Advisors to create an artificial private market wherein Twitter could maintain that a private market existed at or about $19 per share for the Twitter stock."

David Peirez, a partner at the Long Island-based law firm Reisman, Peirez, Reisman & Copabianco who specializes in business and transactional law, called the lawsuit the result of "sour grapes by two companies."

"It appears that the plaintiffs now see a pot of gold in the upcoming very hot IPO," he said. "This has all the markings of a holdup."