What could Facebook have to hide?

14 January 2011, By Jordan Reese

In a controversial move deemed either shrewd or unfair -- depending on whom you ask -- investment firm Goldman Sachs recently invested $450 million in the high-profile, world-changer Facebook. The deal provides Facebook with the cash to make more Friends, while Goldman investors get the privilege of investing, without public disclosure, as much as $1.5 billion in a private company that's made investors' mouths water for years.

Is Goldman Sachs offering an exclusive stock to the already wealthy? What is their stake? Lehigh finance professor Nandu Nayar, an expert in corporate valuation, investment banking and a former fellow with the U.S. Securities and Exchange Commission, weighs in:

"Goldman's investment in Facebook is basically an investment open to Goldman clients who are supposedly accredited investors. Unlike John Q. Public, these accredited investors don't need the protection of our security laws! Consequently, such a sale is exempted from U.S. securities laws, and it would appear that the transaction is designed to raise equity and get around the SEC's reporting requirements for a public company.

"But why does Facebook want to get out of disclosure? Is there something that Facebook does not want investors to come face-to-face with? What is there to hide?"

Additional questions revolve around Goldman, says Nayar, who holds the Hans Julius Baer Chair in International Finance.

• How much is Goldman getting for this?
• How much are they getting in comparison to the job of raising money in an actual IPO?
• How much risk does Goldman really have in the deal?
• Why is it that no other investment bankers were invited to "try out" for the deal?

These are probably questions for which we are unlikely to get answers, he continues.

"But here's another interesting take. The shares in Facebook are not tradeable-so how do investors get a return from Facebook shares? The only way for these initial investors to make money is for an actual IPO to take place down the road. I guess the investment banker who will bring out that deal will be Goldman! It reminds me of venture capital investors who invest in a start-up and then cash out in an IPO. So, what I am saying is that ultimately, Facebook will become a public company.

"The biggest question I have is: Why did Facebook not sell their shares to individuals via Facebook itself? I am sure that there are lots of users of Facebook who would love to buy into the product they love. Why waste money on an investment banker-the middleman-when they can connect directly with the buyers? I find it really ironic that Facebook, which has a 'marketplace feature,' does not use its own marketplace to sell itself!"

Provided by Lehigh University