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FILED E-filing
2012 MAY 24 P 3:36
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NORTHERN DISTRICT OF CALIFORNIA

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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

FAXED EMC

JAMES CHANG and SAMEER ANSARI, Individually and on Behalf of All Others Similarly Situated, Plaintiffs, vs. FACEBOOK, INC., MARK ZUCKERBERG, DAVID A. EBERSMAN, DAVID M. SPILLANE, MARC L. ANDREESSEN, ERSKINE B. BOWLES, JAMES W. BREYER, DONALD E. GRAHAM, REED HASTINGS, PETER A. THIEL, MORGAN STANLEY & CO. LLC, J.P. MORGAN SECURITIES LLC, GOLDMAN, SACHS & CO., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED and BARCLAYS CAPITAL INC., Defendants.	CV No. 12 2680 CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS **JURY TRIAL DEMANDED**

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Plaintiffs, for their Complaint, alleges the following upon personal knowledge as to their own acts, and as to all other matters upon information and belief, based upon the investigation made by and through their attorneys, which included, *inter alia*, review of Securities and Exchange Commission ("SEC") filings, press releases, analyst reports, news articles, accounting and valuation experts, and other publicly available materials.

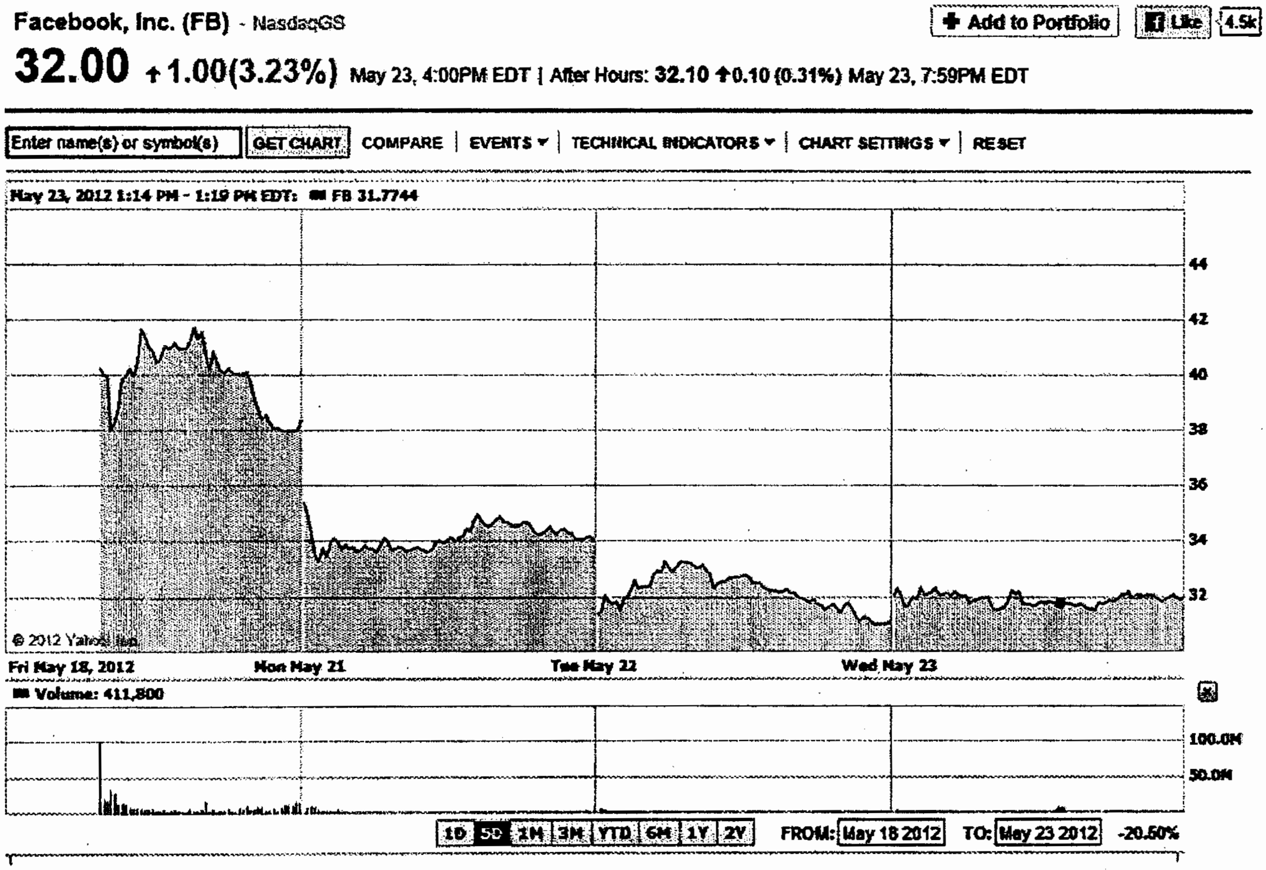
I. INTRODUCTION

1. Plaintiffs bring this action against on behalf of all those who purchased Class A common stock of Facebook, Inc. ("Facebook") pursuant and/or traceable to the Company's May 18, 2012, initial public offering (the "IPO" or the "Offering") through May 22, 2012, seeking to pursue remedies under the Securities Act of 1933 (the "Securities Act").

2. Plaintiffs allege that Defendants violated federal securities laws by omitting material information in their registration statement and prospectus, and by selectively disclosing this material information to their premier clients and preferred investors prior to the IPO.

3. Facebook quietly pre-announced that its second quarter would fall short of analysts' estimates. Not only were these estimates material, but in clear violation of the rules and principals of Fair Disclosure; Facebook only told their underwriter analysts and directed them to change their estimates. In fact, these material estimate cuts were then purported to be verbally conveyed to these preferred institutional investors but not to those outside of the privileged circle.

4. As a result of these whispered projections, many of the underwriters' large clients said they would only buy at $32 per share, forcing Facebook to increase its allocation to retail investors. The offering was priced at $38, with Facebook knowing many of the uninformed would buy at $42 and above from their clients who had allocations. As shown from the chart below, the predictable happened. Within three days Facebook's stock has fallen to $32 per share:



5. Both the SEC and FINRA have promised an investigation.

II. JURISDICTION AND VENUE

6. The claims asserted herein arise under and pursuant to §§ 11, 12(a)(2) and 15 of the Securities Act of 1933 ("1933 Act"), 15 U.S.C. §§ 77k and 77o.

7. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and § 22 of the 1933 Act.

8. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) and (c), because many of the defendants maintain an office in this District and many of the acts and practices complained of herein occurred in substantial part in this District.

9. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited

to, the mails, interstate telephone communications and the facilities of the national securities markets.

10. Intradistrict Assignment: Assignment to the San Francisco or Oakland Division of this Court is appropriate because Defendant Facebook's headquarters and principal place of business is in Menlo Park, California. Because this action arises in the county of San Mateo, pursuant to Local Rule 3-2(d), assignment to either the San Francisco Division or Oakland Division is proper.

III. NATURE OF THE ACTION

11. This is a class action on behalf of all persons or entities who purchased Class A common stock of Facebook, Inc. ("Facebook" or the "Company") pursuant to the Company's untrue or misleading Registration Statement and Prospectus (collectively, the "Registration Statement") issued in connection with its May 18, 2012, initial public offering ("IPO"), seeking to pursue remedies under the 1933 Act.

12. On May 18, 2012, Facebook accomplished its IPO of 421 million shares at $38 per share (including 241,233,615 shares sold by selling stockholders) for net proceeds of $16 billion ($176 million to the Underwriters, $6.7 billion to Facebook and $9 billion to the Selling Shareholders), pursuant to the Registration Statement. The Registration Statement failed to disclose that during the pre-IPO roadshows Facebook had lowered its forecast for the second quarter and full year, had informed the underwriters and had told the underwriters to have their analysts revise their forecasts being shared with select institutional investors.

13. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

IV. PARTIES

A. Plaintiffs

14. Plaintiff James Chang purchased shares of Facebook common stock, as set forth in the certification attached hereto and incorporated herein by reference, pursuant to or traceable to Facebook's IPO and has been damaged thereby.

15. Plaintiff Sameer Ansari purchased shares of Facebook common stock, as set forth in the certification attached hereto and incorporated herein by reference, pursuant to or traceable to Facebook's IPO and has been damaged thereby.

B. Defendants

16. Defendant Facebook maintains its principal executive offices at 1601 Willow Road, Menlo Park, California 94025. The Company operates as a social networking company worldwide.

17. Defendant Mark Zuckerberg ("Zuckerberg") is the founder of the Company and was, at all relevant times, Chairman of the Board of Directors (the "Board") and Chief Executive Officer of Facebook. Zuckerberg signed the Registration Statement. Defendant Zuckerberg sold 126 million shares in the IPO. Defendant Zuckerberg actually increased his voting control of Facebook in the IPO) from 56.6% to 57.5%.

18. Defendant David A. Ebersman ("Ebersman") is, and was at all relevant times, Chief Financial Officer ("CFO") of Facebook. Defendant Ebersman signed the Registration Statement.

19. Defendant David M. Spillane ("Spillane") is, and was at all relevant times, Chief Accounting Officer of Facebook. Defendant Spillane signed the Registration Statement.

20. Defendant Marc L. Andreessen ("Andreessen") is, and was at all relevant times, a member of the Board of Facebook. Defendant Andreessen signed the Registration Statement.

21. Defendant Erskine B. Bowles ("Bowles") is, and was at all relevant times, a member of the Board of Facebook. Defendant Bowles signed the Registration Statement.

22. Defendant James W. Breyer ("Breyer") is, and was at all relevant times, a member of the Board of Facebook. Defendant Breyer signed the Registration Statement. Defendant Breyer sold almost 50 million shares in the IPO.

23. Defendant Donald E. Graham ("Graham") is, and was at all relevant times, a member of the Board of Facebook. Defendant Graham signed the Registration Statement.

24. Defendant Reed Hastings ("Hastings") is, and was at all relevant times, a member of the Board of Facebook. Defendant Hastings signed the Registration Statement.

25. Defendant Peter A. Thiel ("Thiel") is, and was at all relevant times, a member of the Board of Facebook. Defendant Thiel signed the Registration Statement. Defendant Thiel sold over 16 million shares in the IPO.

26. The Defendants listed above at ¶¶14-26 are collectively referred to herein as the "Individual Defendants."

27. By reason of their management positions and their ability to make public statements in the name of Facebook, the Individual Defendants were and are controlling persons, and had the power and influence to cause (and did cause) Facebook to engage in the conduct complained of herein.

28. Defendants Morgan Stanley & Co. LLC ("Morgan Stanley"), J.P. Morgan Securities LLC ("J.P. Morgan"), Goldman, Sachs & Co. ("Goldman Sachs"), Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Barclays Capital Inc. ("Barclays") served as lead underwriters of the IPO. Morgan Stanley, J.P. Morgan, Goldman Sachs, Merrill Lynch and Barclays are collectively referred to herein as the "Underwriter Defendants."

V. FACTUAL ALLEGATIONS

29. Defendant Facebook owns and operates Facebook, a social networking service and website launched in February 2004. Facebook was founded by Defendant Zuckerberg along with other Harvard classmates. Between 2004 and 2012, Facebook accumulated over 900 million active users (MAUs) and 526 million daily active users (DAUs) who advertisers can theoretically engage with using, in some instances, information users have chosen to share with Facebook, including their age, location, gender and interests. For the year ended December 31, 2011, Facebook generated revenues of $3.7 billion and net income of $1 billion. For the quarter ending March 31, 2012, Facebook generated revenues of $1 billion and earned net income of $205 million.

30. On May 16, 2012, Facebook filed with the Securities and Exchange Commission ("SEC") a Form S-1/A Registration Statement (the "Registration Statement") for the IPO. Two days later, on May 18, 2012, the IPO prospectus (the "Prospectus"), which contains the Registration Statement, became effective and 421 million shares of Facebook common stock were sold to the public at $38 per share, thereby valuing the total size of the IPO at more than $16 billion, and Facebook at $101 billion.

31. The Registration Statement and Prospectus contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading and were not prepared in accordance with the rules and regulations governing their preparation.

32. With regard to the Company's expectations for the second quarter of 2012, the Registration Statement and Prospectus stated, in pertinent part, as follows:

> **Based upon our experience in the second quarter of 2012 to date, the trend we saw in the first quarter of [daily active users] increasing more rapidly than the increase in number of ads delivered has continued.** We believe this trend is driven in part by increased usage of Facebook on mobile devices where we have only recently begun showing an immaterial number of sponsored stories in News Feed, and in part due to certain pages having fewer ads per page as a result of product decisions.

33. In describing the risks related to Facebook's business and industry, the Registration Statement purported to warn that the Company's revenues could be negatively affected by the rate of growth in mobile users of its site or application ("app"). The Registration Statement and Prospectus stated in pertinent part as follows:

> ***Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results.***
>
> We had 488 million [monthly active users] who used Facebook mobile products in March 2012. While most of our mobile users also access Facebook through personal computers, we anticipate that the rate of growth in mobile usage will exceed the growth in usage through personal computers for the foreseeable future, in part due to our focus on developing mobile products to encourage mobile usage of Facebook. We have historically not shown ads to users accessing Facebook through mobile apps or our mobile website. In March 2012, we began to include sponsored stories in users' mobile News Feeds. However, we do not currently directly generate any meaningful revenue from the use of Facebook mobile products, and our ability to do so successfully is unproven. We believe this increased usage of

Facebook on mobile devices has contributed to the recent trend of our daily active users (DAUs) increasing more rapidly than the increase in the number of ads delivered. If users increasingly access Facebook mobile products as a substitute for access through personal computers, and if we are unable to successfully implement monetization strategies for our mobile users, or if we incur excessive expenses in this effort, our financial performance and ability to grow revenue would be negatively affected.

34. The Registration Statement and Prospectus also purported to warn investors that the Company's revenues from advertising could be adversely affected by, among other things, the "increased user access to and engagement with Facebook" through mobile devices. In that regard, the Registration Statement and Prospectus stated, in pertinent part, as follows:

We generate a substantial majority of our revenue from advertising. The loss of advertisers, or reduction in spending by advertisers with Facebook, could seriously harm our business.

The substantial majority of our revenue is currently generated from third parties advertising on Facebook. In 2009, 2010, and 2011 and the first quarter of 2011 and 2012, advertising accounted for 98%, 95%, 85%, 87%, and 82%, respectively, of our revenue. As is common in the industry, our advertisers typically do not have long-term advertising commitments with us. Many of our advertisers spend only a relatively small portion of their overall advertising budget with us. In addition, advertisers may view some of our products, such as sponsored stories and ads with social context, as experimental and unproven. Advertisers will not continue to do business with us, or they will reduce the prices they are willing to pay to advertise with us, if we do not deliver ads and other commercial content in an effective manner, or if they do not believe that their investment in advertising with us will generate a competitive return relative to other alternatives. Our advertising revenue could be adversely affected by a number of other factors, including:

• decreases in user engagement, including time spent on Facebook;
• increased user access to and engagement with Facebook through our mobile products, where we do not currently directly generate meaningful revenue, particularly to the extent that mobile engagement is substituted for engagement with Facebook on personal computers where we monetize usage by displaying ads and other commercial content;
• product changes or inventory management decisions we may make that reduce the size, frequency, or relative prominence of ads and other commercial content displayed on Facebook;
• our inability to improve our analytics and measurement solutions that demonstrate the value of our ads and other commercial content;
• decisions by advertisers to use our free products, such as Facebook Pages, instead of advertising on Facebook;
• loss of advertising market share to our competitors;
• adverse legal developments relating to advertising, including legislative and

regulatory developments and developments in litigation;
• adverse media reports or other negative publicity involving us, our Platform developers, or other companies in our industry;
• our inability to create new products that sustain or increase the value of our ads and other commercial content;
• the degree to which users opt out of social ads or otherwise limit the potential audience of commercial content;
• changes in the way online advertising is priced;
• the impact of new technologies that could block or obscure the display of our ads and other commercial content; and
• the impact of macroeconomic conditions and conditions in the advertising industry in general.

The occurrence of any of these or other factors could result in a reduction in demand for our ads and other commercial content, which may reduce the prices we receive for our ads and other commercial content, or cause advertisers to stop advertising with us altogether, either of which would negatively affect our revenue and financial results.

Growth in use of Facebook through our mobile products, where our ability to monetize is unproven, as a substitute for use on personal computers may negatively affect our revenue and financial results.

We had 488 million MAUs who used Facebook mobile products in March 2012. While most of our mobile users also access Facebook through personal computers, we anticipate that the rate of growth in mobile usage will exceed the growth in usage through personal computers for the foreseeable future, in part due to our focus on developing mobile products to encourage mobile usage of Facebook. We have historically not shown ads to users accessing Facebook through mobile apps or our mobile website. In March 2012, we began to include sponsored stories in users' mobile News Feeds. However, we do not currently directly generate any meaningful revenue from the use of Facebook mobile products, and our ability to do so successfully is unproven. We believe this increased usage of Facebook on mobile devices has contributed to the recent trend of our daily active users (DAUs) increasing more rapidly than the increase in the number of ads delivered. If users increasingly access Facebook mobile products as a substitute for access through personal computers, and if we are unable to successfully implement monetization strategies for our mobile users, or if we incur excessive expenses in this effort, our financial performance and ability to grow revenue would be negatively affected.

Facebook user growth and engagement on mobile devices depend upon effective operation with mobile operating systems, networks, and standards that we do not control.

There is no guarantee that popular mobile devices will continue to feature Facebook, or that mobile device users will continue to use Facebook rather than competing products. We are dependent on the interoperability of Facebook with popular mobile operating systems that we do not control, such as Android and iOS, and any changes in such systems that degrade our products' functionality or give preferential treatment to competitive products could adversely affect Facebook usage on mobile devices. Additionally, in order to deliver high quality mobile products, it is important that our products work well with a range of mobile

> technologies, systems, networks, and standards that we do not control. We may not be successful in developing relationships with key participants in the mobile industry or in developing products that operate effectively with these technologies, systems, networks, or standards. In the event that it is more difficult for our users to access and use Facebook on their mobile devices, or if our users choose not to access or use Facebook on their mobile devices or use mobile products that do not offer access to Facebook, our user growth and user engagement could be harmed.

35. The statements referenced above in ¶¶ 32-34 were untrue statements of material fact. The true facts at the time of the IPO were that Facebook was then experiencing a severe and pronounced reduction in the rate of revenue growth due to an increase of users of its Facebook app or website through mobile devices rather than a traditional PC such that the Company told the Underwriter Defendants to materially lower their revenue forecasts for 2012. Defendants also failed to disclose that during the roadshow conducted in connection with the IPO, certain of the Underwriter Defendants were told by Facebook to reduce their second quarter and full year 2012 performance estimates for Facebook. This information was material and not shared with all Facebook investors, but rather, was selectively disclosed by defendants to certain preferred investors and omitted from the Registration Statement and/or Prospectus.

36. On May 22, 2012, in an article entitled "Insight: Morgan Stanley cut Facebook estimates just before IPO," Reuters reported that that Facebook's lead underwriters, Morgan Stanley, JP Morgan and Goldman Sachs, all cut their earnings forecasts for the Company in the middle of the IPO roadshow and that only a handful of preferred investor clients were told the news of the reduction. In that regard, the article stated, in pertinent part, as follows:

> In the run-up to Facebook's $16 billion IPO, Morgan Stanley, the lead underwriter on the deal, unexpectedly delivered some negative news to major clients: The bank's consumer Internet analyst, Scott Devitt, was reducing his revenue forecasts for the company.
>
> The sudden caution very close to the huge initial public offering, and while an investor roadshow was underway, was a big shock to some, said two investors who were advised of the revised forecast.
>
> They say it may have contributed to the weak performance of Facebook shares, which sank on Monday - their second day of trading - to end 10 percent below the IPO price. The $38 per share IPO price valued Facebook at $104 billion.

The change in Morgan Stanley's estimates came on the heels of Facebook's filing of an amended prospectus with the U.S. Securities and Exchange Commission (SEC), in which the company expressed caution about revenue growth due to a rapid shift by users to mobile devices. Mobile advertising to date is less lucrative than advertising on a desktop.

"This was done during the roadshow - I've never seen that before in 10 years," said a source at a mutual fund firm who was among those called by Morgan Stanley.

JPMorgan Chase and Goldman Sachs, which were also major underwriters on the IPO but had lesser roles than Morgan Stanley, also revised their estimates in response to Facebook's May 9 SEC filing, according to sources familiar with the situation.

Morgan Stanley declined to comment and Devitt did not return a phone message seeking comment. JPMorgan and Goldman both declined to comment.

Typically, the underwriter of an IPO wants to paint as positive a picture as possible for prospective investors. Investment bank analysts, on the other hand, are required to operate independently of the bankers and salesmen who are marketing stocks - that was stipulated in a settlement by major banks with regulators following a scandal over tainted stock research during the dotcom boom.

The people familiar with the revised Morgan Stanley projections said Devitt cut his revenue estimate for the current second quarter significantly, and also cut his full-year 2012 revenue forecast. Devitt's precise estimates could not be immediately verified.

"That deceleration freaked a lot of people out," said one of the investors.

Scott Sweet, senior managing partner at the research firm IPO Boutique, said he was also aware of the reduced estimates.

"They definitely lowered their numbers and there was some concern about that," he said. "My biggest hedge fund client told me they lowered their numbers right around mid-roadshow."

That client, he said, still bought the issue but "flipped his IPO allocation and went short on the first day."

"VERY UNUSUAL"

Sweet said analysts at firms that are not underwriting IPOs often change forecasts at such times. However, he said it is unusual for analysts at lead underwriters to make such changes so close to the IPO.

"That would be very, very unusual for a book runner to do that," he said.

The lower revenue projection came shortly before the IPO was priced at $38 a share, the high end of an already upwardly revised projected range of $34-$38, and before Facebook increased the number of shares being sold by 25 percent.

> The much-anticipated IPO has performed far below expectations, with the shares barely staying above the $38 offer price on their Friday debut and then plunging on Monday.
>
> Companies do not make their own financial forecasts prior to an IPO, and underwriters are generally barred from issuing recommendations on the stock until 40 days after it begins trading. Analysts often rely on guidance from the company in building their forecasts, but companies doing IPOs are not permitted to give out material information that is not available to all investors.
>
> Institutions and major clients generally enjoy quick access to investment bank research, while retail clients in many cases only get it later. It is unclear whether Morgan Stanley only told its top clients about the revised view or spread the word more broadly. The firm declined to comment when asked who was told about the research.
>
> "It's very rare to cut forecasts in the middle of the IPO process," said an official with a hedge fund firm who received a call from Morgan Stanley about the revision.

37. Also on May 22, 2012, in an article entitled "EXCLUSIVE: Here's The Inside Story Of What Happened On The Facebook IPO" reported at http://www.businessinsider.com/exclusive-heres-the-inside-story-of-what-happened-on-the-facebook-ipo-2012-5#ixzz1vkkVbdmb, Henry Blodget reported more details based on interviews conducted by he and his staff at Business Insider confirming that Facebook was behind the guidance. In that regard, the article stated, in pertinent part, as follows:

> In early May, as Facebook prepared to kick off its IPO roadshow, the research analysts at the company's lead underwriters developed financial forecasts to facilitate the marketing and pricing of the IPO.
>
> Such estimates are usually developed through close collaboration between the underwriters' research analysts and company management. These estimates are viewed by sophisticated investors as having been "blessed" by the company: They are perceived as revenue and earnings targets that the company has reviewed and is confident it will hit. Sophisticated investors use these estimates when they are developing "bids" for the stock, as a tool with which to help determine the price they are willing to pay.
>
> Importantly, these estimates are not published anywhere.
>
> Rather, in conjunction with industry convention (see below*), these estimates are conveyed verbally to institutional investors who are considering investing in the IPO.
>
> (This is an absurd and unfair practice. The estimates themselves are material information--the consensus of smart, well-trained analysts who have worked with the company's management to develop realistic forecasts. Most investors don't even know that these

estimates exist, let alone that they're whispered verbally to only a handful of big investors. All potential investors should have easy access to these estimates, as well as to any logic underlying them. The SEC needs to change the rules here.)

The same development and dissemination of estimates also happened with Facebook.

As the Facebook roadshow began, institutional investors who were considering investing in the stock were verbally given the underwriters' initial estimates for the company. And, initially, there was a lot of institutional enthusiasm for the stock.

Several days later, however, on May 9th, Facebook filed an amended IPO prospectus with the SEC.

This prospectus contained new disclosure language that had not previously appeared in Facebook's SEC filings. The language was on page 57 of the prospectus, in a section discussing the company's recent financial and user trends:

Based upon our experience in the second quarter of 2012 to date, the trend we saw in the first quarter of DAUs increasing more rapidly than the increase in number of ads delivered has continued. We believe this trend is driven in part by increased usage of Facebook on mobile devices where we have only recently begun showing an immaterial number of sponsored stories in News Feed, and in part due to certain pages having fewer ads per page as a result of product decisions.

The appearance of this language unnerved some sophisticated investors and analysts, who took it as a sign that Facebook's business might have deteriorated. The language was vague, however, and it did not make clear that Facebook's second quarter was weaker than expected. (To infer that message from the language, you had to know that Facebook's first quarter had been weak--and that the cause had been the divergence between user growth and revenue growth.)

Soon after Facebook amended its prospectus, all three analysts at the company's lead underwriters—Morgan Stanley, JP Morgan, and Goldman Sachs—cut their estimates for Facebook's Q2 and the full year.

These estimate cuts were conveyed verbally to sophisticated institutional investors.

And, not surprisingly, these investors viewed the estimate cuts as a startling and negative development.

One important question, of course, was why all three underwriter analysts cut their estimates.

Had they all read the new sentence in the prospectus above and realized that the second quarter was weak? Or had they been tipped off?

It seemed inconceivable that all three analysts could have read the language above and concluded independently that Facebook's Q2 was weak and therefore decided to take the highly unusual step of cutting estimates in the middle of a company's IPO roadshow.

More likely, it seemed, someone had directed the analysts to cut their estimates—most likely someone with inside knowledge of how Facebook's Q2 was progressing.

And we have now heard from one source that that is what happened.

One of the underwriter's analysts has said he was told by a Facebook financial executive to cut his estimates.

According to another source with insight into the Facebook IPO process, until the underwriters' analysts cut their estimates, demand for Facebook's stock among sophisticated institutional investors was high. Once these investors heard about the estimate cut, however, they became more cautious about the IPO.

(Again, an estimate cut like this during a roadshow would be hard to interpret as anything but negative. One institutional investor I spoke to said he has looked at more than 1,200 IPOs over the course of his career, and he has never heard of this before. This is especially true because the underwriter estimates aren't really "estimates"--they're more like company guidance.)

The estimate cut, moreover, was followed by three additional pieces of information that were interpreted negatively by some institutional investors:

1) The price range for the deal was increased, which made the deal even less attractive in light of the estimate cut,

2) The size of the deal was increased, which meant that more stock would be sold, and

3) Many smart institutional Facebook shareholders like Goldman Sachs decided to sell more stock on the deal—the "smart money," in other words, was cashing out.

Meanwhile, during private roadshow meetings, Facebook executives were reportedly "signalling" to some sophisticated investors that Facebook's advertising revenue would not grow as rapidly as some potential investors had hoped. Facebook's advertising business is driven primarily by company-to-company sales efforts, not by the self-serve ads that drive Google's business. Facebook executives reportedly made clear to sophisticated investors that this would limit the rate at which Facebook's ad business could grow.

By the second week of the roadshow, after the estimate cut and price increase, some institutional investors became more cautious about the IPO. According to one investor who looked at the deal, institutions "got the willies" and started to talk about paring back their stock orders.

Meanwhile, out in the real world, demand for Facebook stock was hitting a fever pitch. One senior stockbroker at a major brokerage firm reported that he "had never seen such demand" for an IPO.

These individual investors, needless to say, were not likely aware that the research analysts at the company's lead underwriters had cut their estimates for the company. They were also, presumably, unaware that Facebook's Q2 was weaker than expected.

At the end of last week, the time came to decide on the IPO price for Facebook's stock.

This process was handled by Facebook's lead underwriter, Morgan Stanley, and Facebook executives.

According to one source (unconfirmed--this really is just scuttlebutt), based on the book of orders submitted by both institutional and retail investors, Morgan Stanley found that there were two distinct price levels at which investors were interested in buying stock.

Institutional investors, having digested the news of the underwriter estimate cut, were comfortable buying Facebook stock at $32 a share.

Retail investors, meanwhile, who were presumably unaware of the estimate cut, were comfortable buying Facebook at $40 a share.

Knowing that a big percentage of the IPO stock could be sold to retail investors instead of institutional investors, Facebook and Morgan Stanley decided to price the IPO at $38.

Although the precise allocations could not be learned, a source says that Morgan Stanley allocated a far larger percentage of the Facebook deal to individual investors than is normally the case in an IPO like this.

38. Also on May 22, 2010, Reuters' reporters Poornima Gupta and Alexei Oreskovic uncovered the before-and-after Facebook estimates that were verbally conveyed to big investors (below). As seen in the article, both sets of numbers are carefully coordinated across the firms strongly inferring explicit direction from Facebook:

While Facebook did not provide any specifics in its amended S-1 filing, the four underwriters reduced their earnings and revenue estimates for both the second quarter of 2012 and the full year within the next two days, according to sources.

The new estimates highlighted a continued slowdown in Facebook's growth, with the banks forecasting 30.4 percent year-on-year 2012 revenue growth on average, instead of the 36.7 percent growth previously expected. In 2011, Facebook's revenue grew 87.9 percent year-on-year to $3.71 billion.

The new numbers were relayed to big investors through phone calls and conference calls, according to investors. Bank of America held a conference call on May 10 with analyst Justin Post, where the underwriter revealed the lowered estimates.
Here are the detailed figures from the four banks, according to one of the investors who received the new numbers.

Lowered full year revenue estimate for 2012
Morgan Stanley -- $4.854 bln (new) from $5.036 bln (old)
Bank of America -- $4.815 bln (new) from $5.040 bln (old)
JPMorgan -- $4.839 bln (new) from $5.044 bln (old)
Goldman Sachs -- $4.852 bln (new) from $5.169 bln (old)

Lowered estimates for second-quarter 2012
Morgan Stanley -- $1.111 bln (new) from $1.175 bln (old)
Bank of America -- $1.100 bln (new) from $1.166 bln (old)
JPMorgan -- $1.096 bln (new) from $1.182 bln (old)
Goldman Sachs -- $1.125 bln (new) from $ 1.207 bln (old)

Lowered 2013 Earnings per share estimate
Morgan Stanley -- 83 cents (new) from 88 cents
Bank of America -- 64 cents (new) from 66 cents
JPMorgan -- 66 cents (new) from 70 cents
Goldman Sachs -- 63 cents (new) from 68 cents

There is also no way that an investor could get this information from Facebook's IPO prospectus.

39. As of the date of the filing of this complaint, the 421 million shares of Facebook Common A shares sold in the IPO are trading at approximately $31 per share, or $7 per share below the price where plaintiffs and the Class purchased $16 billion worth of Facebook stock while defendants pocketed billions of dollars. Plaintiffs and the Class have suffered losses of more than $2.5 billion since the IPO.

VI. CLASS ACTION ALLEGATIONS

40. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b) (3) on behalf of all persons or entities who purchased shares of Facebook Class A common stock traceable to Facebook's IPO, between May 18, 2012, and May 22, 2012, and who were damaged thereby.

41. Excluded from this Class are Defendants, the Officers and Directors of any of the Defendants, at all relevant times, members of their immediate families and their legal

representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

42. The members of this Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are thousands if not tens-of-thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Registrant or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

43. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

44. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class-action and securities litigation.

45. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the 1933 Act was violated by Defendants' acts as alleged;

b. whether statements made by Defendants to the investing public in the Registration Statement and Prospectus misrepresented or omitted material facts;

c. whether the members of the Class have sustained damages and, if so, what is the proper measure thereof.

46. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to redress individually the wrongs done to them. There will be no difficulty in the management of this action as a class action.

COUNT I

VIOLATIONS OF SECTION 11 OF THE 1933 ACT ON BEHALF OF THE SECURITIES CLASS

47. Plaintiffs repeat and re-allege the allegations contained in the foregoing paragraphs as if set forth fully herein. This Count is brought pursuant to § 11 of the 1933 Act, 15 U.S.C. § 77k, on behalf of the Securities Class. It is asserted against the following defendants: Facebook, Zuckerberg, Ebersman, Spillane, Andreessen, Bowles, Breyer, Graham, Hastings, Thiel, Morgan Stanley, J.P. Morgan, Goldman Sachs, Merrill Lynch and Barclays.

48. The Registration Statement for the IPO contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and/or omitted to state material facts required to be stated therein.

49. The Defendants named herein were responsible for the contents and dissemination of the Registration Statement.

50. None of the Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

51. By reasons of the conduct herein alleged, each Defendant violated, and/or controlled a person who violated § 11 of the 1933 Act.

52. Plaintiffs acquired Facebook shares pursuant to the Registration Statement.

53. Plaintiffs and the Class have sustained damages. The value of the Facebook shares has declined substantially subsequent to and due to Defendants' violations.

54. At the time of their purchases of the Facebook shares, Plaintiffs and other members of the Class were without knowledge of the facts concerning the untrue statements or omissions herein and could not have reasonably discovered those facts prior to May 22, 2012, if at all. Less than one year has elapsed from the time that Plaintiffs discovered or reasonably could have discovered the facts upon which this complaint is based to the time that Plaintiffs filed this complaint. Less than three years have elapsed between the time that Facebook shares upon which this Count is brought were offered to the public and the time Plaintiffs filed this complaint.

COUNT II

VIOLATIONS OF SECTION 12(A)(2) OF THE 1933 ACT ON BEHALF OF THE SECURITIES CLASS

55. Plaintiffs repeat and re-allege the allegations contained in the foregoing paragraphs as if set forth fully herein.

56. Defendants offered, sold or solicited purchasers of Common A shares of Facebook by means of the Prospectus and Registration Statement or were controlling persons of those who offered and sold Facebook shares. This Prospectus and Registration Statement contained untrue statements of material facts and/or omitted to state material facts necessary in order to make the statements, in light of the circumstances under which they were made, not misleading, which statements and omissions the Defendants knew, or in the exercise of reasonable care the Defendants would have known, were false or were material facts which were required to be disclosed to avoid the representations which were made from being misleading.

57. The Defendants actively solicited the sale of Facebook shares to serve their own financial interests.

58. Neither Plaintiffs nor the Class members knew that the representations made in connection with the distribution to them by Defendants regarding the matters described above were untrue and did not know the above described material facts that were not disclosed.

59. As a result of the matters set forth herein, pursuant to § 12(a)(2) of the Securities Act, Plaintiffs and Class members are entitled to recover the consideration paid for such security with interest thereon, less the amount of any income received thereon, upon the tender of such security, or for damages if they no longer own such shares.

60. Plaintiffs and putative Class members, who do not opt out, hereby tender their shares in Facebook.

61. The § 12 Defendants are liable to Plaintiffs and Class members pursuant to § 12(a)(2) of the Securities Act, as sellers of Facebook's Class A common stock.

COUNT III

VIOLATIONS OF SECTION 15 OF THE 1933 ACT AGAINST THE CONTROL GROUP DEFENDANTS ON BEHALF OF THE SECURITIES CLASS

62. Plaintiffs repeat and re-allege the allegations contained in the foregoing paragraphs as if set forth fully herein on behalf of the Securities Class.

63. This Count is brought pursuant to § 15 of the 1933 Act against each of the Individual Defendants.

64. Each of these Defendants was a control person of Defendant Facebook by virtue of his or her position as a director and/or senior officer of Facebook. The Individual Defendants each had a series of direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major shareholders of Facebook.

65. Each of the Individual Defendants was a culpable participant in the violations of §§ 11 and 12 of the 1933 Act alleged in the Counts above, based on their having signed or authorized the signing of the Registration Statement and having otherwise participated in the process which allowed the offerings to be successfully completed, or having participated in the offer or sale of the shares of Facebook.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

A. Determining that this action is a proper class action and certifying Plaintiffs as Class representative under Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;

D. Awarding rescissionary damages; and

E. Such equitable, injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiffs hereby demand a trial by jury.

Dated: May 24, 2012

HAGENS BERMAN SOBOL SHAPIRO LLP

By Reed R. Kathrein with permission

Reed R. Kathrein

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Attorneys for Plaintiffs

CERTIFICATION OF NAMED PLAINTIFF PURSUANT TO FEDERAL SECURITIES LAWS

James Chang ("Plaintiff") declares as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed a complaint alleging securities fraud against Facebook and various of its officers and directors, and underwriters and authorized its filing.

2. Plaintiff did not acquire the security that is the subject of this action at the direction of Plaintiff's counsel in order to participate in this private action or any other litigation under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff has made no transaction(s) during the Class Period in the debt or equity securities that are the subject of this action except those set forth below:

Acquisitions	Date Acquired	No. Shares Acquired	Acquisition Price Per Share
FB	5/18/2012	3600	$40.2036
FB	5/18/2012	205	$39.0899
FB	5/18/2012	5	$38.85
Sales	**Date Sold**	**No. Shares Sold**	**Selling Price Per Share**
FB			

5. During the three years prior to the date of this Certificate, Plaintiff has not sought to serve or served as a representative party for a class in the following actions filed under the federal securities laws except as detailed below:

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 24th day of May, 2012.

James Chang

CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

~~Saneer~~ SAMEER Ansari ("Plaintiff") declares as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed a complaint alleging securities fraud against Facebook and various of its officers and directors, and underwriters and authorized its filing.

2. Plaintiff did not acquire the security that is the subject of this action at the direction of Plaintiff's counsel in order to participate in this private action or any other litigation under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff has made no transaction(s) during the Class Period in the debt or equity securities that are the subject of this action except those set forth below:

	Acquisitions	Date Acquired	No. Shares Acquired	Acquisition Price Per Share
SAMEER ANSARI	FB	5/18/12	200	41.04
		"	200	39.04
		"	200	40.04
		"	300	38.03
NASEER ANSARI	FB	5/18/12	300	38
	FB	"	200	39
	Sales	**Date Sold**	**No. Shares Sold**	**Selling Price Per Share**
NASEER ANSARI	FB	5/22/12	500	31.1

5. During the three years prior to the date of this Certificate, Plaintiff has not sought to serve or served as a representative party for a class in the following actions filed under the federal securities laws except as detailed below:

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 25 day of MAY, 2012.

~~Saneer~~ Ansari
SAMEER