Mass. fines Morgan Stanley $5M over Facebook IPO

The Associated Press

Morgan Stanley, the lead underwriter for Facebook's troubled public stock offering, has agreed to pay $5 million to Massachusetts' securities regulators after they accused it of disclosing a revenue shortfall only to certain analysts and not the general public.

According to state regulators, a Morgan Stanley banker organized phone calls between Facebook's treasurer and the analysts of major underwriters to relay revenue figures that weren't included in revised documents Facebook Inc. filed with U.S. securities authorities on May 9, about a week before the initial public offering of stock.

The numbers were lower than what many analysts had expected and caused them to revise their annual revenue estimates down about 3 percent below the $5 billion that Facebook had earlier forecast for 2012, according to Massachusetts officials.

The renewed estimates were available to investment banks but not individual investors who bought into one of the most highly anticipated initial public offerings of stock in history.

"Main Street investors were put at a significant disadvantage to Wall Street," Massachusetts' Secretary of the Commonwealth, William Galvin, said in a press release Monday.

Facebook shares were priced at $38, the top of a projected range, but finished the first day of exuberant trading barely above its initial public offering price, at $38.23. Since then, shares have failed to return to that lofty valuation. On Monday, they closed down 3 cents at $26.78, about 30 percent below the IPO price.

Morgan Stanley didn't admit guilt but agreed to be censured and pay the fine. Spokesman Wesley McDade said in a statement that the company was pleased "to have put this matter behind us."

"Morgan Stanley is committed to robust compliance with both the letter and the spirit of all applicable regulations and laws," he said.

In October, Massachusetts' Galvin also slapped Citigroup with a $2 million fine after one of its analysts leaked information to a popular technology blog that was supposed to be private until 40 days after Facebook's IPO. The employee was fired.

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