

**Facebook**

5/14/12



Symbol  
**FB**

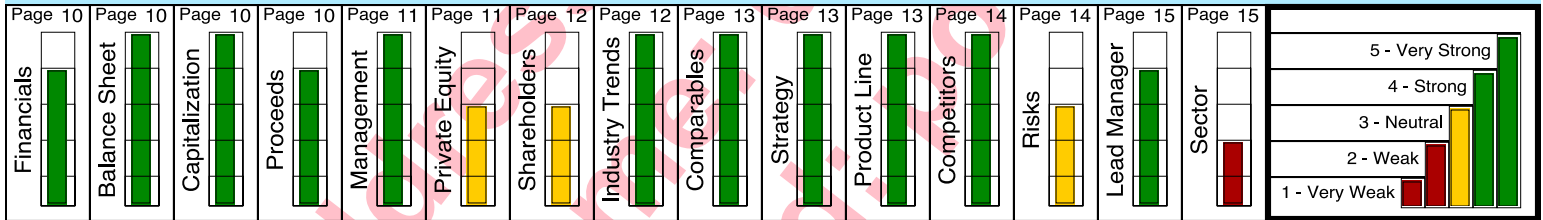
- Buy 1 - Indicate for IPO & buy in the aftermarket
- Buy 2 - Indicate for IPO & buy pullbacks
- Buy 3 - Indicate for IPO & should trend higher
- Hold 4 - Possible IPO shares & expect short term rallies
- Hold 5 - Possible IPO shares & expect a narrow range
- Hold 6 - Possible IPO shares & expect high volatility
- Sell 7 - Avoid the IPO shares & sell rallies above the IPO price
- Sell 8 - Avoid the IPO shares & short the stock when allowed
- Sell 9 - Avoid the IPO shares & short the stock for the long term

| IPO Underwriters   | Pre-IPO Statistics               |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|--|----------------------------------|-------------------------------|----------------------|-----------------------------------|------------------|-------------------|------|---------------|---------------|---------------------|---------------------------------|----------------------|--------------------------------|----------------------|------------------------------|---------------|
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>Morgan Stanley</td></tr> <tr><td>J. P. Morgan</td></tr> <tr><td>Goldman Sachs</td></tr> <tr><td>BofA Merrill Lynch</td></tr> <tr><td>Barclays Capital</td></tr> <tr><td>Allen &amp; Co.</td></tr> <tr><td>Citi</td></tr> <tr><td>Credit Suisse</td></tr> <tr><td>Deutsche Bank</td></tr> <tr><td>RBC Capital Markets</td></tr> </table> | Morgan Stanley                   | J. P. Morgan                  | Goldman Sachs        | BofA Merrill Lynch                | Barclays Capital | Allen & Co.       | Citi | Credit Suisse | Deutsche Bank | RBC Capital Markets | Expected Shares<br>% of Company | 337,415,352<br>17.2% | Company Shares<br>% By Company | 180,000,000<br>53.3% | Outstanding Shares<br>PreIPO | 2,138,085,037 |
|  | Morgan Stanley                   |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  | J. P. Morgan                     |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  | Goldman Sachs                    |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  | BofA Merrill Lynch               |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  | Barclays Capital                 |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  | Allen & Co.                      |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| Citi   |                                  |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| Credit Suisse  |                                  |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| Deutsche Bank  |                                  |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| RBC Capital Markets  |                                  |                               |                      |                                   |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| Expected Price Range<br>Expected Dollars   | \$28.00-\$35.00<br>10,628.58 Mil | Holder Shares<br>% By Holders | 157,415,352<br>46.7% | Overallotment<br>Shares           | 50,612,302       | Source<br>Blended |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| Insider Average Cost<br>Offering Insider Cost Ratio  | \$1.110<br>28.38                 | <b>Business Description</b>   |                      | <b>Company Basics</b>             |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| People use Facebook to stay connected with their friends and family, to discover what is going on in the world around them, and to share and express what matters to them.   |                                  |                               |                      | Year Founded 2004                 |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
| <b>Related Business Categories</b><br>Internet Content-Entertainment   |                                  |                               |                      | Location Menlo Park, CA           |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  |                                  |                               |                      | Phone 650-308-7300                |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  |                                  |                               |                      | Website www.facebook.com          |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  |                                  |                               |                      | Employees - 3,539 As Of - 3/31/12 |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |
|  |                                  |                               |                      | Labor Unions None                 |                  |                   |      |               |               |                     |                                 |                      |                                |                      |                              |               |

**Category Average Rating - 4.20**

**Individual Category Ratings**

**Grid Legend**



**Keypoint Positives**

- 901 mil monthly active users (MAU)
- 526 mil daily active users (DAU)
- Over 500 mil MAUs using Facebook mobile products
- Advertisers have access to a vast consumer audience
- Penetration rates of greater than 85% in Chile, Turkey & Venezuela
- Penetration rates of greater than 60% in India, UK & US

**Keypoint Negatives**

- Faces significant competition in almost every aspect of its business
- Reduced spending from advertisers would harm FB financial conditions
- Action by governments to restrict access to FB could harm business
- Growth rates are expected to decline in the future
- May not be successful in its efforts to grow & monetize the FB platform
- Will expend substantial funds in connection with RSUs

**Ranking Overview**

As market anticipation builds for FB's public entrance on Wall St., many analysts have offered their opinion on the stock, criticized Zuckerberg for his attire, and voiced concerns over slowing growth and a host of other issues. The bottom line here is that FB is expected to open significantly higher than where the stock is priced, the media and alike will criticize the underwriting team for pricing the stock too low, while FB should be expected to steadily move higher once the initial trading frenzy for the stock dies down. Concerns over whether or not Mr. Zuckerberg is mature enough to run this company are moot, as he has surrounded himself with enough firepower to override any anxiety that investors may have on this issue. While Mr. Zuckerberg will hold the majority stake in the company, his management style is unlike many others, clearly demonstrated in the company's 'Hackathons', whereby employees are encouraged to build prototypes for new ideas, with these concepts reviewed and decided upon by the 'whole team'. This novel concept is what has made FB a different kind of company, one that has completely changed the way in which advertisers can reach potential customers, masked behind the backdrop of a free service platform that allows people to connect with friends, family and the like all over the world. While management makes it very clear that overall growth is expected to slow, this should be expected, but perhaps the real question here is whether or not FB will be able to monetize its mobile offering, as well as create a successful strategy that will allow the company to grow horizontally? Recent actions by the company indicate that it is ready to move full steam ahead on both of these issues, as the April acquisition of Instagram and growth strategies listed in its S-1 indicate that the company is gearing up for a new challenge. At the end of the day, the demand for this deal will be off the charts, as institutions, pension funds as well as retail investors will all be taking a position in this stock. This is FB and investments like this come around once in a decade, as the last time a stock caused such a stir was back in August of 2004 when GOOG came to market. Currently, the market expects FB to expand its current price range, with the likelihood that it could still price at the high end. Moreover, given the fact that this deal will suck all of the oxygen out of the new issues market for the week, underwriters have essentially cleared the decks, allowing FB to take center stage. We are adopting a 'Buy 3', as we expect the stock to trend higher once the dust settles.

Facebook

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As Of 5/14/12

| Year Ending - December 31  |          |             |              |             |                  |             |             |             |             | Financials - Income Statement - Annual |         |                             | Earnings Estimate For 2012 \$1.01 |                         |                         |
|--|----------|-------------|--------------|-------------|------------------|-------------|-------------|-------------|-------------|--|---------|-----------------------------|-----------------------------------|-------------------------|-------------------------|
| Fields that display a question mark have data that is larger than the space allotted |          |             |              |             |                  |             |             |             |             | Net Income Attributable to Holders     |         |                             | Weighted Shares Outstanding       | Stock Based Comp        | Percent Of Gross Profit |
| Year   | Revenues | Year Change | Gross Profit | Year Change | Operating Income | Year Change | Year Change | Year Change | Year Change | Year Change                            | EPS     | Weighted Shares Outstanding | Stock Based Comp                  | Percent Of Gross Profit |                         |
| 2011   | 3,711.0  | 88.0%       | 2,851.0      | 92.5%       | 1,756.0          | 70.2%       | 1,000.0     | 65.0%       | \$0.47      | 2,138.085                              | 217.000 | 7.6%                        |                                   |                         |                         |
| 2010   | 1,974.0  | 154.1%      | 1,481.0      | 167.3%      | 1,032.0          | 293.9%      | 606.0       | 164.6%      | \$0.28      | 2,138.085                              | 20.000  | 1.4%                        |                                   |                         |                         |
| 2009   | 777.0    | 185.7%      | 554.0        | 274.3%      | 262.0            | 576.4%      | 229.0       |             | \$0.11      | 2,138.085                              | 27.000  | 4.9%                        |                                   |                         |                         |
| 2008   | 272.0    | 77.8%       | 148.0        | 32.1%       | -55.0            | 55.6%       | -56.0       |             | -\$0.03     | 2,138.085                              | 30.000  | 20.3%                       |                                   |                         |                         |
| 2007   | 153.0    |             | 112.0        |             | -124.0           |             | -138.0      |             | -\$0.07     | 2,138.085                              | 73.000  | 64.6%                       |                                   |                         |                         |

| Year Ending - December 31 |          |                  |                       |              |                  |                       |               |                  |                  | Financials - Income Statement - Quarterly |                   |                          | Numbers are in millions except for earnings and percentages |  |  |
|---------------------------|----------|------------------|-----------------------|--------------|------------------|-----------------------|---------------|------------------|------------------|---|-------------------|--------------------------|---|--|--|
| Revenues                  |          |                  |                       | Gross Profit |                  |                       |               | Operating Income |                  |   |                   | Stock-Based Compensation |   |  |  |
| Quarter                   | Revenues | Quarterly Change | Year Over Year Change | Gross Profit | Quarterly Change | Year Over Year Change | Gross Margins | Operating Income | Quarterly Change | Year Over Year Change                     | Operating Margins | Stock Based Comp         | Percent Of Gross Profit                                     |  |  |
| 3/12                      | 1,058.0  | -6.5%            | 44.7%                 | 781.0        | -11.7%           | 38.5%                 | 73.8%         | 381.0            | -30.5%           | -1.8%                                     | 36.0%             | 103.000                  | 13.1%   |  |  |
| 12/11                     | 1,131.0  | 18.6%            | 54.7%                 | 884.0        | 23.1%            | 52.2%                 | 78.2%         | 548.0            | 32.4%            | 25.4%                                     | 48.5%             | 76.000                   | 8.6%  |  |  |
| 9/11                      | 954.0    | 6.6%             | 104.3%                | 718.0        | 4.8%             | 113.7%                | 75.3%         | 414.0            | 1.7%             | 91.7%                                     | 43.4%             | 70.000                   | 9.7%  |  |  |
| 6/11                      | 895.0    | 22.4%            | 107.7%                | 685.0        | 21.5%            | 114.1%                | 76.5%         | 407.0            | 4.9%             | 86.7%                                     | 45.5%             | 64.000                   | 9.3%  |  |  |
| 3/11                      | 731.0    | 0.0%             | 111.9%                | 564.0        | -2.9%            | 130.2%                | 77.2%         | 388.0            | -11.2%           | 139.5%                                    | 53.1%             | 7.000                    | 1.2%  |  |  |
| 12/10                     | 731.0    | 56.5%            |                       | 581.0        | 72.9%            |                       | 79.5%         | 437.0            | 102.3%           |   | 59.8%             | 6.000                    | 1.0%  |  |  |
| 9/10                      | 467.0    | 8.4%             |                       | 336.0        | 5.0%             |                       | 71.9%         | 216.0            | -0.9%            |   | 46.3%             | 4.000                    | 1.2%  |  |  |
| 6/10                      | 431.0    | 24.9%            |                       | 320.0        | 30.6%            |                       | 74.2%         | 218.0            | 34.6%            |   | 50.6%             | 5.000                    | 1.6%  |  |  |
| 3/10                      | 345.0    |                  |                       | 245.0        |                  |                       | 71.0%         | 162.0            |                  |   | 47.0%             | 5.000                    | 2.0%  |  |  |

| Net Income Before Taxes |                         |                  |             | Tax Information |          | Net Income After Taxes |                  |                       | Share Information |            |                             | EBITDA |                          |               |
|-------------------------|-------------------------|------------------|-------------|-----------------|----------|------------------------|------------------|-----------------------|-------------------|------------|-----------------------------|--------|--------------------------|---------------|
| Quarter                 | Net Income Before Taxes | Quarterly Change | Net Margins | Tax Provisions  | Tax Rate | Net Income After Taxes | Quarterly Change | Net After Tax Margins | EPS Diluted       | Qtr Change | Weighted Shares Outstanding | EBITDA | EBITDA Interest Coverage | EBITDA Margin |
| 3/12                    | 382.0                   |                  | 36.1%       | 177.0           | 46.3%    | 205.0                  | -32.1%           | 19.4%                 | \$0.10            | -28.6%     | 2,138.085                   |        |                          |               |
| 12/11                   |                         |                  |             |                 |          | 302.0                  | 33.0%            | 26.7%                 | \$0.14            | 27.3%      | 2,138.085                   |        |                          |               |
| 9/11                    |                         |                  |             |                 |          | 227.0                  | -5.4%            | 23.8%                 | \$0.11            |            | 2,138.085                   |        |                          |               |
| 6/11                    |                         |                  |             |                 |          | 240.0                  | 3.0%             | 26.8%                 | \$0.11            |            | 2,138.085                   |        |                          |               |
| 3/11                    | 398.0                   |                  | 54.4%       | 165.0           | 41.5%    | 233.0                  | -7.2%            | 31.9%                 | \$0.11            | -8.3%      | 2,138.085                   |        |                          |               |
| 12/10                   |                         |                  |             |                 |          | 251.0                  | 91.6%            | 34.3%                 | \$0.12            | 100.0%     | 2,138.085                   |        |                          |               |
| 9/10                    |                         |                  |             |                 |          | 131.0                  | 1.6%             | 28.1%                 | \$0.06            |            | 2,138.085                   |        |                          |               |
| 6/10                    |                         |                  |             |                 |          | 129.0                  | 35.8%            | 29.9%                 | \$0.06            | 50.0%      | 2,138.085                   |        |                          |               |
| 3/10                    |                         |                  |             |                 |          | 95.0                   |                  | 27.5%                 | \$0.04            |            | 2,138.085                   |        |                          |               |

| Balance Sheet Metrics |                      |                     |              |                      |            |                          |                      |          |             |   |                                     |                 |
|-----------------------|----------------------|---------------------|--------------|----------------------|------------|--------------------------|----------------------|----------|-------------|---|-------------------------------------|-----------------|
| Reporting Period      | Cash And Equivalents | Cash To Asset Ratio | Total Assets | Total Long Term Debt | Total Debt | Total Shareholder Equity | Debt to Equity Ratio | Goodwill | Intangibles | Goodwill Intangible Percent of Total Assets | As a Percent of Shareholders Equity | Indicated Yield |
| 12'10                 | 1,785.0 M            | 59.7%               | 2,990.0 M    | 250.0 M              | 250.0 M    | 2,162.0 M                | 0.12 : 1             |          | 96.0 M      | 3.2%  | 4.4%                                |                 |
| 12'11                 | 1,512.0 M            | 23.9%               | 6,331.0 M    | 0.0 M                | 0.0 M      | 4,899.0 M                | N/A                  |          | 162.0 M     | 2.6%  | 3.3%                                |                 |
| 3'12                  | 1,282.0 M            | 18.7%               | 6,859.0 M    | 0.0 M                | 0.0 M      | 5,272.0 M                | N/A                  |          | 189.0 M     | 2.8%  | 3.6%                                |                 |

| Yearly |                          |                             |                     |                     | Cash Flow Statistics |                          |                             |                     |                           | Quarterly |                  |      | 2011 PE Ratios |  |  | 2012 |
|--------|--------------------------|-----------------------------|---------------------|---------------------|----------------------|--------------------------|-----------------------------|---------------------|---------------------------|-----------|------------------|------|----------------|--|--|------|
| Year   | Net Cash From Operations | Weighted Shares Outstanding | Cash Flow Per Share | Preferred Dividends | Quarter              | Net Cash From Operations | Weighted Shares Outstanding | Cash Flow Per Share | Quarter Cash Flow Annuals | 73.4      | @ Midrange +3    | 34.2 |                |  |  |      |
| 2011   | 1,549.00                 | 2,138.085                   | \$0.72              |                     | 3/12                 | 441.00                   | 2,138.085                   | \$0.21              | \$0.83                    | 71.3      | @ Midrange +2    | 33.2 |                |  |  |      |
| 2010   | 698.00                   | 2,138.085                   | \$0.33              |                     | 12/11                |                          | 2,138.085                   |                     |                           | 69.1      | @ Midrange +1    | 32.2 |                |  |  |      |
| 2009   | 155.00                   | 2,138.085                   | \$0.07              |                     | 9/11                 |                          | 2,138.085                   |                     |                           | 67.0      | Midrange Pricing | 31.2 |                |  |  |      |
| 2008   | 8.00                     | 2,138.085                   | \$0.00              |                     | 6/11                 |                          | 2,138.085                   |                     |                           | 64.9      | @ Midrange -1    | 30.2 |                |  |  |      |
| 2007   | 11.00                    | 2,138.085                   | \$0.01              |                     | 3/11                 | 345.00                   | 2,138.085                   | \$0.16              | \$0.65                    | 62.8      | @ Midrange -2    | 29.2 |                |  |  |      |
|        |                          |                             |                     |                     |                      |                          |                             |                     |                           | 60.6      | @ Midrange -3    | 28.2 |                |  |  |      |

**Corporate History**

Facebook was incorporated in July 2004 and is headquartered in Menlo Park, California. The company was originally founded in February 2004 under the name thefacebook.com at Harvard University. In September 2004 it introduced the Facebook Wall, a forum for users to post messages to their friends. In May 2005 it grew to support more than 800 college networks, in September 2005 added high school networks, and in October 2005 added international school networks and introduced Photos. In April 2006 it launched Facebook Mobile, and in May expanded Facebook's availability to workplace networks. In August 2006 it rolled out the first version of the Facebook API, in September opened registration broadly and introduced News Feed, and in November launched the Share feature on over 20 partner sites. In May 2007 FB launched the Facebook Platform with 65 developers and 85 applications, and in November 2007 launched its self-service ad platform and Facebook Pages. In April 2008 it introduced Chat and expanded to 23 languages. In February 2009 it introduced the "Like" button and launched Facebook payments. In 2010 it introduced Graph API and Social plugins and launched Groups. In 2011, FB introduced an updated profile called "Timeline."

**Business Strategy**

Facebook is in the early days of pursuing its mission to make the world more open and connected. The company believes that it has a significant opportunity to further enhance the value it delivers to users, developers, and advertisers. Key elements of the company's strategy are:



**Strategy Key Elements**

Items Listed From S-1

- **Expand Global User Community.** There are more than two billion global Internet users according to an industry source and Facebook aims to connect all of them. It had 901 million MAUs globally with approximately 80% accessing Facebook from outside the U.S. as of March 31, 2012. FB continues to focus on growing its user base across all geographies, including less-penetrated markets such as Brazil, Germany, India, Japan, Russia.
- **Build Great Social Products to Increase Engagement.** Facebook prioritizes product development investments that will create engaging interactions between users, developers, and advertisers on Facebook, across the web, and on mobile devices. FB continues to invest in improving its core products such as News Feed, Photos, and Groups, developing new products such as Timeline and Ticker, enabling new Platform apps and website integrations.
- **Provide Users with the Most Compelling Experience.** Facebook users are sharing and receiving more information across a broader range of devices. To provide the most compelling user experience, FB continues to develop products and technologies focused on optimizing company's social distribution channels to deliver the most useful content to each user by analyzing and organizing vast amounts of information in real time.
- **Build Engaging Mobile Experiences.** FB is devoting substantial resources to developing engaging mobile products and experiences for a wide range of platforms, including smartphones and feature phones. In addition, it is working across the mobile industry with operators, hardware manufacturers, operating system providers, and developers to improve the Facebook experience on mobile devices and make Facebook available to more people.
- **Enable Developers to Build Great Social Products Using the Facebook Platform.** The success of Platform developers and the vibrancy of its Platform ecosystem are key to increasing user engagement. Social games have achieved significant levels of adoption by Facebook users, and the company is also focused on enabling the development of apps in categories beyond games, for example: music, news, movies, television programming.
- **Improve Ad Products for Advertisers and Users.** FB plans to continue to improve its ad products in order to create more value for advertisers and enhance their ability to make their advertising more social and relevant for users. FB intends to invest in additional products, such as its recent introduction of sponsored stories in News Feed, while continuing to balance its monetization objectives with the optimizing the user experience.

**Competitive Strengths**

Items Listed From S-1

- **Connect with Your Friends.** With 901 million monthly active users (MAUs) worldwide, FB's users are increasingly able to find and stay connected with their friends, family, and colleagues on Facebook.
- **Discover and Learn.** FB believes that users come to Facebook to discover and learn more about what is going on in the world around them, particularly in the lives of their friends and family and with public figures and organizations that interest them. Each user's experience on Facebook is unique based on the content shared by his or her friends and connections. This content is personalized in products such as News Feed and Timeline.
- **Express Yourself.** FB enables users to share and publish their opinions, ideas, photos, and activities to audiences ranging from their closest friends to 901 million users, giving every user a voice within the Facebook community.
- **Control What You Share.** Through Facebook's privacy and sharing settings, its users can control what they share and with whom they share it.
- **Experience Facebook Across the Web.** Through applications (apps) and websites built by developers using the Facebook Platform, its users can interact with their Facebook friends while playing games, listening to music, watching movies, reading news, and engaging in other activities.
- **Stay Connected with Friends on Mobile Devices.** Through the combination of FB's mobile sites, smartphone apps, and feature phone products, users can bring Facebook with them on mobile devices wherever they go.





Reporting Period - 4th Quarter - Dec '11

**Debt Structure and Capitalization Shifts**

|         | Limit | Actual | Pro Forma as Adjusted | Status as of IPO | Net Change | Percent Change |
|---------|-------|--------|-----------------------|------------------|------------|----------------|
| No Debt |       | 0.0    | 0.0                   |                  | 0.0        | 0.0%           |
|         |       |        |                       |                  |            |                |
|         |       |        |                       |                  |            |                |
|         |       |        |                       |                  |            |                |
|         |       |        |                       |                  |            |                |
|         |       |        |                       |                  |            |                |
|         |       |        |                       |                  |            |                |

- New Debt
- Increased Debt
- No Change In Debt
- Decreased Debt
- Retired Debt

| Debt Shift               |       | Debt Change |                       | IPO Proceeds Debt Utilization   |                                     |
|--------------------------|-------|-------------|-----------------------|---|-------------------------------------|
| Retired                  | _____ | 0.0         | Actual Amount Total   | 5,600.0   | Net Proceeds to Company             |
| Reduced                  | _____ | 0.0         | Proforma Amount Total | 0.0   | Debt Net Change                     |
|                          | _____ | 0.0         | Net Change in Debt    | 0.0%  | Proceeds and Recap Debt Utilization |
| <b>Debt Shift Totals</b> |       | ?           | Percent Change        | A positive percentage shows how the proceeds plus any recapitalization were used to reduce debt |                                     |

**Preferred Stock and its Impact on the Income Statement**

| Preferred Share Description | Actual Value in Millions | Pro Forma As Adjusted Value | Percentage Change | Description  | Reporting Period |                |
|-----------------------------|--------------------------|-----------------------------|-------------------|--|------------------|----------------|
|                             |                          |                             |                   |  | Year Ending      | Quarter Ending |
| Convertible preferred stock | 615.00                   | 0                           | -100.00%          | Attribut. to participating securities: conv. pref. stock & restr. st. awards | Dec. 31,2011     | Mar. 31, 2012  |
|                             |                          |                             |                   |  | In Millions      |                |
|                             |                          |                             |                   | Net Before Preferred   | 1,000            | 205            |
|                             |                          |                             |                   | Preferred Cost   | 332              | 68             |
|                             |                          |                             |                   | Net After Preferred And Other Expenses                                       | 668              | 137            |

**Share Classes and Descriptions**

| Classes of Stock         | Authorized    | Issued        | Ownership                                    | Votes | IPO Disposition                           |
|--------------------------|---------------|---------------|--|-------|---|
| Class A common stock     | 4,141,000,000 | 117,549,393   | DST Global, Goldman Sachs, Tiger Golabl, oth | 1     | 180 mil new shares will be issued         |
| Class B common stock     | 4,141,000,000 | 1,235,134,201 | Mr. Zuckerberg, Mr. Breyer, Mr. Parker, oth  | 10    | 121,788,489 shares will convert into Cl A |
| Ser. A conv. pref. stock | 134,747,000   | 133,055,000   | Not specified                                |       | Will convert into Class B common stock    |
| Ser. B conv. pref. stock | 226,032,000   | 224,273,000   | Not specified                                |       | Will convert into Class B common stock    |
| Ser. C conv. pref. stock | 95,768,000    | 91,410,000    | Not specified                                |       | Will convert into Class B common stock    |
| Ser. D conv. pref. stock | 67,454,000    | 50,590,000    | Not specified                                |       | Will convert into Class B common stock    |
| Ser. E conv. pref. stock | 45,000,000    | 44,038,000    | Mail.ru Group Limited                        |       | Will convert into Class B common stock    |
|                          |               |               |  |       |   |
|                          |               |               |  |       |   |
|                          |               |               |  |       |   |
|                          |               |               |  |       |   |

**Debt Capitalization Sources**

**Dilution**

| Description | Source |
|-------------|--------|
| No Debt     | N/A    |
|             |        |
|             |        |
|             |        |
|             |        |

|   |         |
|---|---------|
| Midrange Price                                    | \$31.50 |
| Net Tangible Book Value PreIPO                    | \$2.85  |
| Net Tangible Book Value Increase to New Investors | \$2.30  |
| Net Tangible Book Value PostIPO                   | \$5.15  |
| Dilution to New Investors                         | \$26.35 |
| Percent Dilution                                  | 83.65%  |

**Industry Trends**

According to an IDC report dated August 2011, total worldwide advertising spending in 2010 was \$588 bil. FB's addressable market opportunity includes portions of many existing advertising markets, including the traditional offline branded advertising, online display advertising, online performance-based advertising, and mobile advertising markets. In December 2011, an advertiser could reach an estimated audience of more than 65 mil U.S. users in a typical day on Facebook. From 2010 to 2015, the worldwide online advertising market, excluding mobile advertising, is projected to increase from \$68 bil to \$120 bil, representing 12% and 16%, respectively, of the worldwide advertising market according to an IDC report dated August 2011. The global mobile advertising market was \$1.5 bil in 2010 and is expected to grow at a 64% compound annual rate to \$17.6 bil in 2015 according to an IDC report in 2011.

**Private Equity and Corporate Investor History**

In 2004 and 2005, Mr. Zuckerberg's father provided FB with initial working capital. In consideration for this assistance, the company issued him an option to purchase 2,000,000 shares, as adjusted for splits and reclassifications, of Class B common stock. In May 2009, FB sold an aggregate of 44,037,540 shares (after giving effect to a 5-for-1 stock split effected in October 2010) of its Ser. E pref. stock to Mail.ru Group Limited (f/k/a Digital Sky Technologies Limited), at a purchase price per share of \$4.54, for an aggregate purchase price of \$200 mil. In Dec. 2010, FB sold 2,398,081 shares of Class A common stock to DST Global Limited at \$20.85 per share, for an aggregate purchase price of \$50 mil. The holders of Class B common stock will hold approximately 96.3% of the voting power of outstanding capital stock following IPO, and FB's founder, Chairman, and CEO, Mark Zuckerberg, will hold or have the ability to control approximately 57.3% of the voting power of company's outstanding capital.

**Private Equity and Corporate Transaction Details**

| Private Equity or Corporate Entity | Percent Pre-IPO Shares | Percent Post-IPO Shares | Date   | Investment Transactions                           | Transaction Terms                      |
|------------------------------------|------------------------|-------------------------|--------|---|--|
| Mark Zuckerberg                    | 56.5%                  | 58.8%                   | 7 '04  | Initial investment, received 2 mil Class B shares | Percent is based on total voting power |
| Accel Partners                     | 11.2%                  | 1.6%                    |        | Holds Class B com. shares; selling shares at IPO  | Percent is based on total voting power |
| Dustin Moskovitz                   | 7.5%                   | 8.4%                    |        | Holds Class B common shares                       | Percent is based on total voting power |
| DST Global Limited                 | 5.5%                   | 5.7%                    | 12 '10 | Purchased 2.4 M Cl. A for \$50 M; selling at IPO  | Percent is based on total voting power |
| Sean Parker                        | 3.9%                   | 4.4%                    |        | Holds Class B common shares                       | Percent is based on total voting power |
| Mail.ru Group Limited              | 3.1%                   | 2.8%                    | 5 '09  | Purchased Ser. E conv. pref. stock for \$200 M    | Percent is based on total voting power |
| Tiger Global Management            | 2.8%                   | 2.9%                    |        | Holds Class A & B common shares                   | Percent is based on total voting power |
| Meritech Capital Partners          | 2.3%                   | 2.1%                    |        | Holds Class B common shares; selling at IPO       | Percent is based on total voting power |
| Elevation Partners                 | 2.2%                   | 2.2%                    |        | Holds Class B common shares; selling at IPO       | Percent is based on total voting power |
| Greylock Partners                  | 2.0%                   | 1.9%                    |        | Holds Class B common shares; selling at IPO       | Percent is based on total voting power |

**Annual Management Fees**

**Penalty Management Fees**

**Top 14 Largest Inside Selling Shareholders at the IPO**

| Selling Entity            | Position | Amount Sold In IPO | Percentage Sold In IPO | Selling Entity          | Position | Amount Sold In IPO | Percentage Sold In IPO |
|---------------------------|----------|--------------------|------------------------|-------------------------|----------|--------------------|------------------------|
| Accel Partners            | Director | 38,189,423         | 19.0%                  | Tiger Global Management | Investor | 3,362,188          | 6.2%                   |
| Mark Zuckerberg           | Officer  | 30,200,000         | 5.7%                   | Mark Pincus             | Investor | 1,009,283          | 19.0%                  |
| DST Global Limited        | Investor | 26,255,972         | 20.0%                  | Reid Hoffman            | Investor | 942,784            | 20.0%                  |
| Goldman Sachs             | Investor | 13,189,447         | 20.0%                  | Other stockholders      | Investor | 70,504             | 20.0%                  |
| Mail.ru Group Limited     | Investor | 11,270,402         | 20.0%                  |                         |          |                    |                        |
| Peter A. Thiel            | Director | 7,748,385          | 17.3%                  |                         |          |                    |                        |
| Meritech Capital Partners | Investor | 6,998,780          | 17.3%                  |                         |          |                    |                        |
| Greylock Partners         | Investor | 6,998,763          | 19.1%                  |                         |          |                    |                        |
| Microsoft                 | Investor | 6,556,925          | 20.0%                  |                         |          |                    |                        |
| Elevation Partners        | Investor | 4,622,496          | 11.5%                  |                         |          |                    |                        |

|                       |                              |   |   |   |
|-----------------------|------------------------------|---|---|---|
| Total Selling Holders | Total Shares Sold By Holders | Total Shares Sold By Selling Holders Listed Above | Percentage of Selling Holders Shares Of IPO | Average Selling Entities Percentage Reduction |
| 14                    | 157,415,352                  | 157,415,352                                       | 100.0%                                      | 16.8%   |

**Lock Up Period 180 Days**

| Restricted Shares | Eligible For Sale In | Volume Restricted | Date Eligible For Sale | Percent of Outstanding | Percent of IPO Shares |
|-------------------|----------------------|-------------------|------------------------|------------------------|-----------------------|
| 1,800,669,685     | 180 Days             | Yes               |                        | 84.2%                  | 533.7%                |
|                   |                      |                   |                        |                        |                       |
|                   |                      |                   |                        |                        |                       |

IPOfn does not report on whether or not eligible sales have indeed taken place, including pre-IPO market sales for cash transactions by any officers, members of management or any other employees, that are noted above. The information to the left only represents potential sales that may happen in the future, as outlined by the company in its SEC filings, which may also include additional eligible shares not currently listed by the company.

Facebook

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As Of 5/14/12

**Lead Manager IPO 52 Week History**

Lead Manager **Morgan Stanley**

**30 Stock Maximum Display**

Average Gain of Up Deals **42.3%** **-24.3%** Average Loss of Down Deals

| Name                          | Symbol | IPO Date | Sector                                 | Market Cap | IPO Price | Opening Point Gain | Opening Percent Gain | Percent Gain This Report |
|-------------------------------|--------|----------|--|------------|-----------|--------------------|----------------------|--------------------------|
| LinkedIn                      | LNKD   | 5/18/11  | Internet Content-Info/News             | 10,133.1 M | \$45.00   | 38.00 pts          | 84.4%                | 138.3%                   |
| Michael Kors                  | KORS   | 12/14/11 | Retail-Apparel/Shoe                    | 7,750.0 M  | \$20.00   | 5.00 pts           | 25.0%                | 103.1%                   |
| Splunk                        | SPLK   | 4/18/12  | Internet Application Software          | 2,901.3 M  | \$17.00   | 15.00 pts          | 88.2%                | 84.4%                    |
| Brightcove                    | BCOV   | 2/16/12  | Internet Application Software          | 523.8 M    | \$11.00   | 3.50 pts           | 31.8%                | 80.5%                    |
| Jive Software                 | JIVE   | 12/12/11 | Communications Software                | 1,032.5 M  | \$12.00   | 3.12 pts           | 26.0%                | 50.2%                    |
| Enphase Energy                | ENPH   | 3/29/12  | Energy-Alternate Sources               | 287.8 M    | \$6.00    | 1.50 pts           | 25.0%                | 40.5%                    |
| Bazaarvoice                   | BV     | 2/23/12  | Internet Application Software          | 958.0 M    | \$12.00   | 4.00 pts           | 33.3%                | 40.4%                    |
| Infoblox                      | BLOX   | 4/19/12  | Applications Software                  | 874.3 M    | \$16.00   | 6.50 pts           | 40.6%                | 24.2%                    |
| Sandridge Permian Trust       | PER    | 8/10/11  | Oil Company-Exploration & Production   | 1,152.9 M  | \$18.00   | 0.00 pts           | 0.0%                 | 22.0%                    |
| Inergy Midstream LP           | NRGM   | 12/15/11 | Pipelines                              | 1,524.5 M  | \$17.00   | 0.00 pts           | 0.0%                 | 20.6%                    |
| Millennial Media              | MM     | 3/28/12  | Advertising Services                   | 1,143.6 M  | \$13.00   | 12.00 pts          | 92.3%                | 17.5%                    |
| Bonanza Creek Energy          | BCEI   | 12/15/11 | Oil Company-Exploration & Production   | 788.7 M    | \$17.00   | -1.50 pts          | -8.8%                | 17.3%                    |
| Rentech Nitrogen Partners LP  | RNF    | 11/3/11  | Chemicals-Specialty                    | 870.2 M    | \$20.00   | 0.00 pts           | 0.0%                 | 13.8%                    |
| Chesapeake Granite Wash       | CHKR   | 11/10/11 | Investment Companies                   | 1,082.5 M  | \$19.00   | 0.00 pts           | 0.0%                 | 12.3%                    |
| Select Income REIT            | SIR    | 3/6/12   | REITs-Single Tenant                    | 689.4 M    | \$21.50   | 0.25 pts           | 1.2%                 | 6.9%                     |
| SandRidge Mississippian Trust | SDR    | 4/17/12  | Oil Company-Exploration & Production   | 1,100.4 M  | \$21.00   | 0.80 pts           | 3.8%                 | 5.4%                     |
| PetroLogistics LP             | PDH    | 5/3/12   | Petrochemicals                         | 2,363.0 M  | \$17.00   | -0.50 pts          | -2.9%                | 0.0%                     |
| Apollo Residential Mortgage   | AMTG   | 7/21/11  | Finance-Mortgage Loan/Banker           | 195.1 M    | \$20.00   | -1.00 pts          | -5.0%                | -5.0%                    |
| HomeAway                      | AWAY   | 6/28/11  | Internet Incubators                    | 2,023.7 M  | \$27.00   | 9.10 pts           | 33.7%                | -6.1%                    |
| Yandex N.V.                   | YNDX   | 5/23/11  | Web Portals/Internet Service Providers | 7,195.9 M  | \$25.00   | 10.00 pts          | 40.0%                | -10.4%                   |
| AVG Technologies              | AVG    | 2/1/12   | Computer Software                      | 769.5 M    | \$16.00   | -2.47 pts          | -15.4%               | -11.6%                   |
| U.S. Silica Holdings          | SLCA   | 1/31/12  | Diversified Minerals                   | 742.2 M    | \$17.00   | 0.25 pts           | 1.5%                 | -17.5%                   |
| Zynga                         | ZNGA   | 12/15/11 | Internet Content-Entertainment         | 5,231.3 M  | \$10.00   | 1.00 pts           | 10.0%                | -25.2%                   |
| Intermolecular                | IMI    | 11/17/11 | Semiconductor Equipment                | 295.8 M    | \$10.00   | 0.00 pts           | 0.0%                 | -30.0%                   |
| Pandora Media                 | P      | 6/14/11  | Web Portals/Internet Service Providers | 1,469.8 M  | \$16.00   | 4.00 pts           | 25.0%                | -42.1%                   |
| Solazyme                      | SZYM   | 5/26/11  | Energy-Alternate Sources               | 569.6 M    | \$18.00   | 2.00 pts           | 11.1%                | -44.2%                   |
| Groupon                       | GRPN   | 11/3/11  | E-Commerce/Services                    | 6,264.8 M  | \$20.00   | 8.00 pts           | 40.0%                | -50.5%                   |

**IPO Sector Specific 2-Year Rolling History**

Sector **Internet Content-Entertainment**

**15 Stock Maximum Display**

Average Gain of Up Deals **21.7%** **-53.7%** Average Loss of Down Deals

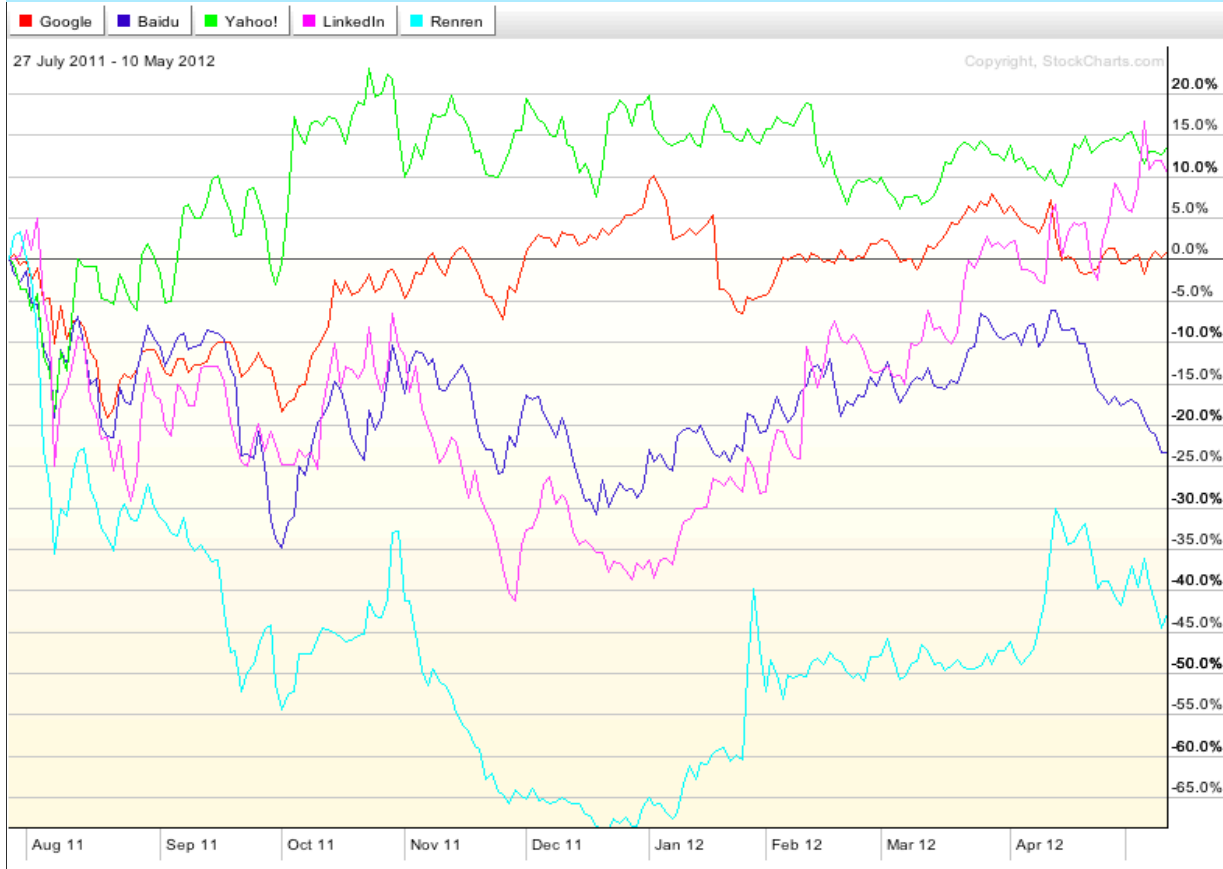
| Name                      | Symbol | IPO Date | Lead Manager       | Market Cap | IPO Price | Opening Point Gain | Opening Percent Gain | Percent Gain This Report |
|---------------------------|--------|----------|--------------------|------------|-----------|--------------------|----------------------|--------------------------|
| Tudou Holdings Limited    | TUDO   | 8/16/11  | Credit Suisse      | 1,000.7 M  | \$29.00   | -3.89 pts          | -13.4%               | 21.7%                    |
| Zynga                     | ZNGA   | 12/15/11 | Morgan Stanley     | 5,231.3 M  | \$10.00   | 1.00 pts           | 10.0%                | -25.2%                   |
| Taomee Holdings Limited   | TAOM   | 6/8/11   | Credit Suisse      | 187.0 M    | \$9.00    | -0.51 pts          | -5.7%                | -42.6%                   |
| Jiayuan.com International | DATE   | 5/11/11  | BofA Merrill Lynch | 165.8 M    | \$11.00   | 0.00 pts           | 0.0%                 | -51.8%                   |
| Renren                    | RENN   | 5/4/11   | Morgan Stanley     | 2,248.0 M  | \$14.00   | 5.50 pts           | 39.3%                | -59.4%                   |
| FriendFinder Networks     | FFN    | 5/10/11  | Imperial Capital   | 27.9 M     | \$10.00   | 0.00 pts           | 0.0%                 | -89.4%                   |



**Sector Comparables**

| Name          | Symbol | NAICS 519130   | Average Volume |
|---------------|--------|--|----------------|
| Google        | GOOG   | Internet Publishing & Broadcasting & Web Search Portals - 519130 | 2,711,173      |
| Baidu         | BIDU   | Internet Publishing & Broadcasting & Web Search Portals - 519130 | 5,228,490      |
| Yahoo!        | YHOO   | Internet Publishing & Broadcasting & Web Search Portals - 519130 | 15,845,358     |
| LinkedIn Corp | LNKD   | Internet Publishing & Broadcasting & Web Search Portals - 519130 | 3,812,974      |
| RenRen        | RENN   | Internet Publishing & Broadcasting & Web Search Portals - 519130 | 12,796,807     |

**Graph of Sector Comparables**



**Comparables Aftermarket Performance Since Coming Public**

| Symbol | IPO Date | Percent Change Since IPO |
|--------|----------|--------------------------|
| GOOG   | 8'04     | 622.0%                   |
| BIDU   | 8'05     | 4,480.0%                 |
| YHOO   | 4'96     | 2,759.3%                 |
| LNKD   | 5'11     | 151.1%                   |
| RENN   | 5'11     | -57.1%                   |

**Comparison Chart Reference Points Numbered For Black and White Images**

|   | Symbol         | Percent Change On Chart |
|---|----------------|-------------------------|
| ① | YHOO           | 13.66%                  |
| ② | LNKD           | 10.39%                  |
| ③ | GOOG           | 1.06%                   |
| ④ | BIDU           | -23.31%                 |
| ⑤ | RENN           | -42.65%                 |
|   | <b>Average</b> | <b>-8.17%</b>           |

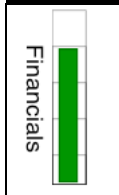
**Sector Comparables Description and Relevance to the Featured Stock**

|               |        | IPOfn Rankings of Relevance   |      |               |
|---------------|--------|---|------|---------------|
|               |        | Lowest  |      | Highest       |
| Name          | Symbol | Company Description   | PE   | Revenues      |
| Google        | GOOG   | Global technology company that offers a wide range of search options, including web, image, groups, directory & news searches           | 18.6 | 37,905.00 Mil |
| Baidu         | BIDU   | Leading Internet search engine in China.  | 36.5 | 14,500.79 Mil |
| Yahoo!        | YHOO   | Global Internet media company offering communications, content & a community platform, delivering consumer experiences & advertising.   | 17.7 | 4,984.20 Mil  |
| LinkedIn Corp | LNKD   | Operates a social networking website used for the professional networking.  |      | 522.19 Mil    |
| RenRen        | RENN   | Operates a real-time social networking website that offers users the ability to communicate, share information & user generated content |      | 117.97 Mil    |

## IPO Frontline Commentary on the Featured Stock

### Financials

[Details on Page 2](#)



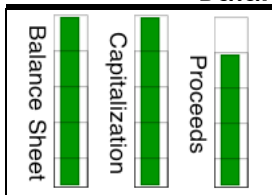
**Ranking:** Strong

**Commentary:** For a company that isn't even a decade old, FB is in quite a desirable financial position. The company generated over \$3.7 billion in revenue for the full year 2011, representing an +88% move from the prior year. Facebook generates its revenue through two primary avenues, advertising and payments/other fees. Since the day FB started generating sales, advertising has represented the majority of sales, but has slowly been losing some of its ground recently. As of March 31, the product mix was 82% and 18% respectively, only a one percent change from 83% and 17% in the prior quarter. FB's advertising revenue did experience a first in the most recent quarter, as average price per ad remained flat year over year due to the continued weakness in the European economy. If this trend is not overturned in the near future, there could be severe repercussions in the company's stock that are sparked by analyst discontent. With advertising semi-struggling in growth terms, payments and other fees, which are largely derived from the sale of virtual goods, have been thriving. Starting last July, all game developers had to accept Facebook Payments on their platform and could not have their own external payment system set up. This ended up leading to a several hundred basis point spike in the representation of gaming revenue on FB's income statement. One concern in our eyes is the fact that in the most recent quarter, 11% of total revenues were generated by Zynga, whom FB has an agreement with that grants the social media company 30% of all virtual good sales made by Zynga. Recently ZNGA began allowing users to play their games on their own website, which could spell the end of their relationship with Facebook if things do not change in 2015 when their contract is up. In this case, FB could suffer a very serious cut in their sales, which assuredly would not be well welcomed by the street. On a brighter note however, the average revenue per user has been improving year over year for several quarters in a row now and is a key metric analysts will focus on moving forward. Taking a look at the margin situation for FB, investors will notice that there is a lot of inconsistency, and several percentage point moves are not uncommon. This characteristic is especially true moving from Q4 to Q1, as the slowdown after the strong holiday season has a harsher than normal effect on

FB. Moving forward though, we have to believe that operating margins are going to continue trending downward as Facebook continues to build out their own data centers around the world. With nearly a billion users, this is not going to be a small task by any means, but it will allow the company to become self dependent in the long run. So if investors are willing to deal with compressed margins for the next several quarters, the company could potentially come back stronger than ever afterward. Then there comes the granddaddy of all problems, FB's stock based compensation. In 2011, \$217 million was handed out, which while only 5.8% of revenues, is going to be miniscule relative to what is paid out this year and in the future. FB possesses restricted stock units (RSUs) that are going to end up costing the company billions over the next several years. Assuming IPO shares price in the middle of their range at \$31.50 (which they won't), and occurred on March 31<sup>st</sup>, the company would have incurred a \$965 million charge associated with these shares. Granted things are bound to change when they come public later this week, but there is practically no way to calculate the exact amount due to the vagueness in the company's S-1 filing. What is certain however is that within the next two years, FB is going to be reporting \$2.3 billion in charges related to these units, enough to make the company forego its profitability, an event that hopefully analysts will be willing to overlook as a one time charge. Our only other gripe, if we can call it that, with Facebook's financial situation is their lack of monetization on their mobile platform. As of April 20<sup>th</sup>, more than 500 million users utilize the mobile applications offered by FB, yet an insignificant portion of revenues is coming from the segment. FB needs to find a way to integrate ads into the mobile apps without disturbing user experience; otherwise there will be an enormous tail off in monthly active users. Yet if the company is able to achieve this feat, the possibilities for revenue are near endless, as the entire globe is moving towards mobile objects and leaving their clunky desktops and laptops behind. We are giving this section a 'Strong' rating as the stock-based compensation situation is rather gruesome and needs to be addressed moving forward, but the opportunity for growth is still substantial enough for us not to be worried about ARPU slipping anytime soon.

### Balance Sheet/Capitalization/ Use of Proceeds

[Details on Page 2](#)



**Ranking:** Very Strong/Very Strong/Strong

**Commentary:** FB's balance sheet offers investors a snap shot of the company's current financial position, and considering that FB has zero debt, with intangibles that represent barely a blip on the radar at 3.6% of shareholders equity, along with a significant amount of cash and equivalents, it is difficult for us to find


anything within this statement that disappoints. Perhaps the only shortfall that exists can be found in a cash to asset ratio which comes in at 18.7%; however, this metric should improve, as the proceeds from this offering are received. The fact is that based on the data provided by the company both current and on a Pro Forma basis, the numbers furnished by the company present a very positive viewpoint on the financial health of FB. Turning to capitalization, these metrics are also highly favorable. Cash and equivalents will rise +143% upon the closing of its IPO, while all of the 569,001,400 in convertible

preferred stock will be converted into Class B common stock. All financial metrics impacting capitalization are set to rise, with the funds from this IPO only solidifying the already strong capitalization position of the company. While our assessment on both balance sheet and capitalization are rather boring, the fact is that both of these statements are ‘Clean’, free of any negatives or potential red flags that would be a cause for concern. However, the proceeds of this offering, or rather the way in which FB will utilize this money is a different story. Obviously, based on the financial health of FB, this is not a situation where the company needs money, rather coming public has now become a necessity, with many speculating that the company should have made this move a couple of years ago. Furthermore the primary trigger for this offering is the SEC’s 500-shareholder rule, whereby a private company must publicly disclose financial data once it has a minimum of 500 shareholders. FB states the usual boiler-plate reasons for this

move - to create a public market for its Class A common stock, enhance future access to the public equity markets, obtain additional capital and facilitate the ‘orderly distribution’ of its shares for selling stockholders. Given the business strategies of the company, management looks to deploy these funds for working capital and general corporate purposes, but thrown in as a side note is that the company may use ‘a portion o the net proceeds to satisfy a portion of the anticipated tax withholding and remittance obligations related to the initial settlement of outstanding RSUs. While this isn’t necessarily an ideal way in which new investors would like to see these funds spent, in the grand scheme of things, we expect this to be a non-event. Simply put, FB is coming public because it has to. The size of the company alone has triggered this event, and while there are many on Wall St. that argue that the 500-Shareholder rule is outdated, a company of this size belongs in the public realm.


**Management**

**Details on Page 4**

|   |  |  |
|---|--|--|
|  | <p><b>Ranking:</b> Very Strong</p> <p><b>Commentary:</b> Much has been made of the attire that Mr. Zuckerberg has decided to wear when attending the road show events for FB. The fact is that regardless of whether or not he has offended Wall St by dressing in such a casual manner, all of this chatter is nothing but a distraction. Yes, Mr. Zuckerberg is just 28 years old; however, is this a case of age just being a number? Should Mr. Zuckerberg be a Head of Product Design, rather than the CEO of a multi-billion dollar company? Again, these remarks are nothing short of reckless. The fact is that regardless of what analysts, or Wall St. experts think, this is a situation that isn’t about to change anytime soon. What he hasn’t been given credit for is the fact that FB has a very well balanced, experienced core group of officers assisting in guiding the ship. The selection of these top notch industry participants denotes maturity rather than the inverse, as FB demands credibility, not just based on its significant growth, but the experience of those sitting in the high back chairs. Sheryl Sandberg, has been COO since 2008, formerly a VP of Global Online Sales &amp; Operations at GOOG, with her resume also featuring a stint as the Chief of Staff of the US Treasury, and an economist with The World Bank. David Ebersman has been the</p> | <p>CFO of FB since 2009, with his previous work experience including CFO of Genentech, and a research analyst at Oppenheimer. David Fischer has been with the company since 2010, and previously worked at GOOG, while he also served as the Deputy Chief of Staff for the US Treasury. Mike Schroepfer has been the VP of Engineering since September 2008, previously holding management positions at Mozilla and Sun Microsystems. Rounding out this list of 6 is Theodore Ulyot, with FB since 2008, with his resume including the Chief of Staff at the US Justice Department and as a deputy Assistant to President George W. Bush. Clearly experience abounds, and while the salaries attached to these officers are quite robust, it is difficult to fault the excessive compensation rates. To put this in better perspective, base compensation appears to be commensurate with the industry, but bonus rates and long-term comp are a completely different story. Perhaps the takeaway here is that the loss of anyone of these key employees would deal a significant blow to the company, these attractive packages are meant to ensure longevity. Although Mr. Zuckerberg may not have the credentials that many expect from a CEO of a company such as this, what he may lack in experience or business savvy, the rest of the management team makes up for any shortcomings that may be present.</p> |
|---|--|--|

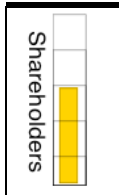
**Private Equity**

**Details on Page 7**

|   |   |  |
|---|---|--|
|  | <p><b>Ranking:</b> Neutral</p> <p><b>Commentary:</b> Not Applicable, there is no private equity involvement in this offering.</p> |  |
|---|---|--|

## Inside Shareholders

Details on Page 7



**Ranking:** Neutral

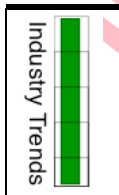
**Commentary:** Although FB has yet to come public, the shareholder base of the company is significant, evidenced by the 500-Shareholder trigger that has served as the primary reason for the company to come public. As we noted in a previous section,

SEC regulations stipulate that once a company has a minimum of 500 shareholders, a company must disclose financial data, and given the complexities involved with providing this information, many companies opt to just come public. For our purposes we will not be providing commentary on each of these shareholders, rather addressing the larger shareholders in the company. Obviously Mark Zuckerberg is the largest owner of voting rights, which subsequent to the IPO will represent a 30.3% interest in the company. However the shares owned by the CEO are Class B Shares, 503.601 mil to be exact, or a 31.5% stake. Zuckerberg is the only officer selling at the IPO, of which he will be dispensing of 30.200 mil shares. Sandberg, Ebersman, Schroepfer, and Ulliyot also own stock, in the form of Class B shares; however, each of their stakes represent less than 1% of the total outstanding. 5% stockholders include Accell Partners, DST Global Limited, Goldman Sachs, Dustin Moskovitz and T. Rowe Price, with the top 3 of this group selling a small percentage of their actual holdings. Other notable shareholders include Elevation Partners, Greylock Parnters, Mail.ru Group, Mark Pincus, Meritech Capital, Microsoft, Reid Hoffman, Sean Parker, Tiger Global Management, and Valiant Capital, with the latter being the only entity of this group maintaining their current holdings. However, while there is obviously quite a bit of insider selling going on at the time of this IPO, as 46.7% of the shares are coming from holders, this isn't a situation where investors are looking to completely bail, nor is it a sign that they will do so as the different lock-up periods begin to unwind, more precisely this is a way for these early equity sponsors of the company to monetize their investment. Turning to outstanding shares and RSUs or Restricted Share Units. Subsequent to the IPO, FB will have

598,396,119 of Class A common stock and 1,539,688,918 shares of Class B common stock outstanding. Shares of B stock are convertible into an equivalent number of Class A common shares, converting into shares of new Class A common upon transfer. Given the trading and pricing implications associated with all of these shares, the underwriting group has come up with several lock-up dates, the first of which occurs 91-days after the IPO for 171,797,666 shares held by holders other than Mr. Zuckerberg, the next expiration is 151 to 180 days after the IPO of 137 mil underlying net-settled Pre-2011 RSUs held by directors and then current employees, 55 mil outstanding shares, and another 55 mil shares that are subject to stock options held by then current employees other than Mr. Zuckerberg. The third provision occurs 181 days after the IPO for 1,338,453,216 outstanding shares and roughly 18 mil shares underlying other net-settled Pre-2011 RSUs. 211 days after the IPO another 141,776,569 shares will be available, with the last expiration date coming 366 days after the IPO for 93,815,940 shares that are owned by Mail.ru and DST Global. Furthermore, as was noted in the proceeds section of this report, FB has significant tax withholding and remittance obligations. As the company notes, 'we anticipate that we will expend substantial funds' to satisfy tax withholding remittance obligations 151 to 181 days after the IPO, when a portion of its RSUs are settled. Based on a mid-range pricing, FB's tax obligation would be approximately \$4 bil. FB expects to sell equity securities near the initial settlement date in an amount that is 'substantially equivalent to the number of shares of common that were withheld in connection with these net settlements'. The fact is that the issue of all of these RSU's, which is estimated to total around 378.772 mil create quite a financial mess, as understanding the accounting implications for some investors may be a bit intense. Nevertheless, while there seems to be a high probability that additional share offerings are expected sometime in the near future, the pricing ramifications of additional stock in the float should be easily absorbed by the market.

## Industry Trends

Details on Page 7



**Ranking:** Very Strong

**Commentary:** Although FB provides specific data on the inner workings of its business, the company falls short in delivering specifics related to the industry. Perhaps this is because this is a rapidly developing new market niche, which is inherently

difficult to quantify into a simple industry trends model. What we do know is that social networking whether it be for social or business purposes has completely redefined the way in which people communicate with one another. It is no secret that social networks have emerged as a mainstream platform, one in which allows people to connect with each other online, share information and experiences with friends and families. Based on market research compiled by IDC, the firm estimates that the number of users on social networks globally will swell to 1.6 bil by 2014. Currently FB has 900 mil MAUs, and the

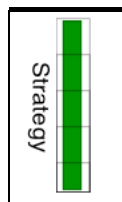
possibilities that can be generated given this number is staggering. With the majority of FB's revenues coming from advertising and payments derived from social games, we will focus our attention on the trends that are developing in these 2 categories. The first point to examine is the advertising industry, a business that has been in the midst of a major shift over the past decade. While traditional advertising spending still accounts for the majority of expenditures by many businesses, the Internet continues to capture a large piece of the pie. For its part FB has set out to ultimately change the way in which enterprises interact with their target audience, as the FB platform allows advertisers to 'select relevant and appropriate audiences for their ads' which can range from millions of users in the case of global brands to hundreds of users for smaller, local businesses. 'Authentic Identity serves as the differentiating point, as ads can be designed to reach the 'intended audience' with increasing accuracy rates compared to

online industry averages. Based on measurements compiled by Nielsen - broadly targeted campaigns focused on adults between 25 and 49 years old reached the desired audience with 95% accuracy, compared to an industry average of 72% in 2011. For campaigns with a smaller target group FB was able to reach the 'desired audience' with a 90% accuracy rate, compared to an industry average of 35%. Businesses are increasingly shifting their advertising spend over to the Internet, as this investment appears to be a more attractive way to utilize their money, as more traditional modes are becoming less relevant. Turning to social gaming, this segment of the market continues to evolve, with a report compiled by Nielsen in 2010 indicating that Internet users spend more time playing online games in the US than the amount of time that was spent on email. FB offers many different gaming options for their users; however, the most popular games have come from ZNGA. Games offered on

FB are free to play, but generate revenues through the in-game sale of virtual goods. In-Stat estimated that the worldwide market for the sale of virtual goods was \$7.3 bil in 2010, and is forecasted to double by 2014. Overall, the free-to-play approach attracts a wider audience of players, increasing the number of players who have the potential to become paying users. Furthermore, the larger audiences are typically attracted by this model, and enables a higher degree of in game social interaction. While we could spew off the number of current Internet users worldwide, how much that number is expected to grow and what that increase will represent for the FB user base, the reality is that this is an industry that is in the early stages of development. While FB's growth curve is expected to slow, their ability to further monetize what they have is a different story.

**Business Strategy**

**Details on Page 3**



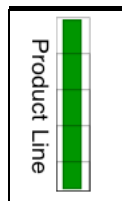
**Ranking:** Very Strong

**Commentary:** Its not too often that every single growth strategy listed by a company in its prospectus leaves us feeling giddy, but then again FB isn't every company. Despite having more than 900 million monthly active users FB is focused on expanding their global user count even more,

focusing on key regions such as Brazil, Germany, India, Japan, and Russia. The only BRIC country that is missing is China, and this is due to the heavy government regulation that has prevented Facebook from making a move into the largest Internet populated country in the world, and may do so until the end of time. One of the key reasons FB has been able to constantly get people to sign up for their service is due to the products available and the experience that they offer to users. With photos, news feeds, games, groups, and new features like Timeline and Ticker, there is something that nearly every user relates to and uses on a relatively frequent basis. However, lack of product development is something that could very easily result in millions of lost monthly users if Facebook does not focus heavily on it. Aside from having their own developers in-house to help come up with new features, third-party developers such as Zynga are able create their own applications that are Facebook-friendly and help keep users entertained.

Having this type of system in place is invaluable to FB, as developers are never going to cease their creative juices from flowing; meaning new features are always going to be rolling out. Facebook's business seems to be moving heavily towards its mobile platform, where they just recently eclipsed the 500 million MAU mark. With this being the case, it is going to be imperative for FB to make their mobile platform more feature intensive, allowing for nearly no usability difference between PC and mobile. Unfortunately this does rely on phone manufacturers to produce phones with up to date hardware and software. What is going to be of the most importance in the eyes of analysts moving forward is how FB is able to further monetize their ad space, both on mobile and desktop platforms. By increasing the number of users and visibility of ads, FB is not only adding more value to companies looking to buy space, but also for their users, as more relevant options will be provided for users to access. Not to mention that the more demand Facebook receives for ad space due to its higher market potential, the more money they are going to be able to charge advertisers, which drives revenues and makes everybody on Wall Street happy. So while management does have some lofty aspirations, every one of them is clearly achievable given the current path that FB has put itself on, and we are confident that each and every item will be achieved in the near future.

**Product Line**



**Ranking:** Very Strong

**Commentary:** Part of the beauty of FB is the simplicity yet vastness of their product line. Management breaks down all of their products into three groupings: users, developers, and advertisers. Anybody who signs up for Facebook is going to be overly familiar with the user portion

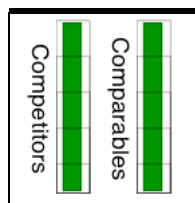
within a very short period of time. The layout is very self-explanatory and provides users with several options to share their social information and keep up with that of others, whether it is pictures, a status update, chat, or through their groups. There are several more products that users have access

to, but what is most important is the constant growth in number of options users have. Through company-wide 'Hackathons', FB employees have come up with some of their most recent innovations, including Timeline and chat. By allowing thousands of people to have an input on new features, brilliant ideas are bound to pop up, something that is an absolute necessity if MAUs are going to continue growing. In case the average user cannot come up with an idea on their own, Facebook allows individual developers to come up with their own applications and games. Through FB's Open Graph, developers have a set of APIs that help build apps on Facebook, desktop apps, and mobile apps. While FB gives these third-party developers a platform to post their creations, they also

charge them for any virtual goods that are sold through the new app. Zynga is currently the largest platform developer on Facebook, and in 2010 the two companies signed a deal in which FB gets 30% of all sales Zynga generates on the social media site. This form of payment system exists through what is known as Facebook Credits. Users can purchase this fictitious FB money and then use it to acquire rare items in their favorite games, such as Castleville or Farmville. The final form of product that Facebook offers is their advertising segment. We challenge you to find a company that would not want to advertise in a space where there are over 900 million potential clients just waiting around the corner. Advertisers have several different possibilities to choose from while looking to promote

their business, including regular ads, sponsored ads with surveys, fellow friend interactions, and comment boxes. FB also allows these companies to choose how they would like to pay for their postings, either cost per thousand impressions, or could per click. Many other sites are not as accommodating as FB when it comes to advertisements, which is part of the reason why the company has been so successful in garnering demand for their advertising space. Like we said in the beginning of this section, the number of possibilities are endless at and within FB, but from a user, developers, or advertisers perspective, everything is crystal clear and so easy a little child could navigate it.

### Competition/ Comparables



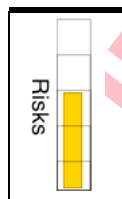
**Ranking:** Very Strong/Very Strong

**Commentary:** FB is in a very favorable competitive situation, as there are currently no social media sites that can truly hold a candle to its presence. Sites like Groupon pop up every day and take away market share from the daily-deal

giant, but nobody has been able to replicate what Mark Zuckerberg began nearly a decade ago. There are several international imitations such as Cyworld (Korea), Mixi (Japan), Orkut (Brazil and China), and vKontakte (Russia), but as we said before, none of them are even in the same league as Facebook at this point. The closest competitor is currently Google with their Google+ platform (they also own Orkut), which has over 100 million users at this point. Growth rates are currently on Google+'s side right now however, and while it could still be years until they reach Facebook's level, there is a lot more that Google needs to implement before the two sites can be truly compared. Aside from sites that are trying to mimic FB, the company does compete with other social firms like Flickr

through their photo-posting segment. As Facebook begins to roll out new products, they are bound to bring on more competition, but given their sheer size, it is nothing that anybody needs to be worrying about for quite some time. On top of the favorable competitive situation, comparable companies to FB have traded quite favorably in the after markets. Google concluded its IPO in 2004 and has since moved up by over +600%, a relatively low amount relative to the +4480% by BIDU and +2759% from YHOO since 2005 and 1996 respectively. Even LNKD, which came out last year, is trading up by over +150% after opening with an absurdly high premium that was not anticipated. The sole loser of the group we chose was the Chinese Facebook, RenRen (RENN). As you probably are all aware of by this point, nearly every Chinese stock took a major hit last summer due to transparency issues, which in part explains for why RENN is trading in the red. There really is no reason that analysts should be under the impression that Facebook needs to be looking over its shoulder for an approaching competitor, and with a strong historical past in social Internet stocks FB has a lot moving in its favor.

### Risks



**Ranking:** Neutral

**Commentary:** Just because this is FB doesn't mean that investors should overlook the risks that are associated with this business model. While FB has defined itself as the leader in the social media space, there are many competitors looking to move into this space, the least of which is GOOG. Although Google Plus has yet to hit ramming speed, this is perhaps the biggest threat that FB faces. In a world where GOOG has been able to knock many of its competitors off their perch, you can't count them out of the social networking game. Turning to the revenue structure of FB, advertising and social games account for the majority of its top line. During the 1<sup>st</sup> quarter of 2012, advertising represented 82% of revenue. The arrangements worked out between FB and advertisers is structured as such that there are no long-term commitments in place. While the tide appears to be clearly moving in favor of the Internet, as the ability to specifically target consumers more effectively are

### Details on Page 5

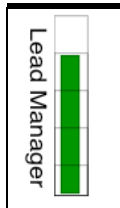
beginning to become more evident as time wears on, traditional advertising still remains a somewhat effective tool, and will be difficult to completely do away with. Mobile, or rather FB's ability to monetize this medium is yet another burning question. FB launched its first user app back in 2005, but to date the company doesn't 'generate any meaningful revenues from the use of FB mobile products'. Furthermore, the company has not shown ads to users accessing the FB mobile app or mobile website, and with more users accessing FB via their mobile devices, this shift would completely throw their advertising model out of whack. However, monetization as a whole is an unknown. FB currently has been able to monetize the FB Platform in various ways - ads on pages generated by apps on FB; direct advertising on FB, which has been purchased by Platform developers to drive traffic to their apps and websites; and fees from Platform developers use of Payments infrastructure to sell virtual and digital goods to users. Which leads us to ZNGA, as this game developer is 'responsible for substantially all' of FB revenues derived from Payments. During

2011 and the first quarter ending 2012 ZNGA accounted for roughly 12% and 11% respectively, of total revenues. Moreover, ZNGA's apps generate pages, which FB displays ads from other advertisers, and for 2011 and the first quarter of 2012 the company, an additional 7% and 4% of revenues were generated from this arrangement. In the past ZNGA was significantly dependent on FB for the majority of its revenues; however, ZNGA has also recognized that it too needed to diversify its revenue streams, with ZNGA recently launching games on its own website and on non-Facebook platforms. While we still view the relationship between these two companies as beneficial for both sides, as both businesses would be significantly impaired by a breakdown in their relationship, stranger things have happened. Turning to geographical restrictions there are currently several countries where FB is unable to operate - China, Iran, North Korea and Syria. While these operating limitations shouldn't be a surprise, FB's inability to reach the significant number of Internet users in China is obviously problematic. While China isn't completely off the table, as FB has a couple of different routes that can be pursued to open up this market, the major social networking operator over there, RenRen continues to gain notoriety, with an entrance by FB an uphill battle. Last on the list of major challenges are the specifics surrounding RSUs. Specifically, FB states that it will 'expend substantial funds' to satisfy tax withholding and remittance obligations 151 to 181 days after the IPO. The average of the withholding tax rates are expected to approximately 45% if the price of the stock at the time of the

settlement were equal to the midpoint of the current \$28 to \$35 price range, or \$4 bil in the aggregate. Obviously this number is subject to change, as this is a rough guesstimate. However, this proceeding is more than a tax event, as FB expects to fund these obligations by selling equity securities near the initial settlement date with the amount 'substantially' equivalent to the number of shares of common stock that will be withheld in connection with these net settlements, with the newly issued shares not to be dilutive. The caveat here is that FB may not be able to match the proceeds to the amount of its tax liability, while FB may elect to not fully fund tax withholding and remittance obligations through the issuance of equity, or the company may be unable to complete an offering due to market conditions, in which case, FB may choose to borrow funds from its credit facilities, use a portion of existing cash or pursue a combination of the aforementioned alternatives. The point is that these obligations are significant with the actual impact to its financials serving as a potential drag on overall reporting. While there are other items that are listed in FB's S-1 regarding legal issues, declining growth rates, intellectual property and or patent litigation suits, as well as other legal risks, FB is well equipped to deal with many of the challenges that will be thrown its way. Mr. Zuckerberg has aligned himself with a top-notch management team, that has significant experience in navigating the many obstacles that exist.

**Lead Manager**

**Details on Page 8**



**Ranking:** Strong

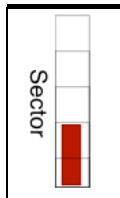
**Commentary:** It has been quite noticeable that as of January 1<sup>st</sup>, there was a new style of play in the underwriting game for IPOs. Lead managers have been doing whatever they can to make a deal work, even if that means cutting the price range in half, as a postponed or withdrawn deal is not going

to be looked upon favorably by up and coming companies scouring for someone to underwrite their deal. Fortunately for FB (not that they need it), they chose Morgan Stanley, whose results this year speak to their ability to adapt to the new 'rules' of leading an IPO. So far in 2012, Morgan has acted as lead manager on 11 deals, boasting an 8-3 record that will inevitably improve next Friday morning. An average premium of +27.2% has been generated on the aforementioned deals, but this is going to be of no relevance as Morgan begins to build a book around this deal, as estimates have shares of the biggest

IPO ever opening up a few hundred percent. In the past Morgan Stanley has had some success in leading other social media deals such as Facebook, at least out of the gate, as both ZNGA and RENN are trading below their IPO price, while LNKD has been thriving as of late. These deals popped +40%, 10%, and 84% at the open respectively, which means that Morgan has been able to create sizable demand for these companies, but FB is a different beast. Normally with only a few underwriters on a deal, a lot more pressure falls onto the lead manager, but in the case of Facebook, with 33 managers on this deal, a sizable portion of the responsibility is being outsourced to other underwriters. In the end this will work better for Morgan Stanley, as they will be able to allocate their shares at a higher price due to more demand, forcing the IPO price higher and then subsequently collecting more fees. At the end of the day FB made a very solid decision in choosing an experienced and near constantly successful underwriting team to lead their gigantic IPO.

**Sector**

**Details on Page 8**



**Ranking:** Weak

**Commentary:** It is without doubt that Facebook is going to pop at its open on enormous demand that has never been witnessed before; the real question what will happen after the hysteria dies down. If historical 'Internet Content-Entertainment' sector

is any type of judge, investors may want to avoid buying any

shares of FB in the public markets whatsoever. In 2011, six deals tested the public waters, and as of this report, all but one are trading below their IPO price. Ironically, TUDO was the worst at the open among the six companies, but has since rebounded as is trading +20% in the black, which is still far from impressive. Of the five remaining companies, three are located in China, which given the transparency issues that surfaced last summer, leaves us with no doubt as to why these stocks are still

in the red. Zynga is by far the most important company to focus on from this sector, as the gaming giant actually represented 15% of all FB revenues for the most recent quarter. After opening up +10% and moving higher for over two months, shares began their downturn after the company got sued for infringing on certain patents and furthermore after the acquisition of OMGPOP (makers of Draw Something), a decision

that analysts were not overly impressed with and is proving not to be accretive. If Facebook is not able to retain monthly active user growth moving forward, it is quite possible that we could see them sporting red ink on one of our reports in the next year or two without question, but that certainly won't be attributable to the performance of other stocks in this sector.

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