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INVESTMENT LETTER

Why I Do Not Want To Be A Facebook, Inc. Shareholder, No Matter What The Share Price Is

Mark Zuckerberg is twenty eight years old. He is the Chairman of the Board, Chief Executive Officer, and controlling shareholder of Facebook, Inc. (Nasdaq: FB), a company that recorded \$3.7 billion in revenue last year. Zuckerberg, brilliant and driven, is also plagued with a self-absorbed personality that can make it difficult to consider the needs of other people, including Facebook shareholders.

In *The Social Network*, a movie released in 2010, Mark Zuckerberg and his girlfriend Erica Albright (played by Jesse Eisenberg and Rooney Mara) are drinking beer one evening at the Thirsty Scholar Pub, a student hangout near the Harvard campus in Cambridge.

Zuckerberg, a Harvard undergraduate, is obsessed with the desire to be accepted into one of the university's elite social clubs. Responding to Albright's curiosity about why acceptance into one of the clubs is so important to him, he says that membership in a club will bring a better life. Because she attends Boston University which, he implies, is decidedly below Harvard in prestige, social and academic, Erica will enjoy access to stimulating and important people if her boyfriend is in an exclusive Harvard club, access that she would not ordinarily enjoy as a Boston University student.

Apparently Zuckerberg believes that what he has just said will impress Albright. He underestimates her poise and self-assurance. Infuriated by his arrogance and condescension, she tells him that the relationship is over. Unable to assess the effect his words have on other people, the movie implies, he is shocked by Erica's statement. He stares at her in disbelief. He is attracted to Erica and wants her back.

He offers a mechanical apology, hoping she will reconsider her decision. But he is out of luck and she lets him have it, telling him that he is an a**hole, and storms out of the bar. Surprised and

hurt, but probably not embarrassed because, the movie suggests, he is not socially capable of determining whether and why he has offended anyone, Zuckerberg runs back to his room, turns on his computer, hacks into Harvard's private network, and lets it be known to all network users: Erica's chest size is not as big as she wants everyone to believe. She has inflated her measurements, Zuckerberg claims, with generously padded bras.

WHOSE IDEA FOR A SOCIAL NETWORK WAS IT: ZUCKERBERG OR THE WINKELVOSS BROTHERS?

The producers of *The Social Network* may have had it right, characterizing Zuckerberg as a self-absorbed and smug egomaniac with few social skills. Maybe they were correct and maybe they were not. But rarely do extraordinary social skills and brilliant analytical talent come together. There is no doubt that Zuckerberg has unusual talent, especially with computer code, and there is no doubt that by any conventional measure, he is highly intelligent.

Cameron and Tyler Winklevoss, Harvard students and twin brothers, had conceived of a computerized social network. They had the idea but they did not have the programming knowhow to execute their plan. Having heard about Zuckerberg's prowess in writing computer code, they entreated him to write code for their scheme.

Promising to do so, Zuckerberg took the Winklevoss's idea, deceived them into thinking that he was working on their project, and went fast and furious to write code for his own computerized social network, a project, that, as he said to one of his Harvard friends whom he later betrayed, would connect men and women at Harvard, facilitating social and sexual connections.

Had Zuckerberg ever thought about a social network before he met the Winklevosses? We will

never know. Did he steal the idea for a social network for Facebook, or did he refine it, and execute it? It is not clear. It does not matter. But what is clear is that Zuckerberg has no confusion about self-interest and this is an important fact for newly public shareholders to know. He has proven that he understands the benefit of Machiavellian behavior, behavior that is short on ethics and long on brutal, ruthless self-interest.

ZUCKERBERG IS INSPIRED BY THE FORD TWO CLASS SHARE SYSTEM

The Social Network portrays Zuckerberg as obsessively self-absorbed with little concern for the welfare of anyone but himself. If this portrait is accurate it has ominous implications for Facebook’s public shareholders, the shareholders who own Class A shares, the shares with inferior rights to the Class B shares, shares held by Zuckerberg and other early Facebook investors.

Zuckerberg and his advisors designed a two class shareholder structure to ensure that Zuckerberg, after the company went public on May 18, would retain voting control of the company, with public shareholders having little say in the running of the company.

The lawyers and other advisors who designed the two class structure had precedents to follow, precedents that have enabled one person, or one family, no matter how large the size of the

company—and Facebook is a large company—to control the company’s voting power.

What is even more unusual and frightening, given Zuckerberg’s age and the limitations of his personality, is that he has 55.9% of the combined Class A and Class B voting power. He can do what he wants, and other shareholders have little say in protecting their investment.

If Zuckerberg, his attorneys, and other advisors were looking for guideposts for going public without giving up voting control they might have turned to the experience of the Ford family, the family whose patriarch designed the Model T and whose favorite saying in the company’s early years went like this: a customer can have any color car that he wants, as long as it is black.

Ford Motor Company and Facebook are not the only public companies to have two classes of stock, with the founders, an individual or a family, controlling the voting stock. But the two class public company is rare.

On January 17, 1956, with Goldman Sachs as lead underwriter, the Ford Motor Company sold, in what was then the biggest initial public offering in American history, 10.2 million Class A shares at \$64.50 per share for a total of six hundred and sixty million dollars, a sum equivalent, based upon today’s dollar’s purchasing power, to five and a half billion dollars.

Ford Motor Company (NYSE: F)			
Class A Shares and Class B Shares: Breakdown of Power			
As of March 14, 2012			
	Shares	Voting Power	Voting Power Per cent
Class A	3,745,045,967	One vote per share or 3,745,045,967 votes	60%
Class B	70,852,076	35 votes per share or 2,496,685,454 votes	40%
Total		6,241,731,421 votes	100%

Source: Ford Motor Company, Notice of 2012 Annual Meeting of Shareholders and Proxy Statement, March 30, 2012, pages one and two.

To read the full Investment Letter, please email us at contact@ferimc.com or call (918) 743-5959. You could also fill out your contact information at <http://www.ferimc.com/contact.html>, we will contact you as soon as possible.