Zynga Inc Faces Lawsuit Alleging Fraud During IPO

Zynga must face a trial after being indicted on charges of swindling shareholders regarding its plans before and after its IPO in December of 2011, says a report from Reuters. The decision come a year after the dismissal of an earlier version of the lawsuit.

Zynga management intended fraud?

According to U.S. District Judge Jeffery White, shareholders could seek claims that the company did not disclose declining user activity, concealed how changes in the Facebook platform would affect its demand, and exaggerated its 2012 revenue forecast, says the report.

Further, the plaintiff asserts that executives at Zynga “excessively traced bookings and game-operating metrics” on an ongoing, real-time basis, along with regular updates on the activity and transactions by every user of every Zynga game," penned White.

The judge further noted that all the confidential witnesses, which to some extent contributed to the lawsuit filed, approved of the fact that updates on game users and spending data were easily accessible to Zynga's management. White also claimed that their testimony was in line with the accusation that the management of the company willingly committed the fraud.

However, Judge White shunned a claim regarding alleged delays in product launches by Zynga,
stating that it was just “business puffery” for the company to term its game pipeline “strong,” “robust” and “very healthy.”

**Struggling to push the stock price up**

David Fee led the shareholders, who claimed Zynga hid its shortcomings to enable insiders to sell stock worth $593 million before the termination of a post IPO-lockup and to prevent an almost 75% decline in its share price over the next four months, says the report.

Zynga held its IPO valued at $10 per share on Dec. 15, 2011. After that, the company’s market value fell by several billions of dollars between March 2, 2012, when its stock price reached its highest at $15.91, and July 26, 2012, when the price plummeted below $3 after the company posted unsatisfactory earnings.

Zynga’s failure to develop more games as popular as *FarmVille*, along with the growth of mobile gaming competitors such as Dublin-based King Digital Entertainment, the maker of *Candy Crush Saga*, have led its share price to trade at less than $5 for more than a year now. Currently, shares of the social game maker are trading at around $2.76.