Facebook to buy Instagram for $1 billion

(Reuters) - Facebook will pay $1 billion in cash and stock for photo-sharing application Instagram, making its largest-ever acquisition months before the No. 1 social media website is expected to go public.

The popular Instagram application, which allows users to add filters and effects to pictures taken on their smartphones, has gained about 30 million users since it first launched in January 2011.

Despite a loyal and active following, Instagram lacks any significant revenue sources. The start-up, with roughly a dozen employees based in San Francisco, reportedly closed a $50 million funding round last week from investors including Sequoia Capital that valued the company at $500 million, according to the technology blog AllThingsD.com.

Facebook, which is expected to launch a $5 billion initial public offering in May, will acquire Instagram's entire team.

"This is an important milestone for Facebook because it's the first time we've ever acquired a product and company with so many users," Facebook CEO Mark Zuckerberg said in a blog post. "We don't plan on doing many more of these, if any at all."

The deal, a closely kept secret at the tiny start-up, is expected to close this quarter. CEO Kevin Systrom announced the transaction to Instagram employees at a 9 a.m. meeting on Monday, according to a source inside the company.

(Reporting by Alexei Oreskovic [1] and Gerry Shih [2]; Editing by Lisa Von Ahn and Richard Chang [3])

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