Facebook's first public quarter proves solid as revenue grows 32 percent but stock tumbles

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Facebook's first earnings report as a public company had solid numbers, but in the end it landed with a thud - much like its rocky initial public offering two months ago.

Facebook reported stronger-than-expected revenue and a gain in user numbers Thursday. But investors weren't impressed and after a brief spike, its stock fell more than 10 percent, or $2.74, to $24.10 in after-hours trading. The decline means Facebook's stock will most likely open at its lowest level since going public.

It's another big disappointment for the Harvard-born company that was supposed to usher in the next Internet boom.

"They didn't break any banks," said Debra Aho Williamson, an analyst at research firm eMarketer. "They did not come out any better than anybody had expected."

What may have rattled investors is that Facebook's revenue growth has slowed. Between 2009 and 2010, the company's revenue nearly tripled. In the first quarter of this year, revenue climbed 44 percent. In the second quarter, Facebook Inc.'s revenue increased 32 percent to $1.18 billion from $895 million a year earlier. Analysts, on average had expected slightly lower revenue of $1.16 billion, according to FactSet.

For a freshly public company such as Facebook, the decelerating revenue growth is a concern. A bet on fast-growing revenue is the reason investors are willing to value new companies highly even if they are not making a profit. Another reason jittery investors may be even more nervous: Facebook didn't offer investors and financial analysts its outlook for the rest of the year.

Meanwhile, the number of people who access Facebook regularly inched closer to 1 billion. The company said it had 955 million active monthly users as of June 30, up 29 percent from a year earlier. At the end of the first quarter, it had 901 million users.

Overall the Menlo Park, Calif.-based company posted a loss of $157 million, or 8 cents per share in the April-June period, mainly due to compensation expenses it incurred when it paid $1.3 billion in restricted stock and related taxes for employees as part of the IPO. The loss compared with earnings of $240 million, or 11 cents per share, in the second quarter a year ago. The company's adjusted earnings of $295 million, or 12 cents per share, matched Wall Street's expectations.

The results come two months after Facebook's stock flopped on its first trading day, on May 18. The day began with glitches with the Nasdaq stock market that delayed trading by half an hour. It didn't get much better from there. Despite months of hoopla that had investors thinking it would soar, the stock closed just 23 cents above its $38 IPO price. It has not reached that level since.

Though Facebook had a lot riding on its first public report, Wall Street's outlook was muted, which could be another reason for the stock's decline.

"People are waiting for a really huge growth moment in revenue, advertising, dollars per user," said Alex Ashby, research analyst at Global X Funds, a provider of a social media exchange-traded fund. "People had expected that Facebook is going to revolutionize advertising...we think it's still a definite possibility, but maybe further down the road."

Investors were holding out hope that Facebook would far exceed expectations -even though the company effectively warned investors before its IPO that Wall Street's expectations were too high. In a filing issued a week before its IPO, for instance, Facebook said its mobile users are growing at a faster pace than the number of ads on its mobile platform.

Analysts took that as a sign that their estimates were out of whack and many of them reduced their estimates for Facebook's projected revenue and earnings.

Even though the number of people who use mobile devices and tablet computers to access Facebook had been growing fast, Facebook didn't start showing ads on its mobile app until this spring. Facebook had 543 million active monthly mobile users at the end of the quarter, a 67 percent increase from a year earlier.

In a conference call with analysts, CEO Mark Zuckerberg said Facebook's mobile users are more active than those who use the personal computer version.

"On average mobile users are around 20 percent more likely to use Facebook on any given day," he said. "So mobile not only gives us the potential to connect more people with our services and also gives us the ability to provide more value and more deeply engaging experience."

Facebook said its revenue from advertising totaled $992 million, a 28 percent increase from the same quarter last year. That number accounted for 84 percent of total revenue. The company did not say what portion was from mobile advertising. The rest came from payments and other fees, money Facebook makes from Zynga games and other apps.

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