Facebook falls flat in public debut (Update 3)

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In this image provided by Facebook, Facebook founder, Chairman and CEO Mark Zuckerberg, center, applauds at the opening bell of the Nasdaq stock market, Friday, May 18, 2012, from Facebook headquarters in Menlo Park, Calif. The social media company priced its IPO on Thursday at $38 per share, and beginning Friday regular investors will have a chance to buy shares. (AP Photo/Nasdaq via Facebook, Zef Nikolla)

(AP) -- In the hours before Facebook's stock began trading on the Nasdaq Stock Market for the first time, CEO Mark Zuckerberg reminded the company's 3,500 employees not to get caught up in the hoopla surrounding its long-awaited initial public offering.

"Right now this all seems like a big deal," Zuckerberg said before he pushed a button that rang Nasdaq's opening bell from company headquarters at 1 Hacker Way in Menlo Park, Calif. "Going public is an important milestone in our history. But here's the thing, our mission isn't

to be a public company. Our mission is to make the world more open and connected."

Facebook's IPO, it turns out, wasn't as big a deal as expected.

One of the most anticipated IPOs in Wall Street history ended on a flat note Friday, with Facebook's stock closing at $38.23, up 23 cents from Thursday night's pricing.

That means the company founded in 2004 in a Harvard dorm room has a market value of about $105 billion, more than Amazon.com, McDonald's and Silicon Valley icons Hewlett-Packard and Cisco.

It also gave 28-year-old Zuckerberg a stake worth $19,252,698,725.50.

But for many seeking a big first-day pop in Facebook's share price, the increase of six-tenths of one percent was a letdown.

"This is like kissing your sister," said John Fitzgibbon, founder of IPO Scoop, a research firm. "With all the drumbeats and hype, I don't think there'll be barroom bragging tonight."

Added Nick Einhorn, an analyst with IPO advisory firm Renaissance Capital: "It wasn't quite as exciting as it could have been. But I don't think we should view it as a failure."

Indeed, the small jump in price could be seen as an indication that Facebook and the investment banks that arranged the IPO priced the stock in an appropriate range.

It was also good for ordinary investors, who are mostly shut out from the IPO price and have to buy the stock in the open market on day one. They got a chance to buy all day at a price not much above $38.

And it was good for early investors in the company, who owned more than half the 421 million shares made available in the IPO. Had the stock shot to $60 Friday morning, those early investors would have felt they hadn't gotten enough money for their stakes.

The 421 million shares that were sold fetched $16 billion and represented 15 percent of the company's stock. Facebook got $7 billion, and the early investors $9 billion. The other 85 percent of Facebook's stock is owned by Zuckerberg and other Facebook executives, employees and early investors. In comparison, Google offered just 7.2 percent of its stock when it went public in 2004. Its stock rose 18 percent on day one.

Here was Facebook's "timeline" Friday, trading under the symbol "FB" on the Nasdaq Stock Market:

The stock opened at 11:30 a.m. at $42.05, but soon dipped to $38.01. It briefly traded as high as $45 and by noon was at $40.40. It fluttered throughout the afternoon and hugged the $38 mark for much of the final hour, before closing at $38.23.

By the end of the day, about 570 million shares had changed hands, a huge trading volume for any company.

TD Ameritrade reported that in the first 45 minutes of trading, Facebook accounted for a record 24 percent of trades executed by its customers.

By comparison, on its first day back on the stock market, in November 2010, General Motors represented 7 percent of trades on the online brokerage.

Steve Quirk, who oversees trading strategy at TD Ameritrade, said that

about 60,000 orders were lined up before Facebook opened.

Technical glitches delayed the start of Facebook's trading by a half-hour. The Securities and Exchange Commission also is investigating problems traders encountered in changing and canceling their orders.

Other social media companies, most of which have gone public in the last year, saw their shares plummet when it became clear what kind of reception Facebook was getting in the public market. Shares of game-maker Zynga Inc. and reviews site Yelp Inc. both hit all-time lows.

The stock market will now begin assigning a dollar value to Facebook based primarily on its financial performance. If Facebook can continue to increase its revenue and profit at the rate it has the past few years, the stock should rise. Google reported strong earnings after it became a public company, and its stock price more than tripled the first year, from $85 to $280.

Facebook's stock price will also depend somewhat on broad economic forces, as well as the whims of investors.

Facebook is one of those rare companies whose IPO transcends Wall Street's money lust. Since its start as a scrappy network for college students, Facebook has come to define social networking by getting its 900 million users around the world to share everything from photos of their pets to their deepest thoughts.

Most tech companies going public want a big rise in their debut to show they're "strong, dynamic companies standing out in the crowd," said Francis Gaskins, president of researcher IPOdesktop, but Facebook already has that image, and so may not care.

Few of the Internet companies to go public recently have been

profitable. But Facebook had net income of $205 million in the first three months of 2012, on revenue of $1.06 billion. In 2011, it earned $1 billion on revenue of $3.7 billion, up from earnings of $606 million and revenue of $2 billion a year earlier.

That's a far cry from 2007, when it posted a net loss of $138 million and had revenue of $153 million. The company makes most of its money from advertising. It also takes a cut from the money people spend on virtual items in Facebook games such as "FarmVille."

Facebook's public debut marked a milestone in the history of the Internet. In 1995, Netscape Communications' IPO gave people their first chance to invest in a company whose graphical Web browser made the Internet more engaging and easier to navigate. Its hotly anticipated IPO lit the fuse that ignited the dot-com boom. That explosion of entrepreneurial activity and investment culminated five years later in a devastating bust that obliterated the notion that the Internet had hatched a "new economy."

It took Google Inc.'s IPO in 2004 to prove that an Internet company with a revolutionary idea could be profitable. In the process, the Internet search leader is forcing other industries to adapt to a new order where people have come to expect to be able to find just about anything they want by entering a few words into a box on any device with an Internet connection.

Facebook's IPO almost certainly will enrich other up-and-coming entrepreneurs as Zuckerberg uses the company's cash and stock to buy other startups in an effort to bring in other talented engineers and promising technology. That's what Google has been doing for years. Since it went public in 2004, Google has spent $10.2 billion buying nearly 200 other companies. Those figures don't include Google's pending $12.5 billion acquisition of cellphone maker Motorola Mobility

Holdings Inc., which is still awaiting regulatory approval in China.

Zuckerberg's biggest deal so far came when he agreed to buy Instagram, a maker of a popular mobile app for photos, for $1 billion in April. Because most of the deal is being paid for in stock, Instagram is already getting richer. Based on Facebook's current share price, Instagram is in line to receive about $1.2 billion.

Friday's debut, though, resulted in deals worth much less.

Alper Aydinoglu, a DePaul University student who got 50 shares via Etrade at $38, said he was "disappointed with the first day of trading."

His gain on paper: $11.50, but that was before Etrade's standard commission of $9.99.

Aydinoglu still called it an excellent learning opportunity.

"On top of everything, I now have the bragging rights that I participated in one of the most popular IPOs of all time."

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