

# Facebook shares hit new low on growth worries

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Facebook shares on Thursday sank to a new low after the world's leading social network reported a loss of \$157 million in its first earnings after its public offering.

The financial results were largely in line with expectations and were dragged down by reserves set aside for stock grants but [investors](#) were evidently spooked by signs that the social network's blistering growth rate is cooling.

[Facebook](#) shares plunged more than 11 percent to \$23.80 in after-hours trade after the news, which came a day after key Facebook partner Zynga reported disappointing earnings, dampening enthusiasm about social media.

Facebook, which made a market splash in May, said that excluding special items, its results for the [second quarter](#) showed a [profit](#) of 12 cents a share, in line with most forecasts, as revenue rose to \$1.18 billion, a bit above market estimates.

The loss stemmed from [accounting](#) rules requiring Facebook to set aside reserves from restricted stock units before 2011, a fact disclosed when the company went public.

According to the rules, Facebook should take a charge against earnings of some \$1.3 billion for stock awarded and related expenses.

The results showed growth for Facebook in overall revenue, operating profits and the number of users -- which grew to 955 million by the end of the quarter.

Revenue for the second quarter totaled \$1.18 billion, an increase of 32 percent from the same period a year ago.

[Advertising revenue](#) -- 84 percent of the total -- was \$992 million, up 28 percent.

Excluding share-based compensation and related expenses, profits from operations for the second quarter were \$515 million, compared to \$477 million for the second quarter of 2011.

In the release, Facebook said its monthly active users rose to 955 million as of June 30, an increase of 29 percent year-over-year.

Daily active users increased 32 percent to 552 million and mobile active users rose 67 percent to 543 million.

The rate that Facebook has been adding monthly and daily active users has slowed steadily from this time two years ago when the numbers were more than doubling.

Facebook founder and chief executive Mark Zuckerberg offered no comment on the financial results, but repeated the company's mantra.

"Our goal is to help every person stay connected and every product they use be a great social experience," he said in a statement.

"That's why we're so focused on investing in our priorities of mobile, platform and social ads to help people have these experiences with their friends."

But Trip Chowdhry at Global Equities Research said the results confirmed his pessimistic outlook for Facebook.

"Facebook is an unproven company, with unproven concepts, along with mediocre management," he said in a note, calling the company "overhyped and under-delivered."

Facebook shares have been in a funk since their much-hyped May 18 debut was plagued by technical glitches and complaints that key forecasts were kept from the public in what was the largest initial public offering for a tech firm.

Shares have fallen steadily since the IPO at \$38.

Some analysts still like Facebook, saying the world's biggest social network will find a way to leverage its user base of nearly one billion users to sell advertising and generate other revenues.

But others say the company may have trouble growing at the breakneck pace it has in the past, and may have trouble generating revenue growth as users shift to the mobile Internet, where advertising is more complex.

Chowdhry said that to justify a stock price of \$25, "Facebook should be growing revenue in excess of 150 percent... and management is totally clueless how to grow revenue in excess of 150 percent. Facebook is a great stock in the low to mid-teens. The IPO was totally mispriced."

Sentiment on the sector took a hit Wednesday when Zynga, a social games firm with strong ties to Facebook, reported weaker-than-expected results.

Zynga shares plunged 37 percent on Thursday and lost another three percent in after-hours trade following the Facebook results.

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