Facebook hopes investors like first earnings

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This file photo shows screens displaying the start of trading in Facebook shares at the NASDAQ stock exchange in Times Square in New York, on May 18. Facebook reports its first earnings as a public company on Thursday in an announcement that will be closely watched for signs of whether the social media giant can deliver on its financial promise.

Facebook reports its first earnings as a public company on Thursday in an announcement that will be closely watched for signs of whether the social media giant can deliver on its financial promise.

The earnings figures could serve as redemption, or lead to further market punishment for the social network.

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 and closed Wednesday at $29.34 -- some 20 percent below the offering price of $38.

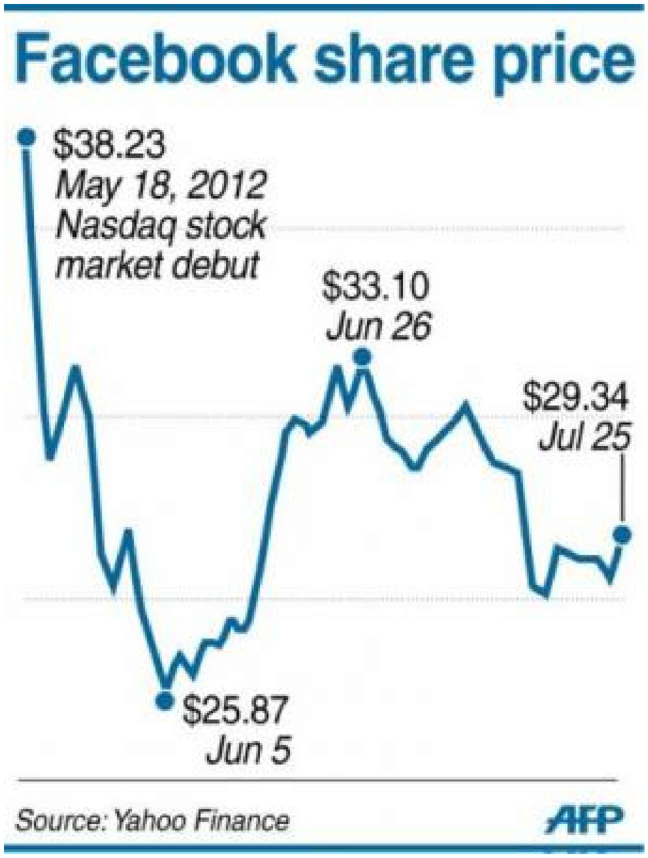
Analysts expect Facebook to show a profit of 12 cents per share on revenues of $1.15 billion in the quarter.

Some analysts still like Facebook, saying the world's biggest social network will find a way to leverage its user base of more than 900 million to sell advertising and generate other revenues.

But others see challenges ahead.

Citi analyst Mark Mahaney said his outlook for Facebook was "relatively negative" with revenue growth decelerating to 25 percent amid weakness in display advertising and a shift to the mobile Internet, where Facebook gets little money.

"Facebook has established itself as an Internet utility," Mahaney said in a note to clients.



Graphic charting share prices for Facebook since its Nasdaq stock market debut on May 18

"It could become the largest Net platform one day in terms of revenue and profits" but that at current share values, "much of this potential has been priced in."

"Super-high valuation multiples and decelerating growth don't mix well," he said. "Add a limited visibility biz model and an unproven management team, and you have a neutral" rating.

But Arvind Bhatia at Sterne Agee rates Facebook a "buy" and sees "upside potential" for the rest of the year.

"We believe monetization could improve meaningfully through greater adoption of premium ads and sponsored stories, especially their use in News Feeds," he said in a research note.

Victor Anthony at Topeka Capital Markets also rates Facebook a "buy" but is downgrading some estimates for its growth.

"We are tweaking estimates to reflect the impact of exchange rates and the worsening economic climate in Europe, where Facebook generates nearly 40 percent of its revenues," he said.

Concern about social media was fueled by a weak earnings report Wednesday from Zynga -- a games maker whose fortunes are tied in many respects to Facebook.

Zynga shares plunged more than a third in after-hours trade as the online social games maker badly missed earnings expectations.

Shares slid 38 percent to $3.16 in reaction to the news of a $22 million loss for the company, which went public last year at $10 a share. The negative sentiment spilled over to Facebook, which fell eight percent after hours.

The net loss for the second quarter amounted to three cents a share. Adjusted for special items Zynga showed a profit of one cent per share, far below Wall Street expectations of six cents.

A huge electronic foul-up marred the $16 billion Facebook share issue, the most hotly awaited initial public offering on the US markets in years, on May 18.

The Nasdaq last week raised to $62 million the amount of money it will set aside to cover trading losses due to computer glitches such as those which disrupted the Facebook launch.

Facebook's IPO overwhelmed Nasdaq's systems when it hit the market, forcing a half-hour delay in opening trading and leaving investors and brokers in the dark for hours over the results of orders involving millions of shares.

Claims of losses related to the market's computer problems are estimated above $100 million, according to The Wall Street Journal.