$200M Investment Values Company at $10B

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NEW YORK (AP) -- Facebook is getting a $200 million investment from a Russian Internet investor that values the social networking company at $10 billion even though it has yet to turn a profit.

The investment gives Digital Sky Technologies a nearly 2 percent stake in Palo Alto, Calif.-based Facebook's preferred stock. Digital Sky won't get a board seat. The $10 billion valuation for Facebook is less than the $15 billion value implied in 2007, when Microsoft spent $240 million for a 1.6 percent stake in the company — even though Facebook has substantially grown since then.

However Facebook's own appraisal after the Microsoft deal gave the company a market value of about $3.7 billion, according to details revealed in a legal settlement. The latest investment, in preferred stock, does not necessarily compare with what the company's common shares would be worth on the open market. That would be determined if the company were to go public, which is likely a ways off.

During a conference call Tuesday, Chief Executive Mark Zuckerberg said an IPO is "not something we are rushing toward." He called the Digital Sky investment a "good cash buffer" to support its growth. Facebook now counts 200 million users, 70 percent of whom live outside the U.S.

As a private company, Facebook does not disclose financial details. It doesn't even have a chief financial officer. Gideon Yu left that post in March and Facebook says it is still searching for a replacement. The company says it has been profitable by one measure — earnings before interest, taxes, depreciation and amortization, or EBITDA — for the past five quarters.

Zuckerberg reiterated Tuesday that the company expects to generate positive cash flow in 2010. Zuckerberg also repeated his claim that Facebook will grow revenue by 70 percent this year.

Debra Aho Williamson, a senior analyst with Internet research firm eMarketer, questions whether that projection is achievable. EMarketer estimates that Facebook's worldwide ad revenue will be $300 million this year, up 20 percent from last year. In other words, to hit 70 percent growth, Facebook might have to ramp up the sale of products or services on the site. The company has experimented with some ideas, such as letting users send each other tiny virtual "gifts" for $1 each.

Yuri Milner, Digital Sky's chief executive, said he is "confident that Facebook has the potential to be one of the most valuable Internet companies globally." In addition to the $200 million preferred stock investment, Digital Sky also plans to offer to buy least $100 million of Facebook's common shares from the company's existing shareholders.

Based in London and Moscow, Digital Sky also holds a stake in vKontakte, a Russian online social network that is far more popular in that country than Facebook. Its investment brings the total amount that Facebook has raised to more than $600 million since its founding five years ago.

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