

Google delivers 3Q letdown early, stock plummets

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As far as unpleasant surprises go, Google hit Wall Street with a double whammy Thursday.

The Internet search leader that prides itself of organizing the world's information lost control of its own data when a contractor released its third-quarter earnings report more than three hours before the numbers were supposed to come out.

As if that was jarring enough, the numbers alarmed investors because the company's earnings and revenue fell well below analyst projections. The disappointment triggered an 8 percent drop in Google's stock price that erased about \$20 billion in shareholder wealth.

"This is a monumental failure of epic proportions," said Michael Robinson, an executive vice president for the Levick Strategic Communications, which specializes in financial crisis management. "This was bad news compounded by bad process. It came out in the worst way possible."

Google Inc. blamed printer R.R. Donnelley & Sons Co. for filing the company's quarterly statement with the Securities and Exchange Commission more than three hours ahead of schedule.

"We are fully engaged in an investigation to determine how this event took place and are pursuing our first obligation, which is to serve our valued customer," R.R. Donnelley said in a statement.

Google's stock initially plunged more than 9 percent after the early release of the results. Trading was then suspended to allow more time for the information to be digested. After a nearly three-hour break, investors decided the results weren't quite as bad as they initially appeared, and the shares recovered slightly.

Even so, the stock wound up dropping \$60.49, or 8 percent, to close at \$695.

The sell-off reflects a reversal of the optimistic sentiment that had propelled Google's stock to a new all-time high earlier this month. The stock had surged 27 percent in the three months before Thursday's unsettling developments.

Most of the trouble appeared to be concentrated in Motorola Mobility, a troubled cellphone maker that Google bought for \$12.4 billion in May. Analysts have been fretting that Motorola Mobility would turn into a financial albatross, and some of those fears appeared to be realized in the latest quarter spanning from July through September.

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The device maker suffered an operating loss of \$527 million, more than tripling from the same time last year when it was still an independent company.

Google is trying to improve Motorola Mobility's performance by laying off about 20 percent of its workforce — about 4,000 employees — and closing one-third of its 90 plants and office. Those cost-cutting measures resulted in \$349 million in charges during the quarter.

But there were also some worrisome signs in Google's main business of selling online advertising.

Google's ad revenue rose 16 percent from the same time last year, the slowest pace in three years. The company's ad revenue had climbed by at least 21 percent in each of the previous 10 quarters.

As has been the case for the past year, the average prices companies pay Google for ads appearing alongside search results also fell.

The decelerating growth in ad revenue is likely being driven by the growing use of smartphones and tablet computers to access the Internet. The ads are more difficult to see on smartphones, in particular, so marketers aren't willing to pay as much for those commercial messages as they do for ads that are seen by people on personal computers. And people relying on mobile devices tend to use specially designed applications that aren't as receptive to Google's ads as Web browsers are.

Google earned \$2.18 billion, or \$6.53 per share, during the three months ending in September. That compared with net income of \$2.73 billion, or \$8.33 per share, last year.

The earnings would have been \$9.03 per share, if not for Google's accounting costs for employee stock compensation and the Motorola charges. Analysts polled by FactSet were expecting \$10.63 per share, on average.

Revenue climbed 45 percent from last year to \$14.1 billion. Excluding compensation for websites that generate traffic for Google's ads, revenue was \$11.33 billion. Analysts were expecting \$11.86 billion.

The strong dollar may also have contributed to Google's miss. The company said that if foreign exchange rates had been stable, its revenue would have been \$136 million higher.

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