

Google's search for savings boosts 1Q profit 9 pct (Update 2)

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Google headquarters in Mountain View, Calif. is seen Thursday, April 16, 2009. Google Inc. is expected to announce first quarter earnings after the market closes Thursday. (AP Photo/Paul Sakuma)

(AP) -- The recession is prodding Google Inc. to grow up faster than a lot of people anticipated.

With its [revenue](#) growth rapidly decelerating, Google has been clamping down on its expenses with a ferocity that seemed unthinkable a year ago when the [Internet search](#) leader was still known for its spendthrift ways. Besides pampering its rapidly expanding work force, Google rarely hesitate to invest in new products without worrying whether they would make money.

A more disciplined approach paid off in the [first quarter](#) as Google's profit climbed 9 percent to surpass analyst expectations.

But the pleasant surprise, announced late Thursday, didn't seem to excite investors. Google shares dipped 50 cents in extended trading after finishing the regular session at \$388.74, up \$9.24.

"People might not be willing to pay as much for a company that's increasing its earnings with cost cutting instead of revenue growth," said Signal Hill

Group analyst Todd Greenwald.

Google executives say they believe there will be still be plenty of room for more growth once the economy emerges from its deepest downturn in nearly 30 years.

"Ninety-five percent of all our internal discussions are still about growth," Patrick Pichette, Google's chief financial officer, said in a Thursday interview. "But it would be irresponsible not to watch our expenses in a tough economy like this."

When the [recession](#) first began in December 2007, Google seemed largely unfazed. But those carefree days are clearly gone.

"No company is recession-proof," Google Chief Executive Eric Schmidt told analysts in a Thursday conference call. "Google is absolutely feeling the impact."

Schmidt offered no guesses on when the conditions might improve, emphasizing the global economy is remains in "uncharted territory."

Still, Google is holding up far better than other advertising-driven businesses, largely because it relies on a marketing system that has proven to be less expensive and more effective than more traditional media.

The Mountain View-based company earned \$1.42 billion, or \$4.49 per share in the first quarter. That compared with net income of \$1.31 billion, or \$4.12 per share, at the same time last year.

If not for employee stock compensation costs, Google said it would have made \$5.16 per share. On that basis, Google exceeded the average estimate of \$4.93 per share among analysts surveyed by Thomson Reuters.

Google's first-quarter revenue totaled \$5.5 billion.

That was up by just 6 percent from last year, marking the first time the company has posted less than double-digit revenue growth since its August 2004 initial public offering.

After subtracting commissions paid to its advertising partners, Google's revenue stood at \$4.07 billion - about \$10 million below analyst estimates.

In a telling sign of the recession's toll, Google's revenue fell from one quarter to the next for the first time. Its revenue in the prior quarter had been \$5.7 billion.

Google started to pinch pennies last summer when it hired Pichette as its new chief financial officer.

The austerity campaign has included jettisoning a significant number of contractors, laying off some employees, curtailing perquisites and closing down unpopular services that had little chance of yielding a profit.

Google shaved its operating expenses to \$1.52 billion during the first three months of the year, an 8 percent decline from the fourth quarter.

As part of the new frugality, Google reduced its work force for the first time. The company ended March with 20,164 employees, 58 fewer than in December. That may not seem like much, but it represents an abrupt about-face for a company that hired nearly 10,000 people in the previous two years.

Pichette said Google is still hiring engineers and doesn't plan to lay off any more workers.

Google curbed its spending on new computing centers and other major projects even more dramatically. Capital expenditures totaled \$263 million, a drop of 69 percent from the same time last year.

"My personal view on this is it's all about making us a better efficiency engine, that the changes and sort of tightness with which we're running now will put us in a stronger position as the recovery comes out," Schmidt said.

Even as it becomes more stingy, Google intends to still invest in areas that could help the company finally diversify beyond the text-based ads that generate most of its revenue.

Google views its YouTube video site and Android software for mobile devices as two of its biggest moneymaking opportunities.

Although YouTube hasn't emerged as a major marketing vehicle since Google bought the site for \$1.76 billion in late 2006, it keeps adding more professional video that traditionally has attracted advertising. In a separate announcement Thursday, YouTube said it had struck a deal to sell ads during full-length movies and TV shows that several major studios are allowing to be played on the Web site.

The Android software introduced last year now accounts for about 8 percent of all mobile Web browsing to rank second behind Apple Inc.'s iPhone, Google executives said Thursday. Without providing specifics, Schmidt said Android's usage will expand later this year as part of "quite significant" announcements by Google involving several new pieces of hardware.

[Google](#) is counting on Android to help the company dominate advertising on mobile devices as thoroughly as it does now on office and home computers connected to the Internet.

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