

Google's 3Q proves company can afford big spending

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In this photo taken Friday, Oct. 8, 2010, a sign at Google headquarters in Mountain View, Calif. is shown. Google Inc.'s third-quarter earnings climbed 32 percent to beat Wall Street's expectations as companies spent more to advertise to Web surfers. (AP Photo/Paul Sakuma)

Google Inc. is still spending money like the recession is a distant memory, but investors can't complain too much as long as the Internet search leader keeps expanding its advertising empire like it did in the summer.

The evidence of Google's dominance - and prosperity - emerged in its third-quarter results released late Thursday. The performance marked the latest sign that the technology industry is rolling again, even as other parts of the economy lag.

Net income surged 32 percent to trounce analyst estimates, and would have been even higher if Google's management hadn't decided to hire so many more workers, buy other companies and invest in more equipment to keep its services humming.

Google's liberal spending dismayed some investors during the first half of the year, causing the company's stock to sag. But the third quarter provided a big lift as Google shares soared \$49.07,

or more than 9 percent, in Thursday's extended trading after finishing the regular session at \$540.93.

It probably helped that Google shared some data that showed some of the company's previous investments are starting to pay off. As a result, Google finally appears to be turning it into something more than a one-trick pony dependent solely on text ads that appear alongside search results on a computer screen.

In the first and what may be the only time that Google provides such details, executives indicated Thursday that display advertising accounted for nearly 10 percent of ad revenue in the quarter, and mobile advertising was almost 4 percent.

Those figures helped justify two of Google's biggest acquisitions. In 2008, it took aim at the display ad market with a \$3.2 billion acquisition of DoubleClick Inc. and earlier this year it completed a \$681 million purchase of AdMob to supplement its marketing efforts on mobile phones.

Although it remains a small piece of Google's business, CEO Eric Schmidt remains convinced that the company will bring in more ad revenue from mobile phones than it does from computers in homes and offices.

Text links placed above or alongside search results are still Google's main source of revenue, which totaled \$7.3 billion, a 23 percent increase from last year.

Google executives said those ads are turning into even bigger moneymakers since the company invested in a new system that displays search results as soon as people begin to type in a request. The "Instant Search" feature, which debuted in early September, churns out results so quickly that people seem to be doing more searches, generating more advertising

opportunities in the process.

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Third-quarter earnings rose to \$2.2 billion, or \$6.72 per share, from \$1.6 billion, or \$5.13 per share, a year earlier.

Excluding certain expenses, Google earned \$7.64, topping the \$6.69 analysts expected.

With things going so well, Google added 1,500 workers in the quarter, the most during any three-month period since the spring of 2007 when it added more than 2,100 employees.

The company has added about 3,500 workers during the first nine months of the year. At the same juncture last year, Google had reduced its staffing by about 550 workers. It now has 23,331 employees and is eager to hire even more.

"We're on this growth agenda at full throttle," Patrick Pichette, Google's chief financial officer, said.

Capital expenditures - what Google pays for data centers, servers and networking equipment to keep its growing number of Web services online - increased more than fourfold to \$757 million in the third quarter from \$186 million a year earlier. It marked Google's biggest outlay for capital expenditures since the first quarter of 2008.

The company, based in Mountain View, can easily afford it. It ended the quarter with about \$33.4 billion in cash.

In another heartening sign, Google said its average cost per click rose 3 percent from a year ago, meaning companies paid more to place ads. People clicked on ads 16 percent more than they did in the same period last year.

During a conference call with analysts, Google said sales of its display ads, which include those on YouTube, are on a pace that would translate to \$2.5 billion annually. Its mobile advertising businesses are on pace to bring in \$1 billion in revenue annually.

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