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Google shares pummeled on earnings disappointment

By Matt Krantz and Jefferson Graham, USA TODAY

Investors learned the hard way Tuesday that Google's ([GOOG](#)) stock can go down, too.

After tanking \$53.65 — or 12.4% — to \$379.01 in after-hours trading, Google opened down 9% to \$393.66 on quarterly earnings that missed Wall Street's expectations for the first time ever — largely due to a higher-than-expected tax rate.

The stock price decline on Tuesday wiped out more than \$15.9 billion in market value — roughly equal to the total value of retailer Gap. Before Tuesday, Google stock had soared more than 400% from its initial public offering price in late 2004.

Investors' reaction was fierce even though Google's fourth-quarter profit rose 82.4% to \$372.2 million, or \$1.22 a share. Even excluding one-time charges, though, the results missed the \$1.77 a share analysts expected by 23 cents, says Reuters Estimates.

"The hopes and dreams of Google investors have gotten grandiose," analyst Jordan Rohan at RBC Capital says. He said Google's earnings would have roughly matched estimates if not for the tax rate issue.

Google CEO Eric Schmidt said he was "very pleased" with the financial results. Google has built an empire on highly effective, text-based ads that appear near search results. Advertisers love them because they pay Google only if an ad is clicked. This year, Google will expand that kind of advertising to radio, television and print. Schmidt called it "a historic and really exciting area."

Google executives also defended their strategy of releasing products while they are still in "beta" or test mode. Co-founder Larry Page said he "couldn't be happier" with the progress of the new Google Video Store, which launched four days late and suffered from hard-to-find selections.

Wall Street analysts are largely standing by the stock, which has an average price target of \$476, according to Reuters Estimates.

Analyst Clayton Moran at Stanford Financial says investors will recover from their initial disappointment. And Safa Rashtchy, a Piper Jaffray analyst who predicted Google's stock would hit \$600 a share by the end of the year, says he's still confident.

But David Trainer, president of New Constructs, says Google should be valued at closer to \$300 a share based on cash flow. "We're still in a market bubble."

The investor backlash also stung Google's two biggest rivals, Yahoo ([YHOO](#)) and Microsoft ([MSFT](#)).

The Associated Press contributed to this report.

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