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By Christine Harper and Michael J. Moore

July 17 (Bloomberg) -- Goldman Sachs Group Inc. reported an 11 percent drop in second-quarter profit and said it plans to continue cutting costs as first-half revenue and earnings fell to the lowest in seven years.

Shares of the company rose as earnings surpassed the highest estimate among 25 analysts surveyed by Bloomberg, boosted by a gain in asset-management revenue. Net income slid to $962 million, or $1.78 a share, from $1.09 billion, or $1.85, a year earlier, New York-based Goldman Sachs said today in a statement.

Chief Executive Officer Lloyd C. Blankfein, 57, who has run the company for six years, has cut 3,200 jobs in the past 12 months to contend with a slowdown that he said was a temporary reaction to the 2008 financial crisis. Revenue in all of the firm's businesses fell in the first six months from a year earlier, and expenses declined 11 percent.

"They are managing well in a difficult environment," Thomas Brown, CEO of Second Curve Capital LLC, said in an interview with Betty Liu on Bloomberg Television's "In the Loop." "It's still low profitability."

Goldman Sachs, the fifth-biggest U.S. bank by assets, climbed 2 percent to $99.59 in New York trading at 9:34 a.m., the highest level since May 22 and down 24 percent from a $128.07 peak on March 26. The company bought back $1.5 billion of shares during the quarter, it said today.

Return on equity, a measure of how well the firm reinvests shareholders' money, fell to 5.4 percent in the second quarter from 6.1 percent a year earlier and 12.2 percent in the first three months of 2012.

Cost Cuts

The bank said today it's "in the process of implementing additional expense-reduction initiatives."

Goldman Sachs's second-quarter revenue from asset management rose 5 percent to $1.33 billion, exceeding the $1.18 billion average estimate of seven analysts.

Investing & Lending, the segment that includes Goldman Sachs's profits and losses from stakes in private-equity and hedge funds as well as from companies such as Facebook Inc. and Industrial & Commercial Bank of China Ltd., produced a $203 million gain in the second quarter, down from a $1.04 billion gain a year earlier. The estimates of seven analysts polled by Bloomberg ranged from a $700 million loss to a $200 million gain.

Investing & Lending "is a volatile business -- you do ask questions as to whether investors want to be in this business," said Christopher Wheeler, an analyst at Mediobanca SpA in London, who rates Goldman Sachs shares "neutral."

Facebook IPO

In Facebook's initial public offering in May, Goldman Sachs sold 6.18 million of the 14.2 million shares in its own account as well as 22.5 million of the 51.7 million shares held in funds managed for clients, according to the Facebook prospectus. After being sold at $38 apiece in the IPO, which Goldman Sachs helped to manage, Facebook shares have dropped, closing yesterday at $28.245.

Major global stock market indexes including the Standard & Poor's 500 and Hang Seng Index dropped in the second quarter amid signs of slowing economic growth in China and the sovereign debt crisis in Europe.

"Market conditions deteriorated and activity levels for both corporate and investing clients were lower given continued instability in Europe and concerns about global growth," Blankfein said in the statement.

Revenue Decline

Second-quarter revenue at Goldman Sachs fell 9 percent from a year earlier to $6.63 billion and was down 33 percent from the first quarter. The average estimate of 16 analysts surveyed by Bloomberg was for $6.25 billion.

For the first six months of the year, Goldman Sachs produced $16.6 billion of revenue, down 14 percent from a year earlier and the lowest since $11.2 billion in 2005. Net income of $3.07 billion in the first six months was the lowest since the company made $2.38 billion in the first half of fiscal 2008.

The firm, which began counting consultants and temporary workers in its staff numbers in 2009, said today it employed 32,300 people on June 29, down from 32,400 at the end of March. At the end of the first half of 2008, the company had 21,800 full-time employees.

Second-quarter expenses of $5.21 billion were down 8 percent from a year earlier. Compensation, the biggest portion of the firm's expenses, fell 9 percent to $2.92 billion.

Compensation Costs

For the first six months of the year, the compensation cost, which includes salaries, bonuses, benefits and the expense for awards granted in previous years, totaled $7.29 billion, or 44 percent of revenue. That's an average of $225,789 per employee, down from $237,662 a year earlier.

Second-quarter revenue from trading, run by Isabelle Ealet, Pablo J. Salame and Harvey M. Schwartz, rose 11 percent to $3.89 billion and was down 32 percent from the first quarter. The average estimate of seven analysts surveyed by Bloomberg was for $3.81 billion of trading revenue in the quarter.

Within that division, fixed-income, currency and commodities trading rose 37 percent to $2.19 billion and was 37 percent lower than the first quarter. The company attributed the jump to "higher net revenues in mortgages and commodities compared with difficult market-making conditions in the second quarter of 2011."

Equities-trading revenue fell 12 percent to $1.7 billion, a 25 percent decrease from the first quarter. The decline reflected "significantly lower net revenues in derivatives," the company said.

Investment Banking

The investment-banking department, run globally by Richard J. Gnodde, David M. Solomon and John S. Weinberg, made $1.2 billion of revenue, down 17 percent from a year earlier. The average estimate of seven analysts was for $957 million. The company said its transaction backlog increased from the end of the first quarter.

Fees from takeover advice and other financial advisory assignments totaled $469 million in the quarter, 26 percent lower than a year earlier. Gene T. Sykes, based in Los Angeles, runs Goldman Sachs's global mergers and acquisitions group, which ranks second this year in the value of announced takeover assignments it's handling, according to data compiled by Bloomberg.

Revenue from equity underwriting, including the Facebook IPO, fell 37 percent from a year earlier to $239 million.

Goldman Sachs ranks fifth this year in global equity, equity- linked and rights offerings, down from first place in the first half of last year, according to data compiled by Bloomberg.

Corporate Bonds

Debt-underwriting revenue increased 14 percent from a year earlier to $495 million. Goldman Sachs is seventh among underwriters of corporate bonds this year, the same position it held at this point last year, the data show.

The investment-management division, led by Eric S. Lane and Timothy J. O'Neill, produced $1.33 billion of revenue, up 5 percent from a year earlier. Assets under management rose to $836 billion from $824 billion at the end of March. Goldman Sachs completed its purchase of Burlington, Vermont-based Dwight Asset Management from Old Mutual Asset Management on May 15.

JPMorgan Chase & Co., the biggest U.S. bank by assets, last week said second-quarter profit at its investment bank fell 7 percent from a year earlier even as it reduced costs 12 percent.
Citigroup Inc., the third-biggest U.S. bank, reported a 12 percent drop in second-quarter earnings yesterday and said it lowered total operating expenses 6 percent.

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