

# **Yahoo 3Q Profit Doubles, Revenue Still Lackluster**

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SAN FRANCISCO (AP) — Yahoo shuffled through another quarter of sluggish growth, a performance that may further test the patience of the Internet company's already restless shareholders.

The third-quarter results announced Tuesday also seem likely to intensify the pressure on CEO Carol Bartz to end a four-year financial funk amid speculation that the company could become a takeover target because of its slumping stock price.

Bartz declined to discuss the takeover talk in a Tuesday conference call with analysts. Instead, she trumpeted the progress that Yahoo has made since her hiring 21 months ago.

"We have been working hard to create a stronger and more efficient company," she said. Her biggest achievements so far have been negotiating a search partnership with rival Microsoft Corp. and weeding out poorly performing services to help increase Yahoo's earnings.

Those efforts started to pay off in the third quarter as Yahoo's operating profit margin widened from 6 percent in last year's third quarter to 12 percent this year.

Bartz emphasized that revenue growth remains her top priority. She indicated Yahoo might not post significant revenue gains until 2012, partly because of fallout from Yahoo's transition to Microsoft's Internet search technology throughout the world.

With more work to be done, Yahoo offered a tepid fourth-quarter outlook that pointed to a slight revenue decline from last year.

Investors evidently chose to focus more on Yahoo's earning gains as the company's shares gained 20 cents, or 1.3 percent, after the third-quarter numbers came out. The stock finished Tuesday's regular trading session at \$15.49, down 44 cents.

Yahoo's net income totaled \$396 million, or 29 cents per share, in the three months ended in September. That was more than double earnings of \$186 million, or 13 cents per share, at the same time last year.

But this year's figures included a one-time gain of \$186 million from Yahoo's sale of its help-wanted site, HotJobs, to Monster Worldwide Inc. If not for that boost, Yahoo's earnings would have been 16 cents per share, a penny above the average estimate among analysts surveyed by Thomson Reuters.

Revenue for the quarter totaled \$1.6 billion, up by less than 2 percent from \$1.58 billion at the same time last year. The paltry gain contrasted with a 23 percent

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Published on Wireless Week (<http://www.wirelessweek.com>)

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revenue increase at Google Inc., which competes against Yahoo for online advertisers.

After subtracting advertising commissions, Yahoo's third-quarter revenue was \$1.12 billion — about \$10 million below analyst estimates.

Yahoo spent \$868 million during the quarter buying back 62 million of its own shares. While that helped lift earnings per share, the company's stock price remains down by 8 percent so far this year. And the stock remains far below the \$33 per share that Microsoft offered to buy the company in its entirety in May 2008, only to have Yahoo balk at the price.

The third-quarter showing is the latest indication that Bartz's efforts to shake up Yahoo haven't been enough to win back advertisers who are increasingly spending more of their money at Google and trendier online hangouts such as Facebook.

Yahoo has been trying to piggyback on Facebook's rising popularity by connecting more of its services to the social network, but so far the strategy isn't producing a big jump in advertising.

As part of its effort to save money, Yahoo already is relying on Microsoft's technology to deliver most of the search results on its websites in the U.S. and Canada. In the next phase of the two companies' 10-year partnership, Microsoft will take over the search advertising chores for Yahoo by the end of this month.

Yahoo desperately needs help in search, given that it has consistently brought in less money from the ads appearing alongside search results. That trend continued in the latest quarter, with search advertising revenue falling 7 percent from last year to \$331 million. But Yahoo generated slightly more revenue from each search in its third quarter, Bartz said, the first time that has happened in two years.

The company fared much better in its stronghold, the "display" advertising category that covers banner and full-screen ads, sometimes featuring video. Revenue in this segment climbed 17 percent to \$465 million. But both Google and Facebook are posing a bigger threat to Yahoo in display advertising, compounding investors' concerns about Yahoo's future.

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