Yahoo profits rise in 3Q, will revenue follow?

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FILE - In this July 29, 2009 file photo, a worker walks into Yahoo headquarters in Sunnyvale, Calif. Yahoo Inc. is expected to report third-quarter earnings after the closing bell Tuesday, Oct. 20, 2009. (AP Photo/Paul Sakuima, file)

(AP) -- Yahoo Inc. has pumped up its profits by laying off workers and weeding out unpopular Internet services.

Now Carol Bartz, Yahoo's third chief executive since June 2007, has to figure out how to boost the company's sagging Internet sales - a problem that could become easier to solve if the U.S. economy continues to recover from its worst recession in 70 years.

Yahoo's progress and challenges still facing the Sunnyvale, Calif.-based company were both evident in third-quarter results released late Tuesday. While the earnings for the July-September period more than tripled from the previous year, revenue slipped by at least 12 percent for the third straight quarter.

The revenue rut means Yahoo still has a long way to go on its comeback trail.

Investors, though, are betting Yahoo will continue to make strides under the no-nonsense Bartz, who was hired nine months ago to engineer a turnaround. That's something neither Yahoo's two previous CEOs, company co-founder Jerry Yang and former movie studio boss Terry Semel, could pull off.

In a sign of Wall Street's faith in Bartz, Yahoo shares gained 87 cents, or 5.1 percent, to $18.04 in extended trading Tuesday. If the stock mirrors that surge in Wednesday's regular trading, it will mark a new 52-week high for the stock. Yahoo shares remain well below a $33-per-share takeover offer that Microsoft Corp. dangled in May 2008, only to withdraw the bid after Yang asked for more money.

Bartz indicated she believes her plans are starting to pan out.

"We had a solid third quarter that signals our major businesses have stabilized," she said in a prepared statement.

Yahoo earned $186 million, or 13 cents a share, in the July-September quarter, compared with $54 million, or 4 cents a share, at the same time last year. The average estimate among analysts polled by Thomson Reuters was 7 cents per share.

Shedding 2,000 jobs over the past year to reduce Yahoo's payroll to 13,200 employees accounted for some of the improvement. Yahoo also got a one-time lift of $98 million from selling its stake in China's Alibab.com.

Revenue for the period fell 12 percent to $1.58 billion, a scant improvement from the first six months of the year when revenue dropped by 13 percent.

While Yahoo has been trying to regain its footing, Google Inc. has sprinted further ahead of its older rival. Last week, Google posted the highest profit in its 11-year history in the third quarter as its revenue climbed 7 percent.

Google handles about two out of three search requests in the United States while Yahoo processes about one in every five of the queries. The disparity gives Google a big advantage because a huge piece of Internet advertising is tied to search requests.

Advertisers also are more likely to increase their spending on search ads because they are relatively inexpensive and typically only cost money when they are clicked on. And Google tends to show more ads that provoke consumer clicks.

To help close the gap, Yahoo is turning to Microsoft Corp. to power its search engine in the United States. If regulators approve the alliance, Yahoo plans to transfer at least 400 workers to Microsoft and lay off an unspecified number of other employees in an effort to save more than $400 million annually.

Yahoo makes most of its money in display advertising - a niche consisting of online billboards and other more visual messages. Those marketing campaigns tend to require larger, long-term commitments that are unlikely to be made until advertisers see more evidence that the economy is strengthening.