Yahoo's lackluster 2Q revenue growth sinks stock

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This photo made June 7, 2010, shows a sign for Yahoo! in New York. Yahoo Inc., based in Sunnyvale, Calif., will release its second-quarter earnings, Tuesday, July 20, 2010, after the market close. (AP Photo/Mark Lennihan)

(AP) -- Yahoo Inc.'s turnaround effort wavered in the second quarter as the Internet company's paltry revenue growth overshadowed a surge in net income.

The results released Tuesday could cause some investors to doubt the strategy of Yahoo's no-nonsense CEO, Carol Bartz, who was hired 18 months ago to lead the company out of a prolonged financial funk that has depressed its stock. Yahoo shares dropped more than 6 percent in response to the latest signs of lethargy.

Bartz has been able to boost Yahoo's earnings by cutting costs by about

10 percent, but so far hasn't been able to produce the dramatic revenue gains that she realizes she must deliver to win Wall Street's confidence.

"Our top job here is to grow the top line" of the financial statement, Bartz told analysts in a Tuesday conference call.

Yahoo's second-quarter revenue growth of 2 percent was particularly disappointing, given that Google Inc. last week announced its revenue rose 24 percent in the same period. Both Google and Yahoo make virtually all of their money from online advertising, a sector that has been recovering from the Great Recession more quickly than other forms of marketing.

The challenges facing Yahoo are similar to those at many other companies that have been fattening their bottom lines by trimming expenses while revenue remains lean.

Yahoo's second quarter looked fairly strong until several major advertisers abruptly reduced their spending, according to company management. "That has made us incrementally more cautious," Tim Morse, Yahoo's chief financial officer, said in an interview.

Reflecting that circumspect mood, Yahoo predicted its third-quarter revenue would either remain unchanged from last year or increase by as much as 4 percent.

Yahoo shares shed 95 cents in extended trading after finishing the regular session at $15.20, up 10 cents.

The company earned $213 million, or 15 cents per share, in the three months ending in June. That represented a 51 percent increase from net income of $141 million, or 10 cents per share, at the same time last year.

The earnings were a penny above the average estimate among analysts polled by Thomson Reuters.

Revenue for the period edged up to $1.6 billion from $1.57 billion.

After subtracting commissions paid to its ad partners, Yahoo's revenue totaled $1.13 billion - about $30 million below analyst estimates.

Yahoo would have fared slightly better if it hadn't been for the strengthening U.S. dollar as investors fretted about the European debt crisis. The changes in currency rates translated into fewer dollars from overseas advertising compared with a year ago. What's more, Bartz said she thinks some U.S. companies with large international operations curbed their ad spending in June to cushion the currency blow to their own earnings.

About 29 percent Yahoo's revenue comes from outside the United States, with Europe accounting for less than 9 percent of the total.

Yahoo biggest weakness remains the lucrative search advertising market, where it has been losing so much ground to Google in recent years that it has forged a partnership with Microsoft Corp. in hopes of narrowing the gap.

Microsoft, which makes most its money from selling computer software instead of Internet ads, is scheduled to release its latest quarterly results Thursday.

Although recent market data indicate Yahoo's search share has stabilized, it still isn't selling as many ads alongside search results. The company's search advertising revenue fell 8 percent in the second quarter to $331 million.

Yahoo sales of the online billboards known as display advertising is going much better. Revenue in this segment rose 19 percent from last year to $468 million.

Even with its recent progress, Yahoo still isn't doing as well as it was before recession throttled marketing budgets and advertisers began shifting more of their spending to hipper Internet hangouts such as Facebook. Yahoo's second-quarter revenue was nearly $200 million higher two years ago.

Bartz is trying to bring advertisers back by giving people more reasons to stay on Yahoo for longer periods of time. The company is now focused on presenting the Web's most comprehensive package of news, sports, entertainment and finance coverage while also providing tools that enable people to view their individual accounts on Facebook and Twitter.

At the same time, Yahoo is saving money by hiring Microsoft to power its search engine and technology for showing ads alongside the results. The company also whittled about 100 jobs from its payroll in the quarter, leaving it with 14,100 employees at the end of June.