

Taking Stock: Sell Yahoo! Now!

by Malcolm_Berko

Dear Mr. Berko: I have 700 shares of Yahoo! that I bought at \$30.75 in June of 2006. What is your opinion of the Microsoft takeover?

Should I wait for Microsoft to complete its negotiations and perhaps get \$40 a share or should I sell now and get a guaranteed \$29 or \$30?

B.R.

Vancouver, Wash.

Dear B.R.: Yahoo! Inc. (YHOO-\$29.79) reminds me of the beleaguered USAir, the airline that is so "fhablungent" it can't match your baggage to your flight or arrive anywhere on time. During the past two years, I've not trusted YHOO's financial data; its numbers are incomplete, its lists of brokerage recommendations are eight to 16 months out of date. YHOO's dividend reporting is often wrong, its lists of company officers are out of date, its balance sheet and income statement data often lag by eight to 16 months and its one-year stock target price projections are often grossly out of whack. And readers are also complaining about myriad glitches, bumps and potholes on other YHOO sites. It's like the yahoos at YHOO are so dumb that they need a diagram to lick ketchup off their lips.

In May of 2007, it became painfully evident that YHOO just couldn't figure out how to compete with Google in the online search business nor could it figure out how to mitigate the growing threats from the impressive successes of MySpace and Face Book, two very popular juvenile and infantile social networks. A large portion of the work force is demoralized, the company is bureaucratically hidebound and its cornucopia of products (Yahoo!, Food, Real Estate, Shopping, Movies, TV, Games, Health, News, Auctions, Kelkoo, Autos, Personals, Maps, Yellow Pages, Fares, ad nauseam) have weakened the firm's focus, strained its resources and cluttered its progress. All of this is antithetical to YHOO's prime intent - "to sell advertising."

As a result, YHOO has devoted too much energy on non-revenue products, delayed its new advertising platform and has failed to make a single important acquisition in the last two years. Certainly YHOO has loads of cash to acquire a hot new technology or even buy back a substantial number of its shares. These failures have encouraged investors and advertisers to view YHOO as a lazy or unwilling participant in this dynamic industry.

Now YHOO is finding it difficult to attract new users, new advertisers and retain old advertisers as well as current users. Suffice it to say, YHOO has grievously fallen behind Google in search technology and use. And

because almost all of its revenues derive from online advertising, the current recession will sorely hurt YHOO's revenues and earnings.

I think Microsoft's hostile \$45 billion, or \$31 a share, takeover of YHOO is a good opportunity for shareholders. It represents a significant premium over YHOO's previous trading range. However, I think it's a lousy fit for Microsoft Corp. (MSFT-\$29).

It has the same bad taste as Time Warner's "goofed" take over of America Online. YHOO's board furiously rejected MSFT's first pass but Bill Gates is determined and raised the ante to \$40. If YHOO takes the bigger bait I think Bill Gates may regret his misplaced enthusiasm. If the merger occurs I doubt that the YHOO acquisition will create value for MSFT. I don't know what MSFT's plans are for YHOO. Certainly it's common knowledge that MSFT's current Web efforts are a jambalaya of conflicting and bureaucratic chaos, struggling to support myriad and disparate business models. And for your information MSFT, in many ways, is just as bureaucratically hidebound and paralyzed as YHOO. Some observers believe that merging YHOO into the MSFT corporate structure could spell disaster.

I suggest that you sell your YHOO pronto because today's price may be the best offer you're going to get. Then use \$1,600 of your proceeds to purchase 700 YHOO July 30 call options (YHQGF) at \$2.47. If the merger does not go through, then YHOO will fall back to the low \$20s and you won't be left holding the short end of the spear. But if the merger does occur at \$40 or \$35 the call options will let you buy 700 YAHOO at \$30. And this is the way you can have your cake and eat it, too.

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