

Icahn Works to Replace Yahoo Board

Goal of Proxy Fight Is Merger With Microsoft

Advertising Age

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May 15, 2008

NEW YORK (AdAge.com) -- Could Carl Icahn be Microsoft's white knight?

The financier hopes to reprise the Microhoo saga as he launches a proxy fight today for Yahoo by nominating an alternative slate of directors to Yahoo's board.

The idea is to establish a new board of directors -- one that is willing to negotiate a deal with Microsoft. So far, Microsoft has stuck to its earlier message that it is pursuing an organic growth strategy, although most analysts believe it could be swayed by a new Yahoo board coming to the table.

Dream team

Mr. Icahn's alternative slate includes himself, along with executives such as former Viacom CEO Frank Biondi; former longtime Grey Global Group CEO Edward Meyer; and, in what is surely a slap in Yahoo's face, Dallas Mavericks owner, HDNet co-founder and uber-blogger Mark Cuban, who sold Broadcast.com to Yahoo in 1999. Other nominees include Lucian Bebchuk, a Harvard law professor; former Nextel CEO John Chapple; Icahn business partner Keith Meister; venture capitalist Adam Dell; and New Line Cinema Co-CEO Robert Shaye.

"It is clear to me that the board of directors of Yahoo has acted irrationally and lost the faith of shareholders and Microsoft," he wrote in a letter to Yahoo Chairman Roy Bostock. "It is quite obvious that Microsoft's bid of \$33 per share is a superior alternative to Yahoo's prospects on a standalone basis."

Mr. Icahn wrote he was "perplexed" over the board's inaction and that over the past week a number of Yahoo shareholders have sought his help in launching a proxy fight to remove the current board and establish one that would negotiate a merger with Microsoft. He also expressed concern that Yahoo has said publicly that it will explore "strategic alternatives" and that entering into one of those alternatives could hinder the ability to work out a deal with Microsoft.

That statement most likely refers to a Yahoo-Google partnership for search marketing. Yahoo and Google have been discussing a deal in which Yahoo could outsource some of its paid-search monetization to Google, in order to goose cash flow and keep investors happy. However, such a deal could also discourage potential suitors -- something Microsoft CEO Steve Ballmer warned when he would withdraw his bid for Yahoo.

Danger signs

Such a deal, Mr. Ballmer wrote in a May 3 letter, "would raise a host of regulatory and legal problems that no acquirer, including Microsoft, would want to inherit. ... Accordingly, your

apparent plan to pursue such an arrangement in the event of a proxy contest or exchange offer leads me to the firm decision not to pursue such a path."

Microsoft wants to challenge Google but lacks the scale in the ever-important search category to do so. Mr. Ballmer has stated that he wants to get to 30% share in search and it appears the only way for him to do so would be to buy Yahoo. According to ComScore, Google's search share in March grew 0.6% to 59.8%; Microsoft's share, meanwhile, declined 0.2% to 9.4%. Adding Yahoo would give Microsoft a 30.7% share in search query volume.

Because of Google's competitive pressure, analysts are not convinced Microsoft couldn't be lured back to the table.

"Despite reports suggesting Microsoft may have abandoned its bid, we think Microsoft may still be interested as, in our view, it needs Yahoo to compete versus Google," said UBS analysts Ben Schachter and Heather Bellini. "We continue to think a deal could be reached, with the value in the \$34-\$35 [per share] range."