

Icahn Threatens Yahoo Board Fight After Failed Bid

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Billionaire investor Carl Icahn threatened to seek control of Yahoo! Inc.'s board if the Internet company doesn't revive takeover talks with Microsoft Corp. and won support from hedge-fund manager John Paulson.

Icahn said today that he owns as much as \$1.6 billion in Yahoo shares and may buy another \$900 million worth. He proposed 10 board nominees, including Mark Cuban, owner of the Dallas Mavericks professional basketball team, and former Viacom Inc. Chief Executive Officer Frank Biondi Jr. All 10 Yahoo directors are up for re-election at the annual meeting on July 3.

Icahn has led proxy fights at companies such as Motorola Inc. and drugmaker ImClone Systems Inc., frequently pushing them to sell part or all of their businesses to help revive sagging share prices. Today he urged Yahoo to make a deal with Microsoft, saying the combination "is by far the most sensible path" if they want to take on Google Inc.

"The board of directors of Yahoo has acted irrationally and lost the faith of shareholders and Microsoft," Icahn, 72, said in a letter to Yahoo's board. "I sincerely hope you heed the wishes of your shareholders and move expeditiously to negotiate a merger with Microsoft, thereby making a proxy fight unnecessary."

Yahoo, based in Sunnyvale, California, climbed 61 cents to \$27.75 at 4 p.m. New York time in Nasdaq Stock Market trading. Microsoft, the world's biggest software maker, gained 52 cents to \$30.45.

Yahoo's Decline

In the 12 months before Microsoft's \$47.5 billion bid, Yahoo fell 32 percent on the Nasdaq. Based on yesterday's closing price, if Icahn spent all \$2.5 billion on Yahoo stock, his stake would be equal to 6.7 percent of the company's outstanding shares as of April 30.

Icahn owns about 10 million shares and options to purchase an additional 49 million shares, according to a regulatory filing today.

Paulson's New York-based hedge fund, Paulson & Co., said today that it owned 50 million Yahoo shares as of March 31, equal to a 3.6 percent stake. Paulson plans to support Icahn's directors, he said in an e-mail, indicating that he was disappointed that Yahoo and Microsoft failed to agree on terms.

Capital World Investors, Yahoo's biggest shareholder, doubled its stake to 135.5 million shares. The firm is a unit of Los Angeles mutual-fund manager Capital Group Cos. A

second unit, Capital Research Global Investors, boosted its stake by 4.7 million shares to 89.8 million shares.

'Extremely Disappointed'

A portfolio manager for Capital Research, Gordon Crawford, told the Wall Street Journal last week he was "extremely disappointed" in Yang's negotiations with Microsoft. Crawford didn't return a phone message today.

Legg Mason Capital Management Inc. reported that it cut its stake in Yahoo by 24 percent in the first quarter, to 64.1 million shares, according to a regulatory filing. The company was previously the second-largest Yahoo shareholder.

Yahoo CEO Jerry Yang rejected Microsoft's \$33-a-share offer this month, saying his company was worth at least \$4 more. Buying Yahoo would have helped Microsoft compete with Google in Internet searches and online advertising, a market the company expects to almost double to about \$80 billion by 2010.

Google, based in Mountain View, California, handled almost two-thirds of U.S. search queries in March. That compared with 21.3 percent for Yahoo and less than 10 percent for Microsoft, according to ComScore Inc., a market research firm in Reston, Virginia.

'Completely Botched'

Accepting Microsoft's offer is a better option than going it alone, Icahn said in the letter. The board "completely botched" negotiations with Microsoft, prompting Yahoo's shareholders to ask Icahn to step in, he said.

Icahn is acting as a surrogate for Microsoft by waging a battle for board seats that may persuade Yahoo to sell to the software maker, Troy Mastin, an analyst at William Blair & Co. in Chicago, said in an interview with Bloomberg Television.

"I think he's playing his cards pretty smart here," said Mastin, who expects Yahoo shares to perform in line with the broader market. "I wouldn't be surprised to see Microsoft and Yahoo together in the next few months."

Icahn and Adam Miller, a spokesman for Yahoo, didn't immediately return phone messages. Microsoft spokesman Frank Shaw declined to comment.

Should Microsoft fail to re-emerge as a bidder, Icahn may have to find other ways to boost shareholder value, such as aligning the company with Google or selling stakes in Yahoo's Asian operations, said Ross Sandler, an RBC Capital Markets analyst in New York.

Board Nominees

Icahn's board nominees include three executives with experience in the entertainment business. Cuban co-founded Broadcast.com Inc. and sold it to Yahoo for \$4.7 billion in 1999. He also co-founded HDNet, the high-definition cable TV network.

Biondi was CEO of both Viacom and Universal Studios Inc. Another nominee, Robert Shaye, is co-CEO of New Line Cinema.

Icahn also nominated himself and Keith Meister, principal executive officer of Icahn Enterprises Inc. The rest of the slate consists of Lucian Bebchuk, a professor at Harvard Law School; John Chapple, the former CEO of Nextel Partners Inc.; Adam Dell, managing general partner of Impact Venture Partners; Edward Meyer, CEO of Ocean Road Advisors Inc.; and Brian Posner, former CEO of ClearBridge Advisors LLC.

Icahn built his reputation in the 1980s as a corporate raider, targeting big companies such as Phillips Petroleum Co., Texaco Inc. and Trans World Airlines Inc.

At Motorola, Icahn backed the idea of splitting off the company's mobile-phone business, a plan CEO Greg Brown adopted in March. Icahn also has supported an effort by video-store chain Blockbuster Inc. to purchase electronics retailer Circuit City Stores Inc. He said last week that he would buy the company himself if Blockbuster couldn't get financing.

Icahn also prodded BEA Systems Inc. to accept a takeover offer from Oracle Corp. Icahn took some credit for the \$8.5 billion transaction, telling Bloomberg in January that he helped persuade BEA's board to agree to terms.