

Icahn opens hostilities in Yahoo battle

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The billionaire hedge fund tycoon Carl Icahn has opened hostilities in a campaign to eject the board of Yahoo by accusing the internet company's directors of "irrational" and "irresponsible" actions in turning down a \$47.5bn (£24.4bn) takeover offer from Microsoft.

Icahn, who is one of Wall Street's most aggressive corporate raiders, has put forward 10 dissident nominees for election at Yahoo's annual meeting including himself and Mark Cuban, a fellow billionaire who made his fortune by selling a webcasting start-up, Broadcast.com, to Yahoo in 1999.

His challenge sets the stage for a showdown in California on July 3 at which disillusioned investors will confront the company about the collapse of talks with Microsoft which floundered at a face-to-face meeting between executives from the two companies at Seattle airport two weeks ago.

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

Describing himself as "perplexed" by Yahoo's actions, Icahn said it was "irresponsible" for independent directors to accept overly optimistic financial forecasts from the firm's management.

"I and many of your shareholders strongly believe that a combination between Yahoo and Microsoft would form a dynamic company and more importantly would be a force strong enough to compete with Google on the internet," said the letter.

Icahn, a 72-year-old New Yorker, has already spent \$1bn on a 4% stake in Yahoo and he is seeking clearance from the Federal Trade Commission to purchase \$2.5bn worth of stock. He wants to remove Yahoo's entire board including chief executive Jerry Yang, who co-founded the business in a trailer on the campus of Stanford University.

Anger has been bubbling to the surface among Yahoo investors who saw the value of their shares drop by 15% when Microsoft walked away. The stock edged up by 8 cents to \$27.22 during early trading on Nasdaq today although it remains well below the price Microsoft was prepared to pay.

The company's second largest investor, Legg Mason, has urged Yahoo and Microsoft to get back around the table although it has reservations about Icahn's tactic, suggesting it could prove "distracting" for management.

A Florida-based fund manager, Eric Jackson, has assembled 150 small investors with 3.3m shares who are keen to vote against the incumbent board.

Analysts suggest that Yahoo's co-founder will find Icahn to be an even tougher negotiator than Microsoft's boss, Steve Ballmer.

"If Jerry Yang had a tough time dealing with Steve, wait until he meets Carl Icahn," said Colin Gillis of the financial services firm Canaccord Adams.

Icahn made his name by seizing control of the airline TWA through a hostile takeover in 1986. His recent successes include forcing the struggling mobile phones maker Motorola to accept two of his nominees as directors. Last year, he helped propel the vaccine developer Medimmune into a \$15bn buyout by AstraZeneca.

Among the dissident nominees to Yahoo's board are a former boss of the Viacom media empire, Frank Biondi; a Harvard law professor, Lucian Bebchuk; a former head of the New Line Cinema film studios, Robert Shaye and Icahn's right-hand man, Keith Meister.

For several years, Yahoo has struggled to meet Wall Street's expectations as it has fallen behind Google in internet searches, online advertising and in broader innovation on the web. A year ago, discontent among shareholders meant that the re-election of several directors only won support of around 66%. A week later, Yahoo ousted its then chief executive, Terry Semel.

Among the obstacles facing Icahn, however, is a question mark over Microsoft's willingness to come back to the table. Shar VanBoskirk, an analyst at Forrester Research, said: "I think Microsoft is a little bit tired right now from the whole drama of the situation. If they're interested in reviving talks with Yahoo, it's probably not going to be immediate."

Alternatives for Yahoo include pursuing a deal with Google to share advertising technology or reviving tentative talks about a combination with Time Warner's internet arm, AOL. Experts say that Yahoo's chances of going it alone are slim.

"We expect a deal to be consummated," said Scott Kessler, an internet analyst at Standard & Poor's in New York. "It's always been strange to me how Yahoo seems to have had Yahoo's management rather than shareholders as its first priority."