

Yahoo activist calls for board battle compromise

Reuters

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SAN FRANCISCO/NEW YORK (Reuters) - A dissident shareholder will on Monday call on Yahoo Inc to compromise and accept a mixed board of directors drawn from among company nominees and a rival slate backed by Carl Icahn.

Eric Jackson, founder of the activist hedge fund Ironfire Capital and leader of the grassroots shareholder group Yahoo Plan B, said on Sunday he would encourage his loose-knit group to elect five Yahoo directors and four Icahn nominees.

"It's become clear over the last two weeks that many shareholders are reluctant to support the entire list of Icahn nominees," Jackson said in a statement to be issued on Monday.

The 'Plan B' group is made up of 150 Yahoo stockholders representing 3.2 million Yahoo shares. Members of the Web-based activist group of small shareholders vote individually rather than as a group, Jackson said.

Separately, a source familiar with the thinking of Yahoo's board of directors said they see no need to compromise with Icahn and accept some of his rival slate as a way of defusing the proxy battle by Icahn to displace Yahoo's entire board.

The moves come in the busy final days before an August 1 showdown for control of Yahoo. Several proxy advisory firms are expected to weigh in with recommendations to investors on whether to support the Yahoo or Icahn camps.

Meanwhile, Yahoo is expected by many Wall Street analysts to report weak quarterly results on Tuesday in the face of slackening demand by some key corporate advertisers.

Yahoo's position was bolstered on Friday when fund manager Bill Miller, chief investment officer of Legg Mason, said he would support Yahoo's existing board at the August 1 annual shareholder meeting in Silicon Valley. Legg Mason recently held about 60.7 million Yahoo shares, about 4.4 percent of those outstanding.

That was a blow to billionaire investor Carl Icahn's two-month campaign to replace the embattled Internet media company's board of directors and then reopen negotiations on a full or partial merger of Yahoo with Microsoft Corp .

Yahoo spokesmen were not immediately available to comment.

YAHOO CAMP GAINS CONFIDENCE

The Wall Street Journal reported on Saturday that four Yahoo officials, including Chief Executive Jerry Yang, and three outside board members met with top proxy advisory firm ISS

Governance Services, with Yahoo stating its case for ISS to support the company in the August 1 proxy vote.

Details of the Journal story, which did not name sources, said Yang and his colleagues gave no indication to ISS that they would settle for offering Icahn four board seats as a compromise. ISS is a unit of RiskMetrics Group .

At the ISS meeting, the Yahoo officials reviewed both their board and the Icahn lineup without saying whether they would find Icahn's nominees "acceptable," the paper said.

Many institutional holders of Yahoo are likely to look to the recommendation by ISS or other proxy advisors for how to vote in the board of directors contest at the annual meeting.

Yahoo's stance reflects growing confidence that its slate of directors is in a stronger position with investors other than Capital Research, Yahoo's largest investor, one source confirmed to Reuters. That source could not confirm details of the meeting between ISS and Yahoo officials.

Gordon Crawford, lead portfolio manager at Capital Research, had angrily criticized Yahoo management's failure to come to terms with Microsoft on a \$47.5 billion deal in May. Capital Research owned 220 million, or 16.3 percent of Yahoo shares as of March 31, according to U.S. regulatory filings.

HYBRID BOARD PLAN

Jackson called on Plan B members to vote for five current Yahoo directors, including Yang, Hewlett-Packard printing executive Vyomesh Joshi, Activision CEO Robert Kotick, former Microsoft manager Maggie Wilderotter and former Northwest Airlines Chairman Gary Wilson.

He called on shareholders to support four Icahn nominees, including Adam Dell, a venture capital investor and investor in start-up HotJobs which was sold to Yahoo, two advertising executives, Edward Meyer and John Chapple, along with Harvard professor and outspoken executive pay critic Lucian Bebchuk.

"We are confident this new hybrid Yahoo board can effectively conclude a deal with them (Microsoft)," Jackson said.

A year ago, Yang took over from former CEO Terry Semel, but Jackson now believes Yang, too, should step aside: "Yahoo would be better served with a different CEO, but I think he should stay on the board," the activist investor said.

Jackson said his recommendation of the five existing Yahoo directors should not be interpreted as satisfaction with the current board, which he blames for allowing a host of corporate governance missteps to occur over the past four years. Rather, he argues the partial board is needed to ensure continuity even as he advocates that it seeks a merger with Microsoft.

At Yahoo's 2007 shareholder meeting, Jackson and his Plan B group called on other shareholders to withhold their vote for certain Yahoo board members in a protest over executive pay.

Roughly one-third of shareholders voted against the three members of Yahoo's compensation committee in protest over the company's poor performance in recent years and failure to link executive pay to performance. Details of the Plan B proposal will be available at www.youchoose.net/yahoo.

(Editing by Ian Geoghegan)