Activist investor seeks to replace Yahoo's entire board

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In this Jan. 7, 2014, file photo, Yahoo president and CEO Marissa Mayer speaks during the International Consumer Electronics Show in Las Vegas. Yahoo's stock is up Thursday, March 24, 2016, before the opening bell on a report that an activist shareholder will launch a campaign to replace its board. (AP Photo/Julie Jacobson, File)

Starboard Value LP nominated an entirely new board at Yahoo on Thursday, setting up a fight for control of the faded Internet company.

Starboard, which owns about 1.7 percent of outstanding shares, sent a letter to Yahoo investors that said company leaders have failed to deliver results. The hedge fund says significant change is needed "to hold management accountable and properly oversee any operational turnaround plan, separation or sale of assets."

Yahoo CEO Marissa Mayer sits on the board and has said that she wants to continue leading the company. It is not clear what the attempted coup means for her.

"The management team and Board of Yahoo have repeatedly failed shareholders," Starboard wrote in its letter to shareholders. "Time and again, operating results have been decidedly negative and materially worse than management's guidance and external expectations."

Yet Starboard may simply be applying pressure with the hope that it can assert its influence immediately.

Starboard said in its letter that it hopes that it can reach a "mutually agreeable resolution with Yahoo that would allow us to get involved sooner to ensure a good outcome."

Yahoo said Thursday that it would review the letter and respond.

Starboard's board nominees include Eddy Hartenstein, former CEO of Tribune Co.; and Jeffrey Smith, CEO of Starboard and chairman of Darden Restaurants Inc. Also among nominees is Rick Hill, who oversaw a rapid expansion at the computer chip company, Novellus Systems.

Tension between Starboard and Yahoo has been escalating. Yahoo named two new directors earlier this month, a maneuver that likely agitated Starboard. Starboard has suggested a major change in leadership is needed, and that could include Mayer, who has cut staff and jettisoned assets in a bid to turn Yahoo around. Mayer has been CEO since July 2012.

Yahoo, based in Sunnyvale, California, has been trying to reverse a prolonged decline in its revenue and figure out a way to avoid paying taxes on the gains from a roughly $28 billion stake that it holds in China's e-commerce leader, Alibaba Group.

Mayer is pushing to lay off 15 percent of its workforce and shed unprofitable services to reduce expenses and sharpen the company's focus on mobile, digital video and core operations, such as sports and finance. At the same time, Mayer is trying to pull off a complicated spin-off that would break off Yahoo's Internet operations into a newly formed company to shield the Alibaba stake from taxes.

Starboard and other shareholders want Yahoo to sell its Internet operations as soon as possible. That demand is based largely on the belief that Yahoo's revenue is bound to fall even further as more digital advertising flows to the industry leaders, Alphabet Inc.'s Google and Facebook Inc.

Yahoo's board says it is still backing Mayer, but it also signaled that it is receptive to selling the Internet operations last month by hiring three investment banks to solicit offers. Analysts believe the most likely bidders are Verizon Communications Inc., AT&T Inc., Comcast Corp. and a private equity firms that specialize in buying troubled companies.

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