

Yahoo's board under fire after firing of CEO Bartz

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(AP) -- Carol Bartz's firing as Yahoo Inc.'s CEO isn't going to be enough to placate a loudening chorus of shareholders who believe Chairman Roy Bostock and his fellow board members also should be ousted after years of questionable choices that raised doubts about their competence.

The deepening disdain for Yahoo's board gained a potentially influential voice Thursday with the disclosure that successful hedge fund manager Daniel Loeb had bought a 5.2 percent stake in the company with designs on getting rid of Bostock and at least two other longtime directors.

Bartz, still technically a Yahoo board member, also fanned the flames in her first interview since Bostock fired her in a phone call late Tuesday. While defending her own decisions, Bartz called the board a bunch of "doofuses" in a profanity-laced interview with [Fortune magazine](#).

Bartz, 63, wasn't a shareholder favorite either, but her description summarized the sentiment of many investors who have been stewing since Bostock and fellow board member [Jerry Yang](#) balked at [Microsoft Corp.](#)'s May 2008 offer to buy the company for \$33 per share, or \$47.5 billion. They insisted they were pursuing a strategy that would make Yahoo worth much more than Microsoft's bid, an argument that now looks absurd. Yahoo shares haven't closed above \$20 in nearly three years. The stock finished Thursday at \$14.44, a gain of 83 cents, or 6 percent, that was propelled by Loeb's attack on the board.

"This board has presided over some of the worst decisions made by any

company in recent history," said Darren Chervitz, co-manager of the Jacob Internet Fund, a longtime Yahoo shareholder.

Even so, Yahoo's 10-member board probably still isn't viewed as the worst in [Silicon Valley](#), said BGP Financial Partners Colin Gillis. He thinks that lowly title belongs to Hewlett-Packard Co.'s board, which has snooped into people's phone records and 13 months ago switched CEOs in a move that has been followed by a nearly 50 percent drop in the company's market value that has wiped out about \$45 billion in shareholder wealth. By comparison, Yahoo's market value is about \$30 billion below Microsoft's last offer.

Gillis worries, though, that Yahoo's board will do more damage as long as Bostock and the current members remain. Possible missteps include bidding too high for video website Hulu.com, which is up for sale, or picking poorly when they settle on a permanent leader to take over from interim CEO Tim Morse.

"They could still do something really foolish," Gillis said. "The concern out there is that this is not a functional board."

Loeb hopes to shake things up through his Third Point fund, which specializes on buying stakes in troubled companies. In a letter Thursday, Loeb demanded the resignation of Bostock and two other directors, Arthur Kern and Vyomesh Joshi. Kern, who has a background in radio broadcasting, has been on the board since 1996 while Joshi, a top HP executive, has been a director since 2005. Loeb also said he expects Susan James, a board member since last year, to step down because he considers her too close to Bartz.

"It is time that certain members of this board were held accountable for its past failures and their individual roles," Loeb wrote.

Loeb said he is drawing up an "all-star" list of potential replacements.

A spokesman for Yahoo's board said it welcomes a dialogue with Third Point.

"The Yahoo board recognizes the critical challenges facing the company and appreciates constructive input from all shareholders," the spokesman said.

In her interview with Fortune, Bartz said the board should bring her back as CEO because she "knew what to do."

Loeb, Chervitz and other shareholders have made it clear they believe Bartz had to go. One of their biggest grievances is that Yahoo's board signed Bartz to a four-year contract in January 2009, even though she had no previous experience running an Internet company or one that sells advertising to make money. She was most recently CEO and then executive chairman of design software maker Autodesk. The board's critics also think the board waited far too long to replace Bartz.

But Bartz felt she was being turned into a scapegoat by a board that she says is still haunted by its rebuff of Microsoft's takeover offer.

"The board was so spooked by being cast as the worst board in the country," Bartz said. "Now they're trying to show that they're not the doofuses that they are."

During Bartz's tenure, five Yahoo directors left the board and four of the spots were filled with new appointees. Bartz remains on the board, a seat she told Fortune she intends to keep.

But Yahoo doesn't want her in the boardroom. "Ms. Bartz is obligated to resign from the board, and we expect her to do so," the company

spokesman said. Yahoo already has removed Bartz's picture and biography from the section of its website devoted to its board.

Bostock, who is also vice chairman of Delta Air Lines Inc., has steadfastly refused to surrender his post at Yahoo even after nearly 40 percent of shareholders voted against his re-election in 2008 after the Microsoft talks collapsed. About 20 percent of Yahoo's shareholders opposed Bostock's re-election at the company's latest annual meeting. During that meeting, Bostock told shareholders that Yahoo's board was "very supportive" of Bartz.

Yahoo leaves the evaluation of its directors' performances up to its nominating and corporate governance committee. That's chaired by Patti Hart, a Yahoo board member for the past 14 months and CEO of casino game maker International Game Technology.

If the board truly values its shareholder opinion, Chervitz thinks a majority of the directors should pressure Bostock into resigning.

"I do not delude myself into thinking that will necessarily change the company's direction or drive up the stock price, but it would have important symbolic value," he said. "(Bostock) picked the wrong person to be CEO last time and waited too long to get rid of her. Now, it's time for the accountability to move up the chain of command."

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