Yahoo strategy falls flat on Wall Street (Update)

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Yahoo said it is cutting 15 percent of its workforce and narrowing its focus as it explores "strategic alternatives" for the future of the company

Yahoo shares tumbled Wednesday in a sign that investors were skeptical about the faded Internet star's latest plan to return to glory.

The shares dropped as much as nine percent early in the Wall Street session but pared losses to end the official Nasdaq trading day down 4.75

percent to $27.68.

Yahoo on Tuesday said it was cutting 15 percent of its workforce and narrowing its focus as it explores "strategic alternatives" for the future of the company.

The announcement, coming with the release of a big quarterly loss, offered the first sign that Yahoo may be open to a sale or merger after years of struggling.

Yahoo said in a statement it was launching "an aggressive strategic plan to simplify the company, narrowing its focus on areas of strength to better fuel growth."

At the same time, it said it was looking at "additional strategic alternatives," suggesting it could seek a deal to sell or merge the company.

Meanwhile, Yahoo also plans to proceed with its plan to separate the core business from its stake in Chinese online giant Alibaba.

Analysts at FBN Securities saw Yahoo's plan as a signal that the company is "receptive to receiving offers" from prospective buyers, and considered Verizon and Microsoft to be likely suitors.

Microsoft tried to buy Yahoo about eight years ago, only to find itself snubbed.

Brian Wieser at Pivotal Research remained cautious about the plan.

"While we don't doubt that an improved Yahoo could follow from this plan, we are generally doubtful that it will be seen through by the current management team (or the current board), as a proxy fight seems

inevitable if a sale of the business doesn't occur first," he said in a research note.

The plan may provide Yahoo chief Marissa Mayer some breathing room by reassuring investors that the company is keeping its options open while streamlining operations.

Mayer, who has strived to revive the pioneering Internet firm since taking charge in mid-2012, cautioned during an earnings call that this will be a "transitional year" in which earnings would likely decline.

Yahoo has been under pressure from a key investor calling for changes in top management, with Mayer among those in the crosshairs.

The California company reported a loss of $4.43 billion in the final three months of last year, due mostly to lowering the value of its US, Canada, Europe, Latin America and Tumblr units. Revenue was up marginally from a year ago at $1.27 billion

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