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Yahoo's Chief Resigns, and a Founder Takes Over

By [MIGUEL HELFT](#)

SAN FRANCISCO, June 18 — When [Yahoo](#) hired [Terry S. Semel](#) as its chief executive in the midst of the dot-com implosion in 2001, it became a bit of an oddity in Silicon Valley: a technology company run by a Hollywood executive.

Now, as Yahoo is being eclipsed by the success of [Google](#)'s innovations, the company, long the No. 1 Internet portal, is going back to its technology roots.

Yahoo said Monday that Mr. Semel, a former Warner Brothers executive, had resigned and would be succeeded by Jerry Yang, a co-founder of the company in 1994 with David Filo when the two were students at Stanford. Mr. Semel will remain as nonexecutive chairman.

The decision follows 18 months of turmoil for Yahoo, as the company disappointed both Wall Street and many in its own ranks. One of the original Internet success stories, it found itself unable to compete effectively against Google, and faced growing pressure from a crop of young rivals like MySpace and Facebook. In a December shake-up, Mr. Semel sought to reinvigorate the company, but that, like much that he tried, has proved inadequate so far.

Last week, disgruntled investors called for a management overhaul at the annual shareholders' meeting, and ballots representing a third of investors casting ballots opposed re-electing one or more directors, ratcheting up the pressure on Yahoo's board for drastic changes.

Some analysts maintain that the shake-up may be only a prelude to a more substantial corporate overhaul, which could include a merger or a sale.

"This had to happen or things would have gotten nasty in a hurry, with people taking positions and pushing for change," said Paul Kedrosky, executive director of the William J. von Liebig Center for Entrepreneurism and Technology Advancement at the [University of California](#), San Diego. "I'm not convinced it's enough, but it had to happen."

Mr. Yang and Mr. Semel said they had been considering the changes for some time, after Mr. Semel notified the board that he wanted to step down sooner rather than later. "I saw myself much more as a coach than a player going forward," Mr. Semel said in a conference call.

Mr. Yang said in an interview Monday that some of his primary functions would be to reinvigorate the company and attract top talent, not to overhaul its strategy. "We have a very clear strategy in place and we are executing on it," he said.

As president, Yahoo tapped Susan L. Decker, 44, a top executive long seen as heir apparent in the job to Mr. Semel. But it was not ready to give her the chief executive's title, which went to Mr. Yang. (Through last month, his title had been Chief Yahoo.) He is already filling the shoes of another senior executive who resigned this month, Farzad Nazem, the chief technology officer and one of the longest-serving Yahoo executives.

Current and former colleagues say Ms. Decker is widely respected, even if lacking extensive operations experience and technology background.

Mr. Semel, 64, was brought to Yahoo to impose discipline at a company shaken by the frenzy of the Internet bubble and the aftermath of its implosion. He did that, applying methodical management and hiring experienced executives.

"Yahoo had grown like a wild weed, but it needed to be trimmed and focused," said Christopher Lien, chief executive of Marin Software, which makes technology products for search advertisers. "He rationalized the portfolio."

But some in the company saw more indecision and delays than discipline. Mr. Semel, like others at the time, tried to move Yahoo away from online advertising and to build fee-based businesses. He pushed the Yahoo dating service and bought HotJobs, an online employment site. An alliance to provide content and services with [SBC Communications](#), now [AT&T](#), was quite lucrative.

Many on Wall Street say Mr. Semel's biggest mistake was not appreciating early enough the importance of Internet searching and particularly of Google. Yahoo gave Google its first big break, agreeing to use its search service. But once Mr. Semel realized just how lucrative Google's core business of placing small text ads next to search results had become, he spent more than \$2 billion to buy Inktomi, a company that made a Web search system, and Overture Services, which sold advertising on search pages.

While those deals helped cement Yahoo as No. 2 in searches, behind Google, it was not able to keep up with its fast-moving rival. As Google kept inventing computer algorithms that allowed it to earn more money from each search, Yahoo kept Overture's aging system in place.

Then, when it began a wide-ranging effort to catch up called Project Panama, the new software was troubled by delays. Now Panama, which was introduced in February, is said to be helping the company improve its advertising revenue but not as quickly as some investors hoped. And Yahoo is stepping up its efforts to sell advertising on other Web sites.

"It's not fair to say that Yahoo totally blew it," said Ellen Siminoff, a former Yahoo executive who is now chief executive of Efficient Frontier, a search advertising company. "Yahoo did a fine job in search. It's just that Google did an amazing job. So in comparison, it doesn't look as good."

Yahoo shares hit a low of \$4.40 in September 2001, about five months after Mr. Semel joined the company, but rose steadily after that to a high of \$43.57 in January 2006. For all of last year, though, they lost 35 percent of their value, closing Monday at \$28.12. In trading after hours, the stock rose nearly 5 percent, to \$29.45, after the news of Mr. Semel's resignation.

Mr. Semel tried several ways to differentiate Yahoo from Google. He hired Lloyd Braun, a former Hollywood executive, to create original programs. But Mr. Braun left after his initiatives were stymied by turf battles with Yahoo headquarters.

And Mr. Semel tried to ride the movement to new forms of online social interaction, buying companies like the photo-sharing site Flickr. But these efforts have not yet transformed Yahoo's overall service into the kind of booming social network that has powered the growth of MySpace and Facebook.

As Yahoo fell further behind Google, some managers grew increasingly dissatisfied and called for more radical changes in strategy and culture. The December shake-up failed to satisfy everyone, and a stream of executive departures continued.

Over the years, Mr. Yang and Mr. Filo have stayed closely involved in the company, but neither wanted to be at the very top. Mr. Filo has worked as an architect of Yahoo's computer systems. Mr. Yang would consult with Mr. Semel on matters of strategy and represent Yahoo to investors and business partners.

Several current and former employees said they expected Mr. Yang to spend only a limited amount of time as chief executive. If Ms. Decker is able to prove her management skills, she is likely to take the top job, they said.

Still, Mr. Yang, 38, said Monday, "I very much see the C.E.O. role as something I plan to do for a while."

During his tenure, Mr. Semel was richly rewarded. He has realized gains around \$451 million from stock options and other pay, according to a report by the executive compensation firm Equilar, making him one of the highest paid executives in the nation.

In an interview, Mr. Semel said that because of his resignation, he would forgo a three-year retention package he received last year, which is estimated at \$92 million, as well as other unvested stock options.

Jordan Rohan, analyst with RBC Capital Markets, said Mr. Semel's replacement was inevitable and part of a several-stage process. "The shuffling of the deck doesn't change any of the cards," he said. But the change in management could make Yahoo receptive to more substantial overhaul. The company had discussed an alliance with [Microsoft](#), which is also struggling to compete with Google online. "It wouldn't surprise me to see Yahoo join forces with MySpace or another large portal like an AOL," Mr. Rohan said.

Mr. Kedrosky added, "My bet: Yahoo won't be an independent company in 12 months."

Matt Richtel contributed reporting from San Francisco and Saul Hansell from New York.