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Amid Missteps, Yahoo's Semel Resigns as CEO

Company Faces Heat From Google, Investors; A Co-Founder Steps Up

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The abrupt resignation of Yahoo Inc. Chief Executive Terry Semel, amid mounting investor criticism that the company needs new leadership, reflects the continuing fallout for once-highflying tech companies now lagging red-hot Google Inc. in crucial areas.

Mr. Semel, 64 years old, is widely credited with helping to focus a floundering Yahoo following his 2001 arrival and helping it ride the recovery in online advertising. But Yahoo has come under strain from missteps in executing its strategy. The Sunnyvale, Calif., company missed opportunities to further capitalize on high-growth Internet areas such as video and social networking, and recently struggled with an upgrade to its online ad systems designed to more closely mimic Google's approach.

Yahoo has also lost executives and failed to fill key slots. Mr. Semel had also drawn fire for 2006 compensation that has been estimated by some at $71 million, which critics said wasn't warranted amid the company's declining revenue growth rates and share price.

With Mr. Semel becoming nonexecutive chairman, Yahoo co-founder Jerry Yang was tapped to be CEO and Susan Decker, the company's former chief financial officer and head of a key operating unit, became Yahoo's president. Mr. Semel said he resigned voluntarily.

Now, Mr. Yang and Ms. Decker face the task of steering Yahoo to capitalize on a massive base of more than 500 million users each month and try to narrow the gap with Google. There are signs of further challenges ahead. Ms. Decker said during a conference call with analysts yesterday that Yahoo's results for the second quarter would come in at the low to mid levels of its projections, as slowness in its core graphical display advertising outweighs benefits from its ad-systems upgrade known as Panama.

Yahoo announced the changes after the 4 p.m. market close. Its shares rose 3% during regular hours before the CEO announcement, then rose $1.30, or 4.6%, to $29.42 in after-hours trading.

The executive shake-up could further raise the noise around Yahoo as a candidate for acquisition or other combination. Yahoo in the past year has had conversations of varying intensity with Microsoft Corp., Time Warner Inc. and eBay Inc. about combining at least some of their activities, without reaching any deal, say people familiar with the matter.

"Jerry Yang didn't sound like he wants to sell, though that doesn't necessarily mean the company won't be sold," said Morris Mark of Mark Asset Management, a New York money-management firm that owns Yahoo shares. "Jerry Yang said all the right things for someone who wants to run the business." Even though Mr. Yang owns 4% of Yahoo shares, that might not preclude a media company from making an acquisition offer for Yahoo, Mr. Mark said.

Media companies Time Warner Inc. and News Corp. recently have separately been considering possible deals to merge their Internet activities with Yahoo, some of these people say, though none of the discussions appear to be advanced. Mr. Yang told analysts during the conference call that his company's board believes Yahoo should remain independent at this point.

"This is a time for new executive leadership, with different skills and strengths," Mr. Semel wrote in his resignation letter to the board released by Yahoo. "We are again addressing challenges created by dramatic changes in the needs of audiences and advertisers," he said, and acknowledged that "none of us is at all satisfied with the company's recent financial performance." But, he said, "Yahoo continues to have fundamental strengths."

Exact details of how Mr. Semel's stepping down came about remain in dispute. Mr. Semel formally notified Yahoo directors during an emergency board meeting conducted by telephone Sunday, said one person familiar with the matter. Some board members were surprised by the timing, said this person, adding that the board has discussed plans for Mr. Semel's succession at each meeting over the past year. This person said Mr. Yang's position wasn't designed to be only an interim role, and that "he's going to be in that job longer than people think."

Another person familiar with events said directors conferred off and on informally several times last week before concluding Friday that Mr. Semel should give up the CEO post because Yahoo was "not catching up with Google." However, "there is going to be a search" for a new chief executive, this individual added. Ms. Decker "has the inside track as the internal candidate, but there will be external candidates as well."

Mr. Semel in an interview said he wasn't pushed out in any way by the board, and that his departure resulted from continuing discussions with directors. "No surprise on our end," Mr. Semel said. "We thought it was the right time to do it."

Mr. Yang said in an interview that he isn't serving in merely an interim role.

One of the people familiar with the matter said a strong protest vote at last week's annual meeting may have played a role in the management shakeup, an allegation Mr. Semel denied. Proxy advisory firms had recommended that investors withhold votes from members of Yahoo's compensation committee. Though Yahoo didn't give the specific vote breakdown, it said the full slate of 10 directors was re-elected with at least 66% of the overall vote each.

That relatively high proportion of withheld votes suggests "shareholders want a new direction," said Eric Jackson, a management consultant in Naples, Fla., who owns 96 Yahoo shares. He led a grass-roots drive to oppose the re-election of seven of Yahoo's 10 directors. Yesterday's change in leadership "no doubt will lead to a shuffling at the board" as well, Mr. Jackson predicted.

The executive changes harken back to the last big shakeup at Yahoo in early 2001. At the time, as the company was reeling from the dot-com meltdown and numerous missteps such as a bungled opportunity to buy Internet auctioneer eBay, then-CEO Tim Koogle left the company and Yahoo said it would search for a new chief executive from outside the company.

The person Yahoo ended up selecting in April 2001 was Mr. Semel, the former co-CEO of Warner Bros. He was considered a surprise choice because while he was known as a top handler of Hollywood talent, he wasn't seen as the main operational guru running Warner Bros.

Since becoming Yahoo CEO, Mr. Semel has reaped huge stock-options packages, even though the use of stock options has lost favor in Silicon Valley. According to a study by compensation firm Equilar Inc., Mr. Semel has realized a total of nearly $452 million in salary, bonus and stock-option exercises since 2001, including $231 million in fiscal 2004, $174 million in fiscal 2005 and $19 million in fiscal 2006.

In addition, Mr. Semel was awarded another $71 million in stock options in the 2006 fiscal year, Equilar says. Some of that grant has already vested, and Mr. Semel will be able to exercise those options over the next three years, but he may not be able to exercise the unvested options, says Equilar. A Yahoo representative confirmed that Mr. Semel loses any unvested options as part of the change.

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