

# BusinessWeek

MICROSOFT MOVES ON YAHOO July 22, 2008, 12:28PM EST

## Yahoo Saga: Microsoft Investors Weigh In

In the Microsoft-Yahoo minuet, Yahoo investors, including Carl Icahn, have gotten most of the attention. What about Microsoft shareholders?

by [Jay Yarow](#)

Amid Microsoft's quest to acquire all or part of Yahoo, made public a half-year ago, media attention has zeroed in on Yahoo shareholders, and how they stand to gain or lose from Microsoft's on-again, off-again advances. That focus comes with good reason, considering the role they will play in determining the company's fate.

Already, investors may have given Yahoo ([YHOO](#)) an upper hand in its proxy battle with shareholder [Carl Icahn](#), who had pushed for the election of a completely new board of directors and the ouster of Yahoo Chief Executive [Jerry Yang](#). But days after Yahoo's second-largest shareholder, [Legg Mason Capital Management](#), [released a statement voicing its support for Yahoo management](#) (BusinessWeek.com, 7/18/08), [Icahn accepted a compromise that lets Yang keep his job](#) and involves far fewer changes to Yahoo's board.

But what of Microsoft ([MSFT](#)) shareholders? While many big institutional investors hold shares of both companies, there has been far less focus on what fund managers have to say about Microsoft's handling of the discussions—and specifically, the 20% drop in the company's shares since Jan. 31, the day before it disclosed a \$31-a-share cash and stock bid for Yahoo. (Not all the decline can be chalked up to Microsoft's failed takeover attempts, of course. The U.S. economy is slowing, and corporations are trimming IT budgets. Then again, the tech-laden Nasdaq stock market has lost only 3% during the same time period, and Google ([GOOG](#))—the company whose dominance of online advertising prompted Microsoft's interest in Yahoo—is down only 14%.)

### SOME INVESTORS ARE LOSING PATIENCE

Calls to a handful of Microsoft shareholders reveal that while some give Microsoft CEO [Steve Ballmer](#) the benefit of the doubt on Yahoo, others are losing patience with what they consider a desultory approach to getting the deal done.

Count Robert Zagunis among the long-suffering investors. "We're patient," says Zagunis, co-manager of the Jensen Portfolio for Jensen Investments, which holds more than 7 million Microsoft shares. "We see it as one part of management of the business." For Zagunis, the benefits of buying Yahoo or forging some other partnership that might help Microsoft narrow the gap with Google outweigh the costs. "No, we wouldn't want them to veer away from the deal and forget it," Zagunis says. "There is a real strategic initiative they're trying address."

Larry Haverty, a portfolio manager at Gamco Investors ([GBL](#)), which holds at least 1.4 million Microsoft shares, says he also believes in the value of a deal with Yahoo. But he's concerned that Microsoft's dithering is contributing to the stock's decline and undermining confidence in management. "At the start, it was a good strategic idea, but their ability to implement it, I'd almost use the word tragic in its failure," Haverty says. "It lowers Microsoft's stock, creating the worst of all worlds. You've poisoned the well....You've caused shareholders to lose faith." He adds, "The fact that [Ballmer] and the [Microsoft] board are jerking around over a dollar doesn't inspire tremendous confidence."

### UNCERTAINTY UNTIL AUGUST

Microsoft said in May it would walk away from the deal but since then the company has said it remains interested in buying all or part of Yahoo.

Uncertainty surrounding the fate of Microsoft's overtures is unlikely to be resolved at least until Yahoo's annual shareholder meeting, scheduled for Aug. 1, says Chuck Jones, vice-president of [Atlantic Trust SRIC](#), which holds more than 200,000 Microsoft shares. "Uncertainty always creates discount to stock price," Jones says.

[Yarow](#) is an intern at *BusinessWeek*.

Xerox **Color**. It makes business sense.

---

Copyright 2000-2007 by The McGraw-Hill Companies Inc. All rights reserved.

**The McGraw-Hill Companies**