Microsoft Said to Plan Proxy Fight for Yahoo
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Microsoft has begun to make preparations to proceed with a proxy fight against Yahoo as it seeks to gain control of the Internet company, people briefed on the matter said on Tuesday.
The aggressive tactic is part of the hard-nosed takeover campaign that Microsoft began two weeks ago. Unless Yahoo quickly reverses course and enters into merger talks, Microsoft will seek to nominate a slate of directors to Yahoo's board by March 13, the deadline for nominations.

Microsoft declined to comment.

Yahoo said that its directors had decided to offer all full-time employees enhanced severance benefits in case they were terminated without cause in the two years after completion of any merger.

Yahoo said that the enhanced benefits, which include accelerated vesting for stock options, were intended, in part, to prevent an exodus of employees.

Microsoft's move, expected to cost about $20 million to $30 million, was the software giant's alternative to raising its $44.6 billion bid and was seen as a less expensive way to put pressure on Yahoo's board. Yahoo has rejected Microsoft's original offer, saying it "substantially undervalues" the company.

Yahoo said on Tuesday that its board was continuing to review all strategic options.

With Microsoft's stock having fallen 13.6 percent since the offer was announced on Feb. 1, the nominal value of the deal has also declined, to just above $41 billion. Many large Yahoo shareholders, including Bill Miller of the mutual fund manager Legg Mason, have said that Microsoft must raise its bid to strike a deal.

But raising the $31-a-share offer would cost Microsoft $1.4 billion more for every dollar added.

"We sent them a letter and said we think that's a fair offer," Bill Gates, Microsoft's chairman, told The Associated Press on Monday. "There's nothing that's gone on other than us stating that we think it's a fair offer. They should take a hard look at it."

By contrast, waging a proxy fight to oust Yahoo's directors is comparatively cheaper. Much of the cost involves the hiring of a proxy solicitor and preparing mailings for Yahoo shareholders.

Some analysts said that if Microsoft moved too aggressively, it might drive off Yahoo employees. The new severance plan is intended "to help retain the employees, help maintain a stable work environment and provide certain economic benefits to the employees," Yahoo said in a regulatory filing.

The enhanced benefits include continuation of an employee's base salary, as well as dental and health benefits, for 4 to 24 months, depending on an employee's job level, the company said in its filing. They also include accelerated vesting for all stock options, restricted stock units and other equity-based awards, and reimbursement for outplacement services up to a maximum of $15,000.

Yahoo's top executives will receive their base salaries for 24 months and be eligible for the maximum $15,000 amount in outplacement-benefits reimbursements.

More than 4 in 5 Fortune 200 companies have similar — and sometimes more generous — enhanced severance agreements for top executives after a merger or acquisition, according to Equilar, an executive compensation research firm. But those types of agreements rarely extend to all employees, according to Equilar.

Just last week, Yahoo began laying off about 1,000 of its approximately 14,000 workers and said it would take a $20 million to $25 million in pretax cash charges to account for severance packages.

Microsoft repeated statements it made earlier that it, too, was interested in retaining important Yahoo employees. In its Jan. 31 offer letter to Yahoo's board, the company said it intended "to offer significant retention packages to your engineers, key leaders and employees across all disciplines."

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