Microsoft Urged to Buy Yahoo in 2008.

Steve Ballmer Threatens to Launch A Hostile Bid if Yahoo Does Not Agree to Merger Soon.

Microsoft Corp. is turning the screws to try to force Yahoo Inc. to agree to a takeover, but Yahoo remains focused on finding an alternative.

In a letter sent Saturday to Yahoo directors, Microsoft Chief Executive Steve Ballmer threatened a hostile takeover bid for the Internet company if it doesn't agree to a merger within the next three weeks. On Sunday, Yahoo was planning a written response to the letter, saying Microsoft had failed to address antitrust concerns and other issues raised by its offer, according to people familiar with the matter. The offer is currently valued at $42.2 billion.

Yahoo's reluctance to negotiate has given some Microsoft executives a window to voice their opposition to the proposed acquisition, say people familiar with the matter. Their skepticism probably wouldn't derail a possible deal, but it could at least limit Microsoft's appetite for raising its offer, these people say.

Some in Yahoo's camp view Mr. Ballmer's latest move as a negotiating strategy, and they believe there is still time for Yahoo to pursue alternatives to an acquisition by the software giant, say people familiar with the matter. One of the people says some members of Yahoo's management would prefer not to sell to Microsoft and are still looking for another deal that would allow Yahoo to avoid that.

The company's directors were scheduled to discuss the matter Sunday, but it wasn't clear, whether they came to any new conclusions.

On Jan. 31, Microsoft offered to acquire Yahoo for $44.6 billion, or $31 a share in cash and stock Yahoo's board rejected the offer, which has sin< declined in value to $29.36 a share because of substantial drop in Microsoft's share price. In p.m. trading Friday on the Nasdaq Stock Mark Yahoo's shares were up 23 cents at $28.36, who Microsoft's traded at $29.16, up 16 cents.

Since the unsolicited offer, Yahoo has been discussing alternative arrangements with companies that including News Corp. and Time Warn Inc. People familiar with the matter say the talks with Time Warner, which center around its folding its AOL Internet unit into Yahoo in return for a significant Yahoo stake, have heated up recently. The separate Yahoo discussions with News Corp., owner of Wall Street Journal publisher Dow Jones & Co., have cooled, these people say.

It's unclear how much patience Yahoo's shareholders might have for a drawn out pursuit of non- Microsoft options, or taste for deals that might represent less-certain financial returns than Microsoft's stock-and-cash offer. But one person familiar with the matter says there is some frustration that Yahoo's delay might have caused it to lose leverage in negotiating a higher offer from Microsoft.

Microsoft has been keeping close tabs on the views of Yahoo's major shareholders and, with Saturday's letter, it appears to be betting that investors want Yahoo to begin negotiations. Microsoft believes that a recent series of presentations that Yahoo management made to investors failed to persuade them that the company is worth substantially more than what Microsoft has offered.

If Yahoo's board doesn't agree to a sale in three weeks, Microsoft would be "compelled" to take its offer directly to shareholders and wage a proxy fight to replace Yahoo's directors, Mr. Ballmer wrote in his letter to Yahoo directors. He also implied that the offer Microsoft would make after the deadline would be lower than the one now on the table.

The amount of time any hostile effort would take is unclear, because Yahoo has so-called poison pill provisions designed to thwart hostile takeovers. Microsoft would presumably have to persuade shareholders to vote for its alternative slate of directors at Yahoo's annual meeting, for which Yahoo has yet to fix a date. If elected, those pro- Microsoft directors could then remove Yahoo's poison pill and accept Microsoft's offer. Under the law in Delaware, where Yahoo is incorporated, it could be forced to hold its annual meeting if it hasn't already done so by July.

Mr. Ballmer's letter, which comes after senior executives from the two companies failed to make any headway in two separate meetings in recent weeks, may make a friendly resolution of the standoff less likely. The sharply worded letter makes no secret of Microsoft's frustration at the lack of progress and could end up alienating Yahoo's board and management, some of whom already regard the software maker with a degree of suspicion.

In his letter, Mr. Ballmer suggests that worsening economic conditions have reduced Yahoo's market value, adding that "by any fair measure, the large premium we offered in January is even more significant today." Microsoft's original $31 per share offer represented a 62% premium to where Yahoo's shares had been trading before the offer.

Many Yahoo shareholders have been holding out for a higher offer and it is unlikely they would embrace a deal for less than the original bid. Still, Mr. Ballmer's threat underscores the frustration on the part of the software maker with the lack of any progress

The offer for Yahoo has generated some opposition within Microsoft, say people familiar with the situation. The plan to bid for the company was kept secret among a limited group of executives and advisers driving the strategy. Many other Microsoft executives learned of it only after Microsoft made the offer to Yahoo's board on Jan. 31.

Drivers of the deal at Microsoft include Senior Vice President Yusuf Mehdi and Senior Vice President Hank Vigil, two executives whose roles are to map out strategy and negotiate deals; they don't manage business groups.

If a deal with Yahoo goes through, Messrs. Mehdi and Vigil stand to play key roles in guiding the integration of the companies and could have greater clout to pursue other deals.

But other Microsoft executives have been raising concerns about the risks in buying Yahoo, say people familiar with the matter. Among the issues they have raised to other Microsoft executives and outsiders is the huge challenge of merging the two companies' computer systems that handle functions such as graphical display advertisements on Web sites. The skeptics argue that Microsoft should continue to build its online systems and services - a strategy that so far has fallen short of Microsoft's expectations - and make a number of smaller acquisitions complement that effort.

Another worry among some insiders is who would lead the complex integration. Microsoft has limited experience in digesting very large acquisitions and las recently lost several executives who might have helped in that undertaking.

Such opposition, say some people, is to be expected in a deal the size that Microsoft is pursuing with Yahoo. Microsoft also has a culture that allows debate to thrive - sometimes at the expense of making timely decisions. At this point, doubts about the deal don't seem strong enough to scuttle it, say the people familiar with the matter.

"There is no dissension among the people who are making the decisions," said one person close to Microsoft. This person said top executives including Mr. Ballmer have been level-headed since the start about the challenges and risks of completing such an acquisition.

With Microsoft Corp. and Yahoo Inc. firing tense public missives at each other, the real question is whether Microsoft is willing to pay the additional premium Yahoo wants to get a deal done quickly.

Monday, Yahoo's board said in a letter to Microsoft that it wasn't opposed to selling itself as long as the price "fully reflects the value of Yahoo, including any strategic benefits to Microsoft." In the meantime, it again rejected Microsoft's original offer-currently valued at $29.36 a share-as inadequate. The letter from Yahoo followed one from Microsoft on Saturday in which the software maker threatened a hostile takeover, of Yahoo if the Internet company' doesn't'agree to a merger within the next three weeks.

"We consider your threat to commence an unsolicited offer and proxy contest to displace our independent board members to be counterproductive and inconsistent with your stated objective of a friendly transaction," says the Yahoo letter addressed to Microsoft Chief Executive Steve Ballmer and signed by Yahoo Chairman Roy Bostock and CEO Jerry Yang.

Despite the sharp exchange, many analysts believe Yahoo wUl eventually fall into Microsoft's grasp. It hasn't revealed any serious alternative deals in the more than two months since Microsoft made its unsolicited offer public. Some investors also question whether Yahoo has lost its leverage to secure a higher price as time has dragged on.

Some in Yahoo's camp believe there is still time for the company to pursue alternatives, say people familiar with the matter. But there's a rough consensus among analysts and investors that two other scenarios are more likely.

In the first, Microsoft would signal to Yahoo that it's prepared to raise its offer and the two would enter friendly negotiations. In the second scenario, Microsoft would decide to wait it out and prepare a hostile effort, hoping that Yahoo will come to the table in the meantime.

Getting into a protracted battle has been a distraction for Microsoft's senior management at a time when the company can ill afford to miss a beat in its competition with Google Inc. and other rivals. Prolonged uncertainty also increases the likelihood that Yahoo's top talent will go elsewhere. A friendly approach could ensure smoother sailing when it comes time for a regulatory review of any deal.

There has been some contact: Senior executives from the companies have met at least twice in recent weeks, though they haven't made any real headway. Some analysts believe Yahoo has little choice over the long run but to enter negotiations in the hopes of securing a higher price.

Some major Yahoo shareholders have suggested they would embrace an offer closer to $35 a share. But because of the passage of time and the deteriorating economic climate, that's probably unrealistic. Supporting a $35 bid would cost Microsoft an additional $8 billion, and Mr. Ballmer would have difficulty justifying that to his own shareholders after publicly suggesting that Yahoo's value has declined since January.

There are no signs Microsoft is willing to raise its offer. People close to the company have said it doesn't want to bid against itself by increasing the offer without negotiations. Mr. Ballmer, in his Saturday letter to Yahoo directors, suggested that worsening' economic conditions have reduced Yahoo's market value.

When extended on Jan. 31, Microsoft's cash-and-stock offer was valued at $31 a share, a 62% premium over the price at which Yahoo was trading. The value is lower now because of a subsequent decline in Microsoft's share price. Each dollar per share that Microsoft raises its offer would sweeten the deal by about $1.4 billion, and the software maker would have to pay more than $2 billion more just to get back to the value of its original bid.

On Monday, Yahoo ended 4 p.m. trading on the Nasdaq Stock Market down 2.3%, or 66 cents, at $27.70, and' Microsoft was unchanged at $29.16.

Some executives at Microsoft have aired their skepticism about the deal in recent weeks, accord-' ingto people farniliarwith the matter. These people don't expect their view to torpe4,o Microsoft's offer but say it coUld limit Microsoft's willingness to raise its offer.

Some bankers not involved in the transaction say Yahoo miscalculated and should have entered negotiations right away to secure a higher price and get a deal done quickly. Instead of sitting down to negotiate with Microsoft, Yahoo decided to explore other options, none of which currently appears likely. Now, any premium over the original value Microsoft offered will likely be measured in pennies, not dollars, the bankers say.

Meanwhile, there's a chance Microsoft and Yahoo could become embroiled in the second, hostile scenario, analysts say. Microsoft has been assembling a slate of candidates to nominate to Yahoo's board in case a deal isn't reached by the Steve Ballmer three-week deadline it announced. Yahoo has so-called poison pill provisions designed to thwart hostile takeovers, but if shareholders voted in Microsoft's slate of directors at Yahoo's annual meeting, those directors could get rid of the pill provisions and reach an agreement. Microsoft might have to raise its offer at least back to $31 to guarantee shareholder support for its slate. Under the law in Delaware, where Yahoo is incorporated, it could be forced to hold its annual meeting if it hasn't already done so by July.

Yahoo and Microsoft each believe they would prevail in a proxy fight over the current offer, according to people close to them. There's yet another scenario. In this situation, Microsoft could lose patience with Yahoo and decide to drop its pursuit of the company. People close to Microsoft have dismissed that option, saying the company remains committed to a deal.

Yahoo has also been searching for alternatives to a Microsoft sale, something some executives would prefer to the Microsoft option, according to a person familiar with the matter. Discussions with Time Warner Inc., which center on it folding its AOL Internet unit into Yahoo in return for a significant Yahoo stake, have heated up recently. But people familiar with the matter consider such an agreement a long shot because it would be so complex.

Most observers don't see any possibility for Yahoo to escape Microsoft's clutches. Yahoo's only hope is a substantial upturn in the markets, which is unlikely anytime soon, they say. If Microsoft were to abandon the bid, Yahoo's shares might well plunge into the teens, exposing the company to shareholder litigation.

So Microsoft is back, this time in talks over an unspecified "transaction" with Yahoo.

A couple of weeks ago, I said Yahoo may have blundered its way into a better outcome for its shareholders, and this latest twist strengthens my conviction. With a possible deal with Google still being considered and Microsoft back at the table, much-derided Yahoo is suddenly looking like Cinderella at the ball. Yahoo's management may yet emerge as heroes.

Microsoft maintains that it isn't discussing another takeover bid, though it reserves the right to do so. What might they be talking about?

Speculation has focused on combining Yahoo's and Microsoft's search businesses, which are a distant No. 2 and No. 3, respectively, to Google's. April figures from Nielsen Online, a research firm that tracks Internet usage, put Google's share of the U.S.

search market at 62% versus 27% for a combined Yahoo-Microsoft. Surely the trend of ever-shrinking market share hasn't been lost on executives at Yahoo and Microsoft. So combining their search operations makes about as much sense as the Sears-Kmart merger.

The only advantage would be cost savings. Yahoo spends about $1.2 billion a year on "product development," much of that presumably on the search arms race with Google. It's hard to say how much Microsoft spends, but let's assume a comparable figure. Combining the two operations would presumably cut close to $1 billion in costs. I assume Microsoft would buy Yahoo's search operations, with some sort of revenue-sharing arrangement.

But why stop at search? A combined Yahoo-Microsoft still has the edge over Google in display advertising. Kevin Johnson, president of Microsoft's platform and services division, said in a widely circulated memo to employees this past weekend that his aim was to "disrupt" the market in search and "win" in display advertising. He noted that Microsoft's ad revenues had increased 40% compared with declines at Yahoo and Google. This intense competition doesn't yet reflect Google's deployment of recently acquired DoubleClick but suggests an intense campaign ahead.

Display is where Yahoo's sheer numbers are most compelling. What Yahoo has going for it is content and a vast number of unique visitors. Scale is what matters, just as it does for Super Bowl advertising. Scale is Yahoo's most valuable asset.

In the most recent quarter, about 87% of Yahoo's revenue came from advertising. If Microsoft essentially buys all of Yahoo's ad business, both search and display, then it gets nearly all the benefits of a merger. Yahoo would become a pure content company, basically outsourcing its ad business to Microsoft.

There's a deal that starts to make sense. This surely wouldn't be lost on Google, which has concluded a successful search advertising test run with Yahoo, and which would benefit from a display deal as well. In my previous column I called for Yahoo to turn over all its search advertising to Google, but that seems too limited now that Microsoft has upped the ante. Google should also be looking to acquire Yahoo's entire ad business in a cash-and-revenue-sharing deal.

The big question is price, but given the huge potential advantages to both Google and Microsoft, it should be a big number. As a Yahoo shareholder (I also own Google), I say let the bidding war begin.

Congratulations to Steve Ballmer. Not many CEOs would have the nerve - humility, cold-bloodedness, whatever - to float a gotta-have takeover offer, then back away over the difference between $33 and $37 a share.

Not many CEOs would have been willing nakedly to advertise strategic vulnerability and faulty execution vis-a-vis a rival like Google, then fail to consummate the deal marketed to investors as the remedy for that vulnerability and faulty execution.

Even more so because of Mr. Ballmer's Murdochian approach: He came at Yahoo with a rich 62% premium designed to foreclose a rival suitor and confront the Yahoo board with a choice of accepting Microsoft's terms or serving up a big ugly stock price drop to Yahoo's suffering shareholders. By laying such a dramatic premium on the table, he also sent a message to his own Microsoft shareholders that said: "This is the only way I see forward."

But Mr. Ballmer didn't count on Jerry Yang, whose idea of what his company was worth became inflated by the perception that Microsoft needed it so much. When Mr. Yang said Microsoft's offer "undervalued" Yahoo, he meant it underestimated Yahoo's value to Microsoft, not to anybody else.

In a fashion, he outsmarted not only Mr. Ballmer but his own Yahoo shareholders and board. Having discovered how much Yahoo was worth to Redmond (and no one else), he set about destroying that unique value by ceding Yahoo's position in search to Google through an outsourcing deal.

All this so Jerry Yang can fulfill his dream of having an independent Yahoo whose halls he can continue to walk as the revered "founder."

Luckily for him, the media are too busy obsessing about the severance dished out to various Wall Street executives to make him the new poster boy for high-handed, unaccountable CEOs.

For his part, Mr. Ballmer's retreat was a rarer sort of act. Yahoo's value to Microsoft, after all, was as a weapon to impede Google's assault on Microsoft's core business, for which Microsoft could afford to pay almost any price.

A Yahoo acquisition would have allowed Microsoft to buy a position in Web eyeballs with which to attack Google's margins if not Google's market share. In turn, Google would have to think twice about throwing money regardless of potential return (as Microsoft itself was known to do) at undermining a rival's business model.

It was a plausible strategy. Then again, Microsoft might have ended up spending years and billions to build a Maginot Line.

Post-Yahoo, Mr. Ballmer says his company's counter-Google strategy remains intact; it will just be slower-going without Yahoo. But

Microsoft here is perhaps showing too little imagination - or throwing up a smokescreen.

The alternative? The bravest would be to spin off Windows. Vista, its latest output, was not a triumph, even if Microsoft claims to be content with sales of the new operating system sold so far. InfoWorld, a magazine of corporate technology managers, has collected thousands of online signatures begging Microsoft to delay retiring its previous Windows version, XP, without which they'll be forced to upgrade and buy expensive new computers they don't want.

A liberated Windows unit could concentrate on developing the more streamlined and diverse operating system products the market wants (some of which could be supported by advertising), and it would still be a fabulous business for Microsoft shareholders. Meanwhile, the other Microsoft could devote itself wholeheartedly to building application businesses for the Web age, even an Office-based network for delivering ads and other services in competition with Google. With its $26 billion cash pile, Microsoft could set itself up as the host for an array of cutting-edge Web services being created by new start-ups, rather than trying to outgoogle Google in the search market.

Moral victories don't count for much with the stock market, but let's give Mr. Ballmer his moral victory. Big Yahoo investors like Capital Research's Gordon Crawford are slinging spitballs at Mr. Yang. Mr. Yang, in legal jeopardy, is spinning a tale about how Microsoft was the one that botched a deal. Yahoo's future as an "independent" company would seem to mean vassalhood to Google.

But "I told you so" doesn't brace up the Windows/Office fortress or throw a banana peel under an advancing Google. More interesting than Yahoo's fade to irrelevance (see you in Delaware Chancery Court!) will be Mr. Ballmer's Plan B.

Shift in Web Ads Drives Deal Pursuit. Yahoo Inc.'s directors are meeting to discuss alternatives to a Microsoft Corp. takeover, with many insiders still seeing a Microsoft deal - without the participation of News Corp. - as the most likely outcome.

Behind the battle over Yahoo is a scramble by Internet and media giants to capture the flood of advertising dollars moving online and block Google Inc. from extending its Web-search-ad domination.

Aside from Microsoft's solo bid Yahoo's directors will likely discuss a plan under which Time Warner Inc. would fold its AOL unit into Yahoo.Another option for Yahoo is a joint deal with Microsoft and Rupert Murdoch's News Corp., owner of The Wall Street Journal.

Microsoft and News Corp. talked about options involving Yahoo as early as last year, people familiar with the talks said. Now, News Corp. is discussing joining forces with Yahoo and Microsoft to combine News Corp's MySpace, Microsoft's MSN and Yahoo into a separate company, people familiar with the talks said.

But people close to Microsoft discounted the likelihood that it would bring News Corp. into a Yahoo deal. Meanwhile, the potential AOL-Yahoo deal has encountered skepticism from some major Yahoo shareholders, according to people familiar with the investor's thinking.

At the least, the jockeying could leave Yahoo with greater leverage to extract a better stock and cash price from Microsoft as investors welcomed the apparent emergence of alternatives.

Many analysts and investors say Microsoft could probably complete the deal if it sweetened the unsolicited cash-and-stock offer it extended to Yahoo on Jan. 31. That offer, originally valued at $31 a share, or $44.6 billion, was worth $29.34 a share, or $42.2 billion, based on Microsof's recent share price. A central question is whether Microsoft is willing to raise its bid.

Yahoo's directors aren't expected to make any big decision Friday about their direction. One person familiar with the matter said Yahoo's options are likely to come to a head next week.

Among the players battling over Yahoo, there's a common assumption: Major brand advertisers are gearing up to move big chunks of money from traditional ads including TV commercials and glossy magazine spreads to online outlets such as video-sharing services and Web sites for women. Although online ads garnered only an estimated 7% of total U.S. advertising dollars last year, Internet companies believe the percentage will increase sharply as Americans ratchet up their daily use of the Web and advertisers gain confidence in the medium.

Google handily won the last phase of online competition focused on ads tied to Web searches. Those ads account for roughly 40% of the U.S. online ad market. But Google and others have turned their sights to display advertising, such as banner ads and video ads, where they expect the next phase of growth to kick in. Such ads currently account for about 30% of U.S. Internet ad dollars.

The Internet's old-guard portals-Yahoo, MSN and AOL have all lost share of the U.S. online-advertising market since 2004, according to estimates from eMarketer Inc. Google's share, driven by its domination 'of search advertising, has jumped at their expense to 28.4% last year from 13.1% in 2004. Looking for growth, the old guard has accelerated efforts to sell ads on partner sites in exchange for commissions, using ad platform systems they have bought and built.

Google's focus on display advertising is taking shape. It recently closed its acquisition of Internet ad-services company DoubleClick

Inc. and is trying to take advantage of the popularity of its You Tube video site.

Yahoo is an attractive partner or takeover target because it has the most U.S. visitors, with 137 million in February, according to research firm comScore , Inc. Google, Microsoft, AOL, and News Corp.'s Fox Interactive Media Internet unit follow in the second through fifth places.

Whether called "portals" or "social networks," sites such as Yahoo, MSN, AOL and News Corp.'s MySpace are points of entry to the Internet for consumers. Pooling their resources could bring economies of scale and better attract advertisers. Microsoft's unsolicited pursuit of Yahoo is forcing other players to review their tie-up strategies.

In a recent letter to Yahoo director,s, Microsoft Chief Executive Steve Ballmer threatened to go hostile in three weeks if Yahoo didn't agree to a friendly deal, implying that Microsoft wou drop the price in that case. Some major Yahoo investors who believe Yahoo is worth more than Microsoft original $31-a-share offer say the threat to lower the price was counterproductive, giving Yahoo more opportunity to find viable alternatives.

People involved in the negotiations described an unusual level of uncertainty on everyone's part about what is real and what may be smoke and mirrors. It remains unclear even to the participants whether some of them are being used as stalking horses. .

The scenario that News Corp. and Microsoft are discussing would combine MSN, Yahoo and MySpace in an effort to dominate the display-advertising market as an offset to Google's dominance in search adverstising.

The latest Microsoft-News Corp. discussions got more serious after News Corp.'s own discussions with Yahoo-about trading MySpace and some other Web sites for a stake in the Internet company-fell apart because Yahoo wouldn't agree to a $10 billion to $15 billion valuation for the News Corp. properties, according to people familiar with the talks.

Microsoft and News Corp. last year had discussed a broad advertising pact that fell apart when News Corp. chose other partners for an online video service called Hulu, according to a person familiar with the situation.

Later last year, the two companies started to talk about options for Yahoo, according to a person familiar with Microsoft's thinking. The plan the two companies discussed, according to this person, was for Microsoft to operate Yahoo's search and advertising technology, while News Corp. would contiol everything else, including Yahoo's broad array of online media properties.

A partnership with News Corp. could allow Microsoft to focus on the software and technical underpinnings of online services while offloading content and information-historically weak points for the software company-to News Corp., which specializes in that realm. "All Microsoft cares about is search and the ad engine," one person familiar with the situation said.

The partnership could also soothe the concerns of some Microsoft executives who balk at swallowing Yahoo whole. Microsoft has historically eschewed large acquisitions.

Nonetheless, people close to Microsoft said the company, while willing to discuss alternatives, still intends to do the deal alone. "We don't need the help," one person said.

People close to News Corp., say the company has several reasons for wanting to stqy involved in a deal. News Corp. continues to weigh how it might sell MySpace, which faces steep competition. The site continues to grow overall, but some executives feel its growth may have peaked.

Google and News Corp. have a pact that allows Google to sell search advertising on MySpace. While News Corp. Chairman Murdoch recently said News Corp. is "very happy to be in the Google camp," some within the company believe that News Corp. could do better.

Yahoo itself has been talking with Google. On Wednesday, the two companies announced a two week test in which Yahoo will carry Google search advertisements next to a small portion of its Web search results. Yahoo and Google are studying a broader search advertising pact, which could allow Yahoo to demonstrate that it is worth more than Microsoft has, offered, according to people familiar with the matter. Antitrust experts have said such a broader pact would likely raise regulatory issues.

The deal Yahoo is discussing with Time Warner would value AOL at around $10 billion. That valuation excludes AOL's fading dial-up Internet-access business, which had complicated negotiations with potential partners in years past.

Time Warner Chief Executive Jeff Bewkes said earlier this year that he would split the dial-up business from AOL's more attractive advertising and portal businesses-a move seen as a possible precursor to the sale of both businesses.

While AOL's position as a Web destination has eroded-reducing the value of a potential tie-up with Yahoo-AOL has quietly built a strong online advertising brokerage.

That business could give Yahoo ammunition to argue that a deal with AOL would create substantial value. For Yahoo Chief

Executive Jerry Yang, the advantage of such a deal over a transaction with Microsoft is that it would allow Yahoo to maintain its independence. He would also likely remain in control of the company he co-founded.

AOL has little to lose in negotiating with Yahoo. The Internet unit remains the biggest headache for Mr. Bewkes, who is under pressure to boost the company's sluggish share price. Time Warner's weary investors are eager to see an AOL solution after the disastrous merger in 2001 and subsequent failed attempts to reinvent the Internet company.

Time Warner has explored combining AOL with other companies before, most seriously in 2005 when it held discussions with both Microsoft and Yahoo. Time Warner ultimately opted for an eleventh-hour deal struck with Google, in which Google bought a 5% stake inAOL that valued the unit at $20 billion.

Microsoft's Steve Ballmer got tired of claiming there's no interest in a Microsoft-Yahoo deal and recently confessed his true views on the matter in an interview for The Wall Street Journal.

According to his statement, Microsoft would love to become the owner of Yahoo Search. At present time, Microsoft in a distant third on the search market. The purchase of Yahoo (the number two player on the search market) won't bring Microsoft anywhere near Google's market share, but it will certainly strengthen its position.

Up till now, Microsoft tried many strategies to move up in the search race, but all its initiatives ended up more or less in failure. Costly acquisitions, expensive rebranding campaigns (Windows Live, anyone) and many other side projects simply did not deliver the expected results and Microsoft is still at the starting point in terms of advancement.

Perhaps the only plan that managed to convince more people to use Microsoft's search engine was the Live Cashback program, launched in May 2008. You may recall, its the same Microsoft project that started acting really weird on Black Friday.

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