

Yahoo Revises Contentious Severance Plan.

Yahoo Inc. agreed to amend a controversial severance program that some saw as an obstacle to a takeover, while a Yahoo shareholder put new pressure on the company to sell its search business.

Yahoo, which is changing the severance plan to settle an investor lawsuit, agreed to limit the program to one year following a change in control, rather than two years, and to stricter definitions on the circumstances under which employees could collect benefits.



The revised plan also specifies that neither the election of a new board of directors nor a sale of the company's search business constitutes a change of control for the company.

Yahoo approved the original plan in February, a day after it formally rejected a takeover offer from Microsoft Corp. The plan drew fierce criticism from a number of shareholders, including activist Carl Icahn, who has since joined the Yahoo board. Two Detroit pension funds sued the company over the plan.

A Yahoo spokesman said the company settled to avoid costly litigation and is happy that the plan, designed to help retain employees, is still in place. Mark Lebovitch, a lawyer for the plaintiffs, declined to comment.

The moves come the same day the struggling Internet giant began handing out layoff notices to roughly 1,500 employees. Yahoo also said it would shut down some projects and put others into "maintenance mode."

A spokesman said additional staff reductions may be necessary next year. Yahoo said in mid-October it would cut at least 10% of its 15,200 positions.

Yahoo investors continue to lobby for more dramatic changes. In a letter sent to Yahoo's board, Los Angeles-based hedge fund Ivory Investment Management, which owns a 1.5% stake in Yahoo, said selling Yahoo's search business to Microsoft could result in a deal worth twice as much as Yahoo's current stock price. After Ivory disclosed its proposal Wednesday, Yahoo shares gained 10%, or \$1.21, to \$13.40. The stock has fallen more than 40% this year.

Under the plan proposed by Ivory, which resembles alternatives other investors have been floating, Yahoo would sell its search business to Microsoft in exchange for retaining 80% of the revenues generated from the search traffic on its own sites. Yahoo declined to comment about the plan. Ivory didn't immediately respond to a request for comment.

Some Yahoo investors say they are encouraged by Microsoft Chief Executive Steve Ballmer's recent statements that he is still interested in a search deal, and Yahoo's decision to replace Jerry Yang as CEO.

But while Yahoo's board may select a CEO as soon as the end of the year, the board has yet to commit to the idea of divesting its search business, say people familiar with the matter.

Meanwhile, Yahoo continues to move ahead with restructuring plans, fueling further uncertainty at the company. In an email to

employees, Mr. Yang expressed gratitude to people affected by the layoffs, which he called "unfortunately unavoidable." He added: "Our difficult decision to let colleagues go reflects the changes we're having to make to better align costs with revenues-something businesses in virtually every sector are also having to do."

Major projects and media properties, such as a new advertising platform from Yahoo and Web sites including Yahoo Mail and Yahoo Finance, were not expected to be significantly impacted by the job cuts.

A person familiar with the matter said most Yahoo employees who are released will remain on payroll -- and officially on call if needed -- for two months, at which point they will receive a severance package equivalent to two months' pay. Some of the more senior employees who are released could receive a bigger separation package, this person said.

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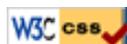
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