Yahoo sweeps out CEO tainted by inaccurate bio

CHRISTINA REXRODE - AP Business Writers - Associated Press

Yahoo swept out Scott Thompson as CEO Sunday in an effort to clean up a mess created by a misleading resume that destroyed his credibility as he set out to turn around the long-troubled Internet company.

Ross Levinsohn, a 48-year-old executive who oversees Yahoo's media and advertising services, is taking over as interim CEO.

Yahoo lured Thompson away from eBay's PayPal in January to end a financial funk that has depressed the company's stock for years. Although Yahoo remains one of the Internet's most-visited websites, the company's financial and stock performance has suffered in the face of competition from companies like Google and Facebook. The company's foibles have exasperated investors who have seen Yahoo go through four full-time CEOs in less than five years without delivering on repeated promises to revive its revenue growth.

Thompson's abrupt exit after just four months came as part of the latest shake-up on Yahoo's board of directors, which has been in a state of flux for several months.

Yahoo Chairman Roy Bostock and four other directors who had already announced plans to step down at the company's annual meeting later this year are leaving the board immediately. All five of those directors signed off on the hiring of Thompson, a move that made them all look bad by the recent revelation that they didn't catch an inaccuracy that had been circulating about his educational background for years.

Three of Yahoo's vacated board seats will be filled by activist hedge fund manager Daniel Loeb, a disgruntled shareholder who dropped the bombshell that led to Thompson's departure, and two of his allies, former MTV Networks executive Michael Wolf and turnaround specialist Harry Wilson.

Alfred Amoroso, a veteran technology executive who joined Yahoo's board just three months ago, replaces Bostock as chairman. After all the changes have been finalized, Yahoo will have 11 board members.

The appointment of the new directors ends a potentially disruptive battle with Loeb, who was waging a campaign to gain four seats on the company's board. Loeb wound up settling for three board seats and the satisfaction of ushering out Thompson, who antagonized Loeb in late March by telling him he wasn't qualified for the board.

In a statement issued through Yahoo, Loeb said he is "delighted" to join the Yahoo board and promised to "work collaboratively with our fellow directors." Loeb's fund, Third Point LLC, has invested about $1 billion to build a 5.8 percent stake in Yahoo.

Although Yahoo Inc. gave no official explanation for Thompson's departure, it was clearly tied to inaccuracies that appeared on Thompson's biography on the company's website and in a recent filing with the Securities and Exchange Commission.

The bio listed two degrees — in accounting and computer science — from Stonehill College, a small school near Boston. Loeb discovered Thompson never received a computer science degree from the college and exposed the fabrication in a May 3 letter to Yahoo's board. The revelation raised questions about why the accomplishment had periodically appeared on his bio in the years while he was running PayPal, an online payment service owned by eBay Inc.

Yahoo initially stood behind Thompson, brushing off the inclusion of the bogus degree as an "inadvertent error," but harsh criticism from employees, shareholders and corporate governance experts prompted the board to appoint a special committee to investigate how the fabrication occurred.

"Yahoo has a circuitous way of getting to the right answer, but I believe they have gotten to it," said Stifel Nicolaus analyst Jordan Rohan.

Thompson, 54, spent much of the past week scrambling to save his job. He sent out a memo to employees to apologize for the distractions caused by news of the illusory degree and then sought to assure other Yahoo executives that he wasn't the source of the inaccuracy. He blamed a Chicago headhunting firm, Heidrick & Struggles.

In an internal memo last week, Heidrick & Struggles denied Thompson's accusation. "This allegation is verifiably not true and we have notified Yahoo! to that effect," CEO Kevin Kelly wrote to employees. On Sunday, a spokesman for the firm declined to comment.

Thompson's rapid downfall leaves Yahoo in turmoil amid a reorganization that had only just begun. Last month, Thompson laid off 2,000 employees, or 14 percent of the workforce, in the biggest payroll purge in the company's history, and had started to identify about 50 services that he wanted to close or sell.

Now it falls to Levinsohn, whom Thompson had promoted to a more prominent role last week, to get Yahoo back on track. He joined Yahoo 18 months ago when the company was still being run by Carol Bartz, who was fired in September. Before coming to Yahoo, Levinsohn had won fans running Fox Interactive, the Internet arm of Rupert Murdoch's media empire at News Corp.

"This may seem like a great deal of news to digest, but as you are all keenly aware, Yahoo is a dynamic, global company in a dynamic, global industry, so change — sometimes unexpected and sometimes at lightning speed — is something we will continue to live with and something we should embrace," Levinsohn wrote to Yahoo employees Sunday in a memo provided to The Associated Press.

Stifel Nicolaus analyst Jordan Rohan thinks Levinsohn's media background may

make him better qualified to be Yahoo's CEO than Thompson, whose experience is rooted in electronic commerce.

"Ross Levinsohn is common-sense executive, a pragmatic operator who people love to work for," Rohan said. "He is the right guy for this job."

Carlos Kirjner, a senior analyst at Sanford C. Bernstein also suggested Thompson's experience running PayPal's rapidly expanding service made him a bad fit at Yahoo.

"It is very different to be CEO of a growth company, making choices between opportunities, and to be CEO of a company in turnaround mode, whose parts are declining or losing share," Kirjner said.

Thompson's inaccurate resume might have been more forgivable at a company that was posting big returns for its shareholders, said James Post, a management professor at Boston University. But it's likely that Third Point was looking for an excuse to get rid of Thompson, Post said.

But Yahoo's stock has been sagging since it squandered an opportunity to sell itself to Microsoft Corp. in May 2008 for $33 per share, or $47.5 billion. Yahoo's stock hasn't traded above $20 since September 2008. The shares ended last week at $15.19.

"Yahoo has been embattled for such a long time that there are a lot of people prepared to believe the worst about that company," said Post, who specializes in corporate governance and professional ethics. . "When you're angry at the management and the board, when nothing's going right and you're losing money, it's understandable that shareholders would adopt an 'off with their head' attitude."

Brian Wieser, a senior analyst at Pivotal Research, said he believes Thompson's ouster will be a positive move, removing an overhanging distraction and adding board members with new perspectives. Wieser said employees he'd talked to believed Thompson was showing a lack of appreciation for some of Yahoo's business units, and that morale had degenerated even more during his tenure. "It was bad," Wieser said, "and went to worse."

Wieser said that Third Point is "exactly the kind of investor every company should want," since the hedge fund is apparently trying to heal Yahoo, not break it up. "There are no barbarians at the gate here," Wieser said. "They're actually trying to help."

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Liedtke reported from San Francisco.

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