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10 Attorneys for Plaintiff

11 UNITED STATES DISTRICT COURT
12 CENTRAL DISTRICT OF CALIFORNIA
13 WESTERN DIVISION

14 ELLEN ROSENTHAL BRODSKY, On)
Behalf of Herself and All Others)
15 Similarly Situated,)

16 Plaintiff,)

17 vs.)

18 YAHOO! INC., TERRY S. SEMEL and)
19 SUSAN L. DECKER,)

20 Defendants.)

VIA FAX

No.

CLASS ACTION

**COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

DEMAND FOR JURY TRIAL

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1 permitted the Company to report record revenues and to double its reported earnings
2 each year:

3 FISCAL	4 REVENUE DERIVED FROM	5 NET	6 EARNINGS/
7 YEAR	8 MARKETING/ADVERTISING	9 REVENUES	10 (LOSS)
11 2001	12 \$571 M – 79%	13 \$717 M	14 (\$93 M)
15 2002	16 \$651.6 M – 68%	17 \$953 M	18 \$43 M
19 2003	20 \$1.3 B – 81%	21 \$1.6 B	22 \$238 M
23 2004	24 \$3.1 B – 87%	25 \$3.6 B	26 \$840 M
27 2005	28 \$4.6 B – 87%	\$5.3 B	\$1.9 B

6. Yahoo!’s stock rose precipitously on defendants’ positive statements concerning Yahoo!’s sales growth, record reported revenues and earnings and strong business fundamentals, which defendants stated would provide further stability and growth, reaching a Class Period high of over \$43 per share on January 6, 2006. However, concealed from investors was the fact that due to operational deficiencies in its ad technology, Yahoo! was rapidly losing market share to Google and other search engines and Web destinations that would significantly undermine its revenues, earnings and value.

7. In May 2006, Yahoo! was sued in this District on behalf of Yahoo!’s advertising customers based on the Company’s alleged failure to provide the “targeted advertising” it was charging premium advertising rates for. Plaintiffs alleged Yahoo! was charging premium advertising rates for “sponsored searches” and “content match” advertising but was instead placing their ads at random without any link to Internet users’ search terms and without any “content matching.” Instead, plaintiffs alleged, Yahoo! placed their ads on Web sites that users either found by accident or that were completely untargeted, while Yahoo! promoted its “sponsored search” and “content match” products as “state of the art in targeted Internet advertising” and claimed

1 Yahoo!'s targeted advertising was the "foundation on which Yahoo ha[d] built its
2 Internet advertising empire."

3 8. On July 19, 2006, the Company's stock price fell precipitously by 22%
4 on heavy volume after the Company announced Q2 2006 financial results that were
5 lower than investors had been led to expect and analysts downgraded Yahoo!'s stock
6 *en masse*, erasing billions of dollars in market capitalization.

7 9. Defendants' Class Period statements describing Yahoo!'s business
8 model, financial results and continued sales and earnings growth potential were false
9 and misleading as:

10 (a) Yahoo! generated fraudulent revenue by deliberately misleading
11 Internet advertising business customers to induce these customers to buy Yahoo!
12 advertising products through deceptive means;

13 (b) Yahoo! made literally false, misleading, and deceptive
14 representations regarding its advertising technology and products to investors and
15 potential investors, industry analysts, and customers to increase sales and stock prices;

16 (c) Yahoo!'s false, deceptive, and misleading representations were
17 material in that they had a natural tendency to influence, or were capable of
18 influencing, purchasing decisions, and they related to the essential characteristics,
19 quality, and/or nature of competing products and commercial activities, including
20 relevance, potential click-throughs and quality;

21 (d) Yahoo!'s advertising technology was operationally defective,
22 causing its own advertising offerings to substantially under-perform those of its rivals;

23 (e) Whereas Yahoo!'s rivals were paying high-traffic vendors to route
24 traffic *through* their Web sites, Yahoo! was *charging* large vendors for *access* and
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1 was dependent on that revenue to make its revenue targets, making Yahoo!'s Web site
2 a less desirable location for vendors to drive traffic to; and

3 (f) Yahoo! was losing market share to Google and other Internet
4 search providers.
5

6 **THE PARTIES**

7 10. Plaintiff Ellen Rosenthal Brodsky purchased Yahoo! publicly traded
8 securities as detailed in the attached certification and was damaged thereby.

9 11. Defendant Yahoo! is a Delaware corporation headquartered at 701 First
10 Avenue, Sunnyvale, California. As of February 15, 2007, the Company had more
11 than 1.3 billion shares of its common stock traded on the Nasdaq National Market.

12 12. Defendant Terry S. Semel ("Semel") is Chief Executive Officer and
13 Chairman of the Company.

14 13. Defendant Susan L. Decker ("Decker") is Chief Financial Officer and
15 Head of Advertiser and Publisher Group at Yahoo!

16 14. Defendants Semel and Decker are referred to herein as the "Individual
17 Defendants" and are liable for the false statements pleaded herein as those statements
18 were each "group-published" information for which they are responsible. By reason
19 of their stock ownership and positions with Yahoo!, the Individual Defendants were
20 controlling persons of Yahoo!. Yahoo! in turn controlled the Individual Defendants.
21 The Individual Defendants and Yahoo! are liable under §20(a) of the 1934 Act.

22 **FALSE AND MISLEADING STATEMENTS 23 DURING THE CLASS PERIOD**

24 15. On April 7, 2004, the Company issued a press release entitled "Yahoo!
25 Reports First Quarter 2004 Financial Results; Company Posts Revenues of \$758
26 Million, Operating Income of \$132 Million, Operating Income Before Depreciation
27 and Amortization of \$211 Million." The press release stated in relevant part:
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1 *“Yahoo!’s performance surpassed even our high expectations,*
2 *delivering the most successful quarter in the Company’s history,” said*
3 *Terry Semel, chairman and chief executive officer, Yahoo!. “With our*
4 *products more popular than ever before, we have experienced success*
5 *across our entire business including strong growth in our fee-based*
6 *and marketing services.”*

- 7 • Revenues were \$758 million in the first quarter of 2004, compared
8 to \$283 million in the same period of 2003.
- 9 • Revenues excluding traffic acquisition costs (“TAC”) were \$550
10 million in the first quarter of 2004, compared to \$283 million for
11 the same period of 2003.
- 12 • Gross profit for the first quarter of 2004 was \$476 million,
13 compared to \$240 million for the same period of 2003.
- 14 • Operating income for the first quarter of 2004 was \$132 million,
15 compared to \$55 million for the same period of 2003.
- 16 • Operating income before depreciation and amortization for the
17 first quarter of 2004 was \$211 million, compared to \$85 million
18 for the same period of 2003.
- 19 • Cash flow from operating activities for the first quarter of 2004
20 was \$236 million, compared to \$99 million for the same period of
21 2003.
- 22 • Free cash flow for the first quarter of 2004 was \$197 million,
23 compared to \$78 million for the same period of 2003.

24 *“Yahoo! is off to a great start in 2004. Our growth is a result of*
25 *very impressive performance from our ongoing operations, leveraged*
26 *further by recent acquisitions” said Susan Decker, chief financial*
27 *officer, Yahoo!. “Looking forward, we are focused on making the*
28 *appropriate investments and capital allocation decisions to help ensure*

1 *sustainable, long-term growth. Due to our increased optimism about*
2 *our business, we have raised our financial outlook for the full year*
3 *2004.”*

4 **First Quarter 2004 Financial Highlights**

5 Cash flow from operating activities and Free cash flow: Cash flow
6 from operating activities for the first quarter of 2004 totaled \$236
7 million, compared to \$99 million for the same period of 2003. Free cash
8 flow for the first quarter of 2004 totaled \$197 million, a 153 percent
9 increase over the \$78 million reported for the same period of 2003.
10 Cash, cash equivalents and investments in marketable debt and equity
11 securities increased by approximately \$219 million to \$2,790 million at
12 March 31, 2004, compared to \$2,571 million at December 31, 2003. In
13 addition to the free cash flow of \$197 million generated for the quarter
14 ended March 31, 2004, the company increased its cash, cash equivalents
15 and investments in marketable debt and equity securities balances by \$92
16 million related to issuance of common stock from exercise of employee
17 stock options and approximately \$24 million related to other investing
18 activities, offset by approximately \$50 million used to enter into a
19 structured stock repurchase transaction and approximately \$44 million
20 used for acquisitions completed in the first quarter of 2004, net of cash
21 acquired. The structured stock repurchase will mature in the third quarter
22 of 2004, at which point depending on the price per share of Yahoo!
23 shares, Yahoo! will either repurchase shares or receive the \$50 million
24 investment and a premium.

25 Revenues: In the first quarter of 2004, Yahoo! reported revenues
26 of \$758 million, a 168 percent increase compared to the \$283 million
27 reported in the same period in 2003.

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1 Marketing services revenue for the first quarter of 2004 totaled
2 \$635 million, a 235 percent increase from the \$190 million reported in
3 the same period in 2003. This amount includes approximately \$10
4 million related to a one-time gain from unredeemed third party loyalty
5 program points that expired during the quarter. The year over year
6 increase in marketing services revenue (excluding the gain related to the
7 points expiration) resulted from a 48 percent growth in Yahoo!'s organic
8 marketing services revenues, primarily in the search and marketplace
9 properties, and incremental revenue associated with acquisitions
10 completed during the past year.

11 Fees revenue for the first quarter of 2004 totaled \$88 million, a 39
12 percent increase compared to the \$64 million reported in the same period
13 in 2003. This increase was primarily driven by the growth in the number
14 of paying relationships for Yahoo!'s premium services, which were
15 approximately 5.8 million at March 31, 2004 compared to approximately
16 2.9 million at March 31, 2003.

17 Listings revenue for the first quarter of 2004 totaled \$34 million, a
18 16 percent increase compared to the \$29 million reported in the same
19 period in 2003. This increase was primarily driven by our search and
20 marketplace listings.

21 Revenues excluding TAC and Gross profit: Revenues excluding
22 TAC for the first quarter of 2004 totaled \$550 million, a 94 percent
23 increase compared to the \$283 million in the same period of 2003. Gross
24 profit for the first quarter of 2004 totaled \$476 million, compared to
25 \$240 million in the same period of 2003. The increase in revenues
26 excluding TAC for the quarter ended March 31, 2004, when compared to
27 the same period in 2003, resulted from the combination of a strong
28 increase in revenues from Yahoo!'s organic marketing services revenues,

1 as well as the incremental revenue associated with the acquisitions
2 completed during the past year.

3 Operating income and Operating income before depreciation and
4 amortization: Operating income for the first quarter of 2004 totaled \$132
5 million, compared to \$55 million in the same period of 2003. Operating
6 income before depreciation and amortization for the first quarter of 2004
7 totaled \$211 million, a 149 percent increase compared to the \$85 million
8 achieved in the same period of 2003. The increase in operating income
9 and operating income before depreciation and amortization for the
10 quarter ended March 31, 2004, when compared to the same period in
11 2003, reflects strong growth in revenues excluding TAC while
12 maintaining ongoing cost discipline.

13 Net Income: Net income for the first quarter of 2004 was \$101
14 million or \$[0.07] per diluted share (which included \$[0.005] per diluted
15 share related to the one-time gain from unredeemed third party loyalty
16 program points that expired during the quarter), compared with \$47
17 million or \$[0.04] per diluted share for the same period of 2003.

18 Stock Split: Yahoo!'s Board of Directors approved a two-for-one
19 split of all outstanding shares of the company's common stock, payable
20 May 11, 2004 to stockholders of record on April 26, 2004.¹

21 16. On June 28, 2004, the Company issued a press release entitled "Overture
22 Launches Local Sponsored Search Listings to Leading Web Sites." The press release
23 stated in relevant part:

24 Overture Services, Inc., a wholly-owned subsidiary of Yahoo Inc. and
25 provider of essential online marketing services, today announced the

26
27 ¹ Share and per share amounts are adjusted to reflect the 2-for-1 stock split
28 effective May 12, 2004.

1 launch of Local Match?, its new sponsored search product which
2 delivers local search listings to consumers searching online for local
3 products and services. Through Local Match, advertisers can precisely
4 target customers interested in a specific neighborhood and present
5 customized offers and business details to them.

6 Overture's Local Match listings appear today in the U.S. on
7 Yahoo! and MyCity.com and will be displayed on other popular sites
8 including MSN, ESPN.com and certain sites within the InfoSpace
9 network, including online directory sites Switchboard.com and
10 InfoSpace.com and search sites Dogpile.com, WebCrawler.com,
11 MetaCrawler.com and Excite.com. Through its strong network of
12 distribution sites, Local Match offers advertisers of all sizes – including
13 businesses that do not have a Web site – the opportunity to reach
14 consumers searching online for products and services in the advertiser's
15 local area.

16 *“Overture has built upon its core sponsored search product to*
17 *deliver a highly relevant and precise local offering to businesses of all*
18 *sizes, whether they have a Web site or not,” said Geoff Stevens,*
19 *General Manager, Local for Overture. “The launch of Local Match*
20 *marks yet another addition to our growing suite of integrated*
21 *sponsored search offerings. As the product evolves, we are confident*
22 *that both advertisers and consumers will realize the significant value of*
23 *the highly targeted marketing and incredibly relevant search*
24 *experience enabled by Local Match.”*

25 “Local search represents a very significant opportunity for both
26 small and large advertisers, as consumers go online to find local business
27 information,” said Greg Sterling, program director for The Kelsey
28 Group. “Our research shows that slightly more than 25% of commercial

1 searches performed by online buyers today are local, and we expect that
2 figure to grow over time as local search capabilities continue to
3 improve.”

4 *Local Match enables advertisers of all sizes to precisely target*
5 *customers who are searching the Web to find products and services*
6 *from a local provider.* Specifically, advertisers have the ability to
7 pinpoint a geographic area surrounding their business (between 0.5 to
8 100 miles) in which they would like their search listing to be shown. For
9 example, an electronics store in Austin, TX could choose to have its
10 listings displayed only to users searching for “DVD player” within a
11 five-mile radius of its location. Similarly, a large national consumer
12 electronics retailer could use Local Match to tailor its listings and
13 discounts to customers who are looking to purchase items at specific
14 local stores.

15 In addition, for businesses that do not have a Web site, Local
16 Match provides a customizable business information page that offers key
17 details about their business such as a street address, phone number,
18 payment options, hours of operation and a dynamic map.

19 17. On July 7, 2004, the Company issued a press release entitled “Yahoo!
20 Reports Second Quarter 2004 Financial Results; Company Posts Revenues of \$832
21 Million, Operating Income of \$149 Million, Operating Income Before Depreciation
22 and Amortization of \$234 Million.” The press release stated in relevant part:

23 *“Yahoo!’s second quarter results represent another record*
24 *quarter for the Company and demonstrate continued execution of our*
25 *core priorities,” said Terry Semel, chairman and chief executive*
26 *officer, Yahoo!. “Yahoo! is in the midst of a product renaissance, as*
27 *we have been busier than ever rolling out new products and services we*
28 *believe will be essential to our users.”*

- 1 • Revenues were \$832 million for the second quarter of 2004,
2 compared to \$321 million for the same period of 2003.
- 3 • Revenues excluding traffic acquisition costs (“TAC”) were \$609
4 million for the second quarter of 2004, compared to \$321 million
5 for the same period of 2003.
- 6 • Gross profit for the second quarter of 2004 was \$535 million,
7 compared to \$275 million for the same period of 2003.
- 8 • Operating income for the second quarter of 2004 was \$149
9 million, compared to \$63 million for the same period of 2003.
- 10 • Operating income before depreciation and amortization for the
11 second quarter of 2004 was \$234 million, compared to \$98
12 million for the same period of 2003.
- 13 • Cash flow from operating activities for the second quarter of 2004
14 was \$250 million, compared to \$92 million for the same period of
15 2003.
- 16 • Free cash flow for the second quarter of 2004 was \$194 million,
17 compared to \$71 million for the same period of 2003.

18 *“Yahoo! is benefiting from its diverse and balanced sources of*
19 *revenue, which have well positioned the Company to deliver strong,*
20 *consistent, and profitable growth,” said Susan Decker, chief financial*
21 *officer, Yahoo!. “Yahoo! remains committed to making the appropriate*
22 *investments in our products and services in order to ensure that they*
23 *remain among the most popular on the Internet, and continue to*
24 *contribute to the creation of long-term shareholder value.”*

25 **Second Quarter 2004 Financial Highlights**

26 Cash flow from operating activities and Free cash flow: Cash flow
27 from operating activities for the second quarter of 2004 totaled \$250
28 million, compared to \$92 million for the same period of 2003. Free cash

1 flow for the second quarter of 2004 totaled \$194 million, a 172 percent
2 increase over the \$71 million reported for the same period of 2003.

3 Cash, cash equivalents and investments in marketable securities
4 were approximately \$2,650 million at June 30, 2004, compared to \$2,790
5 million at March 31, 2004. The net decrease in cash, cash equivalents
6 and investments in marketable securities balances is primarily a result of
7 \$530 million used for acquisitions completed in the second quarter of
8 2004, net of cash acquired, offset by free cash flow of \$194 million and
9 \$225 million of cash generated from the issuance of common stock as a
10 result of the exercise of employee stock options for the quarter ended
11 June 30, 2004.

12 Revenues: In the second quarter of 2004, Yahoo! reported
13 revenues of \$832 million, a 159 percent increase compared to the \$321
14 million reported in the same period in 2003.

15 Marketing services revenue for the second quarter of 2004 totaled
16 \$691 million, a 215 percent increase from the \$219 million reported in
17 the same period in 2003. The year over year increase in marketing
18 services revenue resulted from strong growth in Yahoo!'s organic
19 marketing services revenues, primarily in the search and marketplace
20 properties, and incremental revenue associated with acquisitions
21 completed during the past year.

22 Fees revenue for the second quarter of 2004 totaled \$104 million,
23 a 49 percent increase compared to the \$70 million reported in the same
24 period in 2003. This increase was primarily driven by the growth in the
25 number of paying relationships for Yahoo!'s premium services, which
26 were approximately 6.4 million at June 30, 2004 compared to
27 approximately 3.5 million at June 30, 2003.

28

1 Listings revenue for the second quarter of 2004 totaled \$38
2 million, a 17 percent increase compared to the \$32 million reported in
3 the same period in 2003. This increase was primarily driven by our
4 search and marketplace listings.

5 Revenues excluding TAC and Gross profit: Revenues excluding
6 TAC for the second quarter of 2004 totaled \$609 million, a 90 percent
7 increase compared to the \$321 million in the same period of 2003. Gross
8 profit for the second quarter of 2004 totaled \$535 million, compared to
9 \$275 million in the same period of 2003. The increase in revenues
10 excluding TAC for the quarter ended June 30, 2004, when compared to
11 the same period in 2003, resulted from the combination of a strong
12 increase in revenues from Yahoo!'s organic marketing services revenues,
13 as well as the incremental revenue associated with the acquisitions
14 completed during the past year.

15 Operating income and Operating income before depreciation and
16 amortization: Operating income for the second quarter of 2004 totaled
17 \$149 million, compared to \$63 million in the same period of 2003.
18 Operating income before depreciation and amortization for the second
19 quarter of 2004 totaled \$234 million, a 138 percent increase compared to
20 the \$98 million achieved in the same period of 2003. The increase in
21 operating income and operating income before depreciation and
22 amortization for the quarter ended June 30, 2004, when compared to the
23 same period in 2003, reflects strong growth in revenues excluding TAC
24 while maintaining ongoing cost discipline.

25 Net Income: Net income for the second quarter of 2004 was \$113
26 million or \$0.08 per diluted share, compared with \$51 million or \$0.04
27 per diluted share for the same period of 2003.

1 18. On October 12, 2004, the Company issued a press release entitled
2 “Yahoo! Reports Third Quarter 2004 Financial Results; Company Posts Revenues of
3 \$907 Million, Operating Income of \$172 Million, Operating Income Before
4 Depreciation and Amortization of \$260 Million.” The press release stated in relevant
5 part:

6 ***“Yahoo! began to demonstrate the next stage in the Company’s***
7 ***evolution in the third quarter, and in doing so recorded its sixth***
8 ***consecutive quarter of record revenue,” said Terry Semel, chairman***
9 ***and chief executive officer, Yahoo!. “We accelerated the pace at which***
10 ***new products and services were developed, which in-turn helped***
11 ***increase the level of user engagement across the Yahoo! network. Our***
12 ***engaged audience enables us to deliver an unmatched set of***
13 ***advertising opportunities, providing deeper value to our marketers, and***
14 ***supporting the mantra that great products are the key to a great***
15 ***business.”***

- 16 • ***Revenues were \$907 million for the third quarter of 2004, a 154***
17 ***percent increase compared to \$357 million for the same period***
18 ***of 2003.***
- 19 • Revenues excluding traffic acquisition costs (“TAC”) were \$655
20 million for the third quarter of 2004, an 84 percent increase
21 compared to the \$357 million for the same period of 2003.
- 22 • Gross profit for the third quarter of 2004 was \$574 million, an 86
23 percent increase compared to \$310 million for the same period of
24 2003.
- 25 • Operating income for the third quarter of 2004 was \$172 million,
26 an increase of 106 percent compared to \$83 million for the same
27 period of 2003.

- 1 • Operating income before depreciation and amortization for the
2 third quarter of 2004 was \$260 million, a 122 percent increase
3 compared to \$117 million for the same period of 2003.
- 4 • Cash flow from operating activities for the third quarter of 2004
5 was \$267 million, an increase of 97 percent compared to \$136
6 million for the same period of 2003.
- 7 • Free cash flow for the third quarter of 2004 was \$202 million, a
8 108 percent increase over the \$97 million reported for the same
9 period of 2003.
- 10 • Net income for the third quarter of 2004 was \$253 million or
11 \$0.17 per diluted share (including a net impact of \$129 million, or
12 \$0.09 per share, related to the sale of an investment and the
13 associated tax benefit resulting from fully reserved capital losses
14 becoming realizable). Excluding this gain, net income for the
15 third quarter was \$124 million, or \$0.09 per diluted share. This
16 compares with net income of \$65 million or \$0.05 per diluted
17 share for the same period of 2003.
- 18 • The provision for income taxes of \$67 million yielded an effective
19 tax rate of 21% for the third quarter of 2004 as a result of the
20 previously described tax benefit associated with the capital loss
21 carryforwards. The provision for income taxes in the same period
22 of 2003 was \$40 million, and yielded an effective tax rate of 38%.

23 ***“Yahoo! generated its highest-ever level of free cash flow in the***
24 ***third quarter, more than doubling the amount generated one year***
25 ***ago,” said Susan Decker, chief financial officer, Yahoo!. “We believe***
26 ***that long-term free cash flow generation is the most important factor***
27 ***driving shareholder value and we are very pleased with both its***
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1 *magnitude in this quarter and the strong foundation on which it is*
2 *based, positioning us well for sustained growth.”*

3 **Third Quarter 2004 Financial Highlights**

4 Marketing services revenue for the third quarter of 2004 totaled
5 \$765 million, a 212 percent increase from the \$245 million reported in
6 the same period in 2003. Listings revenue for the third quarter of 2004
7 totaled \$37 million, a 15 percent increase compared to the \$32 million
8 reported in the same period in 2003. The year over year increases in
9 marketing services and listings revenues resulted from growth in
10 Yahoo!’s organic revenue and incremental revenue associated with
11 acquisitions completed during the past year. Fees revenue for the third
12 quarter of 2004 totaled \$104 million, a 31 percent increase compared to
13 the \$79 million reported in the same period in 2003. The year over year
14 increase in fees revenues was primarily driven by the growth in the
15 number of paying relationships for Yahoo!’s premium services, which
16 were approximately 7.6 million at September 30, 2004 compared to
17 approximately 4.2 million at September 30, 2003.

18 United States revenues in the third quarter of 2004 were \$655
19 million, an increase of \$355 million, or 118 percent, compared to the
20 same period in 2003. International revenues in the third quarter of 2004
21 were \$252 million, an increase of \$195 million, or 341 percent,
22 compared to the same period in 2003.

23 United States segment operating income before depreciation and
24 amortization in the third quarter of 2004 was \$223 million, an increase of
25 \$117 million, or 109 percent, compared to the same period of 2003.
26 International segment operating income before depreciation and
27 amortization in the third quarter of 2004 was \$36 million, an increase of
28 \$26 million, or 251 percent, compared to the same period in 2003. These

1 increases were primarily a result of the increase in US and International
2 revenues and continued efforts to control discretionary spending during
3 the period.

4 Free cash flow was \$202 million in the third quarter of 2004 and
5 was the largest contributor to the increase of \$425 million in our cash,
6 cash equivalents and investments in marketable debt securities. Our cash,
7 cash equivalents and investments in marketable debt securities grew
8 from approximately \$2,646 million at June 30, 2004 to \$3,072 million at
9 September 30, 2004. Together with free cash flow, this increase is a
10 result of \$106 million of cash generated from the issuance of common
11 stock as a result of the exercise of employee stock options and \$191
12 million in net proceeds from the sale of an investment, offset by a net
13 \$46 million used in structured stock repurchase transactions and \$28
14 million used for other investing activities, including acquisitions.

15 19. On November 17, 2004, the Company issued a press release entitled
16 “Yahoo’s Overture Extends Sponsored Search Relationship with MSN Through June
17 2006.” The press release stated in relevant part:

18 Overture Services, Inc., a wholly-owned subsidiary of Yahoo Inc. and
19 provider of essential online marketing services, today announced the
20 extension of its sponsored search distribution relationship with Microsoft
21 Corp. in the United States and internationally through June 2006.

22 Under the terms of the extension, Overture will continue to
23 provide its sponsored search results to MSN sites in the U.S. and
24 Canada, Europe and Asia. The previous agreement ran through June
25 2005.

26 “Overture has been a strategic partner of MSN since 2001, and we
27 look forward to continuing our productive relationship,” said Yusuf
28 Mehdi, corporate vice president for the MSN Information Services &

1 Merchant Platform division at Microsoft. “We are pleased that our
2 collaboration has helped grow the online ad industry and benefited
3 consumers and advertisers in the process.”

4 *Overture’s industry-leading global distribution network includes*
5 *major Web portals, ISPs and other heavily trafficked destination sites.*
6 *Overture’s search listings are generated by the company’s advertisers*
7 *who bid for placement on keywords relevant to their business. “MSN is*
8 *a valued industry partner and we are pleased to extend our successful*
9 *relationship in the U.S. and around the world,” said Ted Meisel,*
10 *president of Overture. “We appreciate the vote of confidence from*
11 *MSN and we look forward to working with them on innovative*
12 *sponsored search solutions.”*

13 20. On January 18, 2005, the Company issued a press release entitled
14 “Yahoo! Reports Fourth Quarter and Full Year 2004 Financial Results; Company
15 Posts Full Year Revenues of \$3,575 Million, Operating Income of \$689 Million,
16 Operating Income Before Depreciation and Amortization of \$1,032 Million.” The
17 press release stated in relevant part:

18 *“Yahoo! moved at an impressive pace in the fourth quarter,*
19 *capping another record year for the Company. Our users were more*
20 *engaged in 2004 than ever before because of Yahoo!’s relentless focus*
21 *on delivering the most innovative products and services on the*
22 *Internet,” said Terry Semel, chairman and chief executive officer,*
23 *Yahoo!. “Yahoo! also benefited from the growing acceptance of online*
24 *advertising with marketers who recognize its effectiveness and are*
25 *therefore increasingly using this platform to reach their consumers.”*

- 26 • Revenues were \$1,078 million for the fourth quarter of 2004, a 62
27 percent increase compared to \$664 million for the same period of
28 2003.

- 1 • Revenues excluding traffic acquisition costs (“TAC”) were \$785
2 million for the fourth quarter of 2004, a 54 percent increase
3 compared to \$511 million for the same period of 2003.
- 4 • Gross profit for the fourth quarter of 2004 was \$691 million, a 56
5 percent increase compared to \$443 million for the same period of
6 2003.
- 7 • Operating income for the fourth quarter of 2004 was \$235 million,
8 a 149 percent increase compared to \$94 million for the same
9 period of 2003.
- 10 • Operating income before depreciation and amortization for the
11 fourth quarter of 2004 was \$327 million, an 84 percent increase
12 compared to \$178 million for the same period of 2003.
- 13 • Cash flow from operating activities for the fourth quarter of 2004
14 was \$337 million, a 231 percent increase compared to \$102
15 million for the same period of 2003.
- 16 • Free cash flow for the fourth quarter of 2004 was \$251 million, a
17 172 percent increase compared to \$92 million for the same period
18 of 2003.
- 19 • Net income for the fourth quarter of 2004 was \$373 million or
20 \$0.25 per diluted share (including a net impact of \$185 million, or
21 \$0.13 per diluted share, related to the sale of an investment).
22 Excluding this gain, net income for the fourth quarter was \$187
23 million, or \$0.13 per diluted share. This compares with net income
24 of \$75 million or \$0.05 per diluted share for the same period of
25 2003.

26 ***“Yahoo!’s strong fourth quarter performance completes our***
27 ***third consecutive year of delivering strong organic revenue growth,***
28 ***expanding operating margins, and generating substantial free cash***

1 *flow” said Susan Decker, chief financial officer, Yahoo!. “We are*
2 *attracting more and more users to Yahoo!’s network of services and*
3 *driving their usage deeper with more relevant products and services.*
4 *This deeper usage is the real magic behind the surpassing of our*
5 *financial objectives.”*

- 6 • Revenues for the year ended December 31, 2004 were \$3,575
7 million, a 120 percent increase compared to \$1,625 million for
8 2003.
- 9 • Revenues excluding TAC for 2004 were \$2,600 million, a 77
10 percent increase compared to \$1,473 million for 2003.
- 11 • Gross profit for 2004 was \$2,276 million, an 80 percent increase
12 compared to \$1,267 million for 2003.
- 13 • Operating income for 2004 was \$689 million, a 133 percent
14 increase compared to \$296 million for 2003.
- 15 • Operating income before depreciation and amortization for 2004
16 was \$1,032 million, a 116 percent increase compared to \$477
17 million for 2003.
- 18 • Cash flow from operating activities for 2004 was \$1,090 million, a
19 155 percent increase compared to \$428 million for 2003.
- 20 • Free cash flow for 2004 was \$844 million, a 149 percent increase
21 compared to \$339 million for 2003.
- 22 • Net income for 2004 was \$840 million or \$0.58 per diluted share
23 (including a net impact of \$314 million, or \$0.22 per diluted share,
24 related to the sale of an investment and the associated tax benefit
25 resulting from fully reserved capital losses becoming realizable).
26 Excluding this gain, net income for 2004 was \$526 million, or
27 \$0.36 per diluted share. This compares with net income of \$238
28 million or \$0.18 per diluted share for 2003.

- 1 • The provision for income taxes of \$438 million yielded an
2 effective tax rate of 37% for 2004 as a result of the previously
3 described tax benefit associated with the capital loss
4 carryforwards. The provision for income taxes for 2003 was \$147
5 million, and yielded an effective tax rate of 43%.

6 **Fourth Quarter and Year Ended 2004 Financial Highlights**

7 Marketing services revenue for the fourth quarter of 2004 totaled
8 \$911 million, a 67 percent increase from the \$545 million reported for
9 the same period of 2003. Marketing services revenue for the year ended
10 December 31, 2004 totaled \$3,002 million, a 150 percent increase from
11 the \$1,200 million reported for 2003. Listings revenue for the fourth
12 quarter of 2004 totaled \$38 million, a 15 percent increase compared to
13 the \$33 million reported for the same period of 2003. Listings revenue
14 for the year ended December 31, 2004 totaled \$147 million, a 16 percent
15 increase compared to the \$127 million reported for 2003. The year over
16 year increases in marketing services and listings revenues resulted from
17 growth in Yahoo!'s organic revenue and incremental revenue associated
18 with acquisitions completed during the past year. Fees revenue for the
19 fourth quarter of 2004 totaled \$129 million, a 52 percent increase
20 compared to the \$85 million reported for the same period of 2003. Fees
21 revenue for the year ended December 31, 2004 totaled \$426 million, a 43
22 percent increase compared to the \$298 million reported for 2003. The
23 year over year increases in fees revenues were primarily driven by the
24 growth in the number of paying relationships for Yahoo!'s premium
25 services, which were approximately 8.4 million at December 31, 2004
26 compared to approximately 4.9 million at December 31, 2003.

27 United States revenues for the fourth quarter of 2004 were \$775
28 million, a 42 percent increase from the \$546 million reported for the

1 same period of 2003. United States revenues for the year ended
2 December 31, 2004 were \$2,653 million, a 96 percent increase from the
3 \$1,355 million reported for 2003. International revenues for the fourth
4 quarter of 2004 were \$303 million, a 156 percent increase from the \$118
5 million reported for the same period of 2003. International revenues for
6 the year ended December 31, 2004 were \$921 million, a 241 percent
7 increase from the \$270 million reported for 2003.

8 United States segment operating income before depreciation and
9 amortization in the fourth quarter of 2004 was \$278 million, a 68 percent
10 increase from the \$166 million reported for the same period of 2003.
11 United States segment operating income before depreciation and
12 amortization for the year ended December 31, 2004 was \$891 million, a
13 102 percent increase from the \$441 million reported for 2003.
14 International segment operating income before depreciation and
15 amortization in the fourth quarter of 2004 was \$49 million, a 315 percent
16 increase from the \$12 million for the same period of 2003. International
17 segment operating income before depreciation and amortization for the
18 year ended December 31, 2004 was \$141 million, a 291 percent increase
19 from the \$36 million reported for 2003. These increases were primarily a
20 result of the increases in United States and International revenues and
21 continued efforts to control discretionary spending.

22 Free cash flow was \$251 million in the fourth quarter of 2004 and
23 \$844 million for the year ended December 31, 2004. Free cash flow was
24 the largest contributor to the increase of \$1,176 million in our cash, cash
25 equivalents and investments in marketable debt securities which grew
26 from approximately \$2,566 million at December 31, 2003 to \$3,742
27 million at December 31, 2004. Other contributors to the increase were
28 \$651 million of cash generated from the issuance of common stock as a

1 result of the exercise of employee stock options, and \$503 million in
2 proceeds from sales of marketable equity securities, offset by a net \$70
3 million used in structured stock repurchase transactions and \$756 million
4 used for acquisitions.

5 21. On March 1, 2005, the Company issued a press release entitled “Overture
6 Services to Become Yahoo! Search Marketing Solutions; Will Offer Sponsored
7 Search and Submit Products, Providing One-Stop Search Marketing Resource for
8 Businesses Worldwide.” The press release stated in relevant part:

9 Overture Services, Inc., a wholly-owned subsidiary of Yahoo Inc. today
10 announced that it will be re-branded Yahoo! Search Marketing Solutions
11 and will bring together its sponsored search offerings and Yahoo!’s
12 listings submit products under the new banner. Through Yahoo! Search
13 Marketing Solutions, advertisers of all sizes will enjoy convenient access
14 to the industry’s most comprehensive suite of search marketing and
15 related products and services.

16 Yahoo! Search Marketing Solutions’ suite of offerings will
17 include the following products:

- 18 • Sponsored Search Listings, the flagship search advertising product
- 19 • Content Match™, Yahoo!’s contextual advertising listings
- 20 • Local Match™, Yahoo!’s local sponsored search offering
- 21 • Site Match™ Self Serve and Site Match Xchange™, Yahoo!’s
22 search URL submission products
- 23 • Yahoo! Product Submit™, the Yahoo! Shopping URL submission
24 program
- 25 • Yahoo! Express™, the Yahoo! Directory URL submission
26 program
- 27 • Marketing Console™, which enables advertisers to track
28 campaign performance across multiple online channels

- 1 • Search Optimizer™, which allows advertisers to improve their
2 campaign performance and reduce the amount of time spent
3 managing their listings

4 The group will also continue to enhance and expand Yahoo's
5 network of sponsored search distribution sites.

6 In conjunction with Overture's re-branding, Yahoo! will launch a
7 new Advertising Solutions Center in the U.S., through which businesses
8 can plan and buy Yahoo! Search Marketing Solutions products. In
9 addition, the new center will offer marketers information about Yahoo!'s
10 customized, creative media solutions, providing them access to the
11 largest set of search marketing and brand advertising solutions on the
12 web.

13 *“Our mission is to be essential to marketers of all types around*
14 *the world,” said Ted Meisel, Senior Vice President, Yahoo! Inc.*
15 *“Unifying all of our search marketing and related products under one*
16 *banner and one common approach reflects our commitment to*
17 *integrate and simplify online advertising, allowing businesses of all*
18 *sizes to take advantage of the Yahoo! search marketing solutions that*
19 *best fit their marketing goals.”*

20 Overture will formally change its brand in the U.S. early next
21 quarter. After the U.S. re-branding is complete, Overture's international
22 markets will be re-branded at a later date – except for Japan and Korea,
23 where the Overture brand will be maintained. Several products within
24 the suite will be re-named once Overture assumes the Yahoo! brand in
25 the U.S.

26 22. On April 19, 2005, the Company issued a press release entitled “Yahoo!
27 Reports First Quarter 2005 Financial Results; Revenues – \$1,174 Million, Operating
28

1 Income – \$247 Million, Operating Income Before Depreciation and Amortization –
2 \$345 Million.” The press release stated in relevant part:

3 Yahoo! Inc. today reported results for the first quarter ended March 31,
4 2005.

5 *“Yahoo! entered 2005 on a high note, delivering strong growth*
6 *and record revenue for the eighth consecutive quarter, further*
7 *validating the strength of Yahoo!’s business model,” said Terry Semel,*
8 *chairman and chief executive officer, Yahoo!. “We are on the cusp of*
9 *witnessing a significant increase in engagement of consumers on the*
10 *Internet and believe we are best positioned to capitalize on the many*
11 *opportunities to which we are exposed.”*

12 **Consolidated Financial Results**

- 13 • Revenues were \$1,174 million for the first quarter of 2005, a 55
14 percent increase compared to \$758 million for the same period of
15 2004.
- 16 • Marketing services revenue was \$1,025 million for the first
17 quarter of 2005, a 54 percent increase compared to \$665
18 million for the same period of 2004.
- 19 • Fees revenue was \$149 million for the first quarter of 2005,
20 a 61 percent increase compared to \$93 million for the same
21 period of 2004.
- 22 • Revenues excluding traffic acquisition costs (“TAC”) were \$821
23 million for the first quarter of 2005, a 49 percent increase
24 compared to \$550 million for the same period of 2004.
- 25 • Gross profit for the first quarter of 2005 was \$720 million, a 51
26 percent increase compared to \$476 million for the same period of
27 2004.

- 1 • Operating income for the first quarter of 2005 was \$247 million,
2 an 87 percent increase compared to \$132 million for the same
3 period of 2004.
- 4 • Operating income before depreciation and amortization for the
5 first quarter of 2005 was \$345 million, a 64 percent increase
6 compared to \$211 million for the same period of 2004.
- 7 • Cash flow from operating activities for the first quarter of 2005
8 was \$386 million, a 63 percent increase compared to \$236 million
9 for the same period of 2004.
- 10 • Free cash flow for the first quarter of 2005 was \$318 million, a 61
11 percent increase compared to \$197 million for the same period of
12 2004.
- 13 • Net income for the first quarter of 2005 was \$205 million or \$0.14
14 per diluted share (including net income of \$15 million, or \$0.01
15 per diluted share, related to the sale of certain investments and
16 settlements). This compares with net income of \$101 million or
17 \$0.07 per diluted share for the same period of 2004.

18 *“In the first quarter, Yahoo! continued to grow its user base and*
19 *drive deeper engagement, the core user fundamentals that lead to*
20 *favorable financial returns,” said Susan Decker, chief financial*
21 *officer, Yahoo!. “We continued to increase levels of free cash flow*
22 *while investing in the business, demonstrating the leverage in our*
23 *operating model, and driving long-term shareholder value.”*

24 **Segment Financial Results**

- 25 • United States revenues for the first quarter of 2005 were \$819
26 million, a 37 percent increase from the \$599 million reported for
27 the same period of 2004.

28

- 1 • International revenues for the first quarter of 2005 were \$355
2 million, a 124 percent increase from the \$159 million reported for
3 the same period of 2004.
- 4 • United States segment operating income before depreciation and
5 amortization for the first quarter of 2005 was \$270 million, a 41
6 percent increase from the \$191 million reported for the same
7 period of 2004.
- 8 • International segment operating income before depreciation and
9 amortization for the first quarter of 2005 was \$75 million, a 280
10 percent increase from the \$20 million reported for the same period
11 of 2004.

12 **Cash Flow Information**

13 Free cash flow of \$318 million in the first quarter of 2005 was the
14 largest contributor to the increase of \$110 million in our cash, cash
15 equivalents and investments in marketable debt securities which grew
16 from \$3,742 million at December 31, 2004 to \$3,852 million at March
17 31, 2005. In addition, we generated \$90 million from the issuance of
18 common stock as a result of the exercise of employee stock options.
19 These increases were offset by \$165 million used for direct share
20 repurchases, a net \$96 million used in structured stock repurchase
21 transactions, and \$54 million used for acquisitions.

22 23. On July 19, 2005, the Company issued a press release entitled “Yahoo!
23 Reports Second Quarter 2005 Financial Results; Revenues – \$1,253 Million,
24 Operating Income – \$261 Million, Operating Income Before Depreciation and
25 Amortization – \$368 Million.” The press release stated in relevant part:

26 Yahoo! Inc. today reported results for the second quarter ended June 30,
27 2005.

1 *“Yahoo! continued to see solid growth in the second quarter as a*
2 *result of our strength in both search marketing and brand advertising,*
3 *increased engagement from our large, global audience, and our ability*
4 *to execute and perform according to plan,” said Terry Semel,*
5 *chairman and chief executive officer, Yahoo!. “We have a healthy*
6 *business model that we believe will enable us to take advantage of*
7 *future growth opportunities and we remain dedicated to providing our*
8 *users with the very best services on the Internet.”*

9 **Consolidated Financial Results**

- 10 • Revenues were \$1,253 million for the second quarter of 2005, a
11 51 percent increase compared to \$832 million for the same period
12 of 2004.
- 13 • Marketing services revenue was \$1,094 million for the
14 second quarter of 2005, a 51 percent increase compared to
15 \$723 million for the same period of 2004.
- 16 • Fees revenue was \$159 million for the second quarter of
17 2005, a 45 percent increase compared to \$109 million for
18 the same period of 2004.
- 19 • Revenues excluding traffic acquisition costs (“TAC”) were \$875
20 million for the second quarter of 2005, a 44 percent increase
21 compared to \$609 million for the same period of 2004.
- 22 • Gross profit for the second quarter of 2005 was \$767 million, a 43
23 percent increase compared to \$535 million for the same period of
24 2004.
- 25 • Operating income for the second quarter of 2005 was \$261
26 million, a 75 percent increase compared to \$149 million for the
27 same period of 2004.
- 28

- 1 • Operating income before depreciation and amortization for the
2 second quarter of 2005 was \$368 million, a 57 percent increase
3 compared to \$234 million for the same period of 2004.
- 4 • Cash flow from operating activities for the second quarter of 2005
5 was \$404 million, a 62 percent increase compared to \$250 million
6 for the same period of 2004.
- 7 • Free cash flow for the second quarter of 2005 was \$300 million, a
8 55 percent increase compared to \$194 million for the same period
9 of 2004.
- 10 • Net income for the second quarter of 2005 was \$755 million or
11 \$0.51 per diluted share (including net income of \$563 million, or
12 \$0.38 per diluted share, related to the sale of an investment). This
13 compares with net income of \$113 million or \$0.08 per diluted
14 share for the same period of 2004.

15 *“We are very pleased with our second quarter results as they*
16 *clearly underscore two fundamental business model strengths:*
17 *excellent growth and great balance,” said Susan Decker, chief*
18 *financial officer, Yahoo!. “We see this as a terrific combination,*
19 *leading to the quarter’s strong organic revenue growth, robust*
20 *profitability, and substantial free cash flow.”*

21 **Segment Financial Results**

- 22 • United States revenues for the second quarter of 2005 were \$870
23 million, a 39 percent increase from the \$624 million reported for
24 the same period of 2004.
- 25 • International revenues for the second quarter of 2005 were \$383
26 million, an 84 percent increase from the \$208 million reported for
27 the same period of 2004.
- 28

- 1 • United States segment operating income before depreciation and
2 amortization for the second quarter of 2005 was \$291 million, a
3 47 percent increase from the \$198 million reported for the same
4 period of 2004.
- 5 • International segment operating income before depreciation and
6 amortization for the second quarter of 2005 was \$77 million, a
7 116 percent increase from the \$36 million reported for the same
8 period of 2004.

9 **Cash Flow Information**

10 Free cash flow was \$300 million in the second quarter of 2005
11 compared to \$194 million for the same period of 2004. Cash, cash
12 equivalents and investments in marketable debt securities grew by
13 \$1,073 million from \$3,852 million at March 31, 2005 to \$4,925 million
14 at June 30, 2005. In addition to free cash flow of \$300 million, Yahoo!
15 generated \$212 million from the issuance of common stock as a result of
16 the exercise of employee stock options, and \$959 million in proceeds
17 from sales of marketable equity securities. These increases were offset
18 by a net \$264 million used in structured stock repurchase transactions,
19 and \$122 million used for acquisitions and investing activities.

20 24. On October 18, 2005, the Company issued a press release entitled
21 “Yahoo! Reports Third Quarter 2005 Financial Results; Revenues – \$1,330 Million,
22 Operating Income – \$270 Million, Operating Income Before Depreciation and
23 Amortization – \$385 Million.” The press release stated in relevant part:

24 Yahoo! Inc. today reported results for the third quarter ended September
25 30, 2005.

26 *“Yahoo! had another record quarter and continued to see solid*
27 *growth across our business. We introduced a number of new and*
28 *innovative products and services and continued to provide more*

1 *effective means for advertisers to engage with consumers,” said Terry*
2 *Semel, chairman and chief executive officer, Yahoo! “Our ongoing*
3 *ability to execute against plan and utilize our industry leading*
4 *technology continues to position us for long-term growth and enables*
5 *us to provide our users with the best content and most relevant online*
6 *experience.”*

7 **Consolidated Financial Results**

- 8 • Revenues were \$1,330 million for the third quarter of 2005, a 47
9 percent increase compared to \$907 million for the same period of
10 2004.
- 11 • Marketing services revenue was \$1,160 million for the third
12 quarter of 2005, a 46 percent increase compared to \$797
13 million for the same period of 2004.
- 14 • Fees revenue was \$170 million for the third quarter of
15 2005, a 55 percent increase compared to \$110 million for
16 the same period of 2004.
- 17 • Revenues excluding traffic acquisition costs (“TAC”) were \$932
18 million for the third quarter of 2005, a 42 percent increase
19 compared to \$655 million for the same period of 2004.
- 20 • Gross profit for the third quarter of 2005 was \$810 million, a 41
21 percent increase compared to \$574 million for the same period of
22 2004.
- 23 • Operating income for the third quarter of 2005 was \$270 million,
24 a 57 percent increase compared to \$172 million for the same
25 period of 2004.
- 26 • Operating income before depreciation and amortization for the
27 third quarter of 2005 was \$385 million, a 48 percent increase
28 compared to \$260 million for the same period of 2004.

- 1 • Cash flow from operating activities for the third quarter of 2005
2 was \$440 million, a 65 percent increase compared to \$267 million
3 for the same period of 2004.
- 4 • Free cash flow for the third quarter of 2005 was \$345 million, a 71
5 percent increase compared to \$202 million for the same period of
6 2004.
- 7 • Net income for the third quarter of 2005 was \$254 million or
8 \$0.17 per diluted share (including a net impact of \$16 million, or
9 \$0.01 per diluted share, related to the sales of investments). For
10 the same period of 2004, net income was \$253 million or \$0.17
11 per diluted share (including a net impact of \$129 million, or \$0.09
12 per share, related to the sale of an investment and an associated
13 tax benefit).

14 *“We are extremely pleased with our third quarter results, which*
15 *exceeded expectations, showing strong revenue growth, continued*
16 *profitability, and significant free cash flow,” said Susan Decker, chief*
17 *financial officer, Yahoo! “Our ability to deliver another quarter of*
18 *record results, while also investing in internal operations and external*
19 *acquisitions, continues to reinforce the power of our business model.”*

20 **Segment Financial Results**

- 21 • United States revenues for the third quarter of 2005 were \$923
22 million, a 41 percent increase from the \$655 million reported for
23 the same period of 2004.
- 24 • International revenues for the third quarter of 2005 were \$407
25 million, a 62 percent increase from the \$252 million reported for
26 the same period of 2004.
- 27 • United States segment operating income before depreciation and
28 amortization for the third quarter of 2005 was \$306 million, a 37

1 percent increase from the \$223 million reported for the same
2 period of 2004.

- 3 • International segment operating income before depreciation and
4 amortization for the third quarter of 2005 was \$79 million, an 117
5 percent increase from the \$36 million reported for the same period
6 of 2004.

7 **Cash Flow Information**

8 Free cash flow was \$345 million in the third quarter of 2005
9 compared to \$202 million for the same period of 2004. In addition to free
10 cash flow, Yahoo! generated \$75 million from the issuance of common
11 stock as a result of the exercise of employee stock options, and \$36
12 million in proceeds from sales of marketable equity securities. These
13 increases were offset by \$208 million used in direct stock repurchases
14 and a net \$393 million used in structured stock repurchase transactions.
15 Cash, cash equivalents and investments in marketable debt securities
16 were \$4,764 million at September 30, 2005 as compared to \$4,925
17 million at June 30, 2005, a reduction of \$161 million.

18 25. On January 17, 2006, the Company issued a press release entitled
19 “Yahoo! Reports Fourth Quarter and Full Year 2005 Financial Results; Full Year
20 Revenues – \$5,258 Million, Operating Income – \$1,108 Million, Operating Income
21 Before Depreciation and Amortization – \$1,557 Million.” The press release stated in
22 relevant part:

23 Yahoo! Inc. today reported results for the fourth quarter and full year
24 ended December 31, 2005.

25 *“Yahoo! has a strong track record of focusing and delivering on*
26 *some of the biggest opportunities on the Internet,” said Terry Semel,*
27 *chairman and chief executive officer, Yahoo!. “In 2005, Yahoo!*
28 *continued to achieve significant results by providing some of the most*

1 *innovative services to our hundreds of millions of consumers and*
2 *deepening both our global reach and user engagement. As we look*
3 *ahead, we will continue to focus on creating the best consumer*
4 *experience, finding new ways to engage our audience and delivering*
5 *the best value for our advertisers.”*

6 **Fourth Quarter 2005 Financial Results**

- 7 • Revenues were \$1,501 million for the fourth quarter of 2005, a 39
8 percent increase compared to \$1,078 million for the same period
9 of 2004.
- 10 • Marketing services revenue was \$1,315 million for the
11 fourth quarter of 2005, a 39 percent increase compared to
12 \$943 million for the same period of 2004.
- 13 • Fees revenue was \$186 million for the fourth quarter of
14 2005, a 38 percent increase compared to \$135 million for
15 the same period of 2004.
- 16 • Revenues excluding traffic acquisition costs (“TAC”) were \$1,068
17 million for the fourth quarter of 2005, a 36 percent increase
18 compared to \$785 million for the same period of 2004.
- 19 • Gross profit for the fourth quarter of 2005 was \$928 million, a 34
20 percent increase compared to \$691 million for the same period of
21 2004.
- 22 • Operating income for the fourth quarter of 2005 was \$329 million,
23 a 40 percent increase compared to \$235 million for the same
24 period of 2004.
- 25 • Operating income before depreciation and amortization for the
26 fourth quarter of 2005 was \$459 million, a 40 percent increase
27 compared to \$327 million for the same period of 2004.

28

- 1 • Cash flow from operating activities for the fourth quarter of 2005
2 was \$481 million, a 43 percent increase compared to \$337 million
3 for the same period of 2004.
- 4 • Free cash flow for the fourth quarter of 2005 was \$330 million, a
5 31 percent increase compared to \$251 million for the same period
6 of 2004.
- 7 • Net income for the fourth quarter of 2005 was \$683 million or
8 \$0.46 per diluted share compared to \$373 million or \$0.25 per
9 diluted share for the same period of 2004.
- 10 • Adjusted net income for the fourth quarter of 2005 was \$247
11 million or \$0.16 per diluted share compared to \$187 million or
12 \$0.13 per diluted share for the same period of 2004.
- 13 • The provision for income taxes for the fourth quarter of 2005 was
14 \$18 million and yielded an effective tax rate of 3 percent as a
15 result of a tax benefit related to a subsidiary restructuring
16 transaction completed in the quarter. The provision for income
17 taxes for the fourth quarter of 2004 was \$234 million, and yielded
18 an effective tax rate of 40 percent.
- 19 • Explanations of the Company’s non-GAAP financial measures
20 and the related reconciliations to the GAAP financial measures the
21 Company considers most comparable are included in the
22 accompanying “Note to Unaudited Condensed Consolidated
23 Statements of Operations” and the “Reconciliations to Unaudited
24 Condensed Consolidated Statements of Operations”.

25 *“We continued to execute on our plan during both the fourth*
26 *quarter and the full year 2005 – delivering very strong revenue growth,*
27 *profitability and returns on our significant free cash flow – while also*
28 *investing in our business to position the company for future growth,”*

1 *said Susan Decker, chief financial officer, Yahoo!. “In 2006, we will*
2 *focus on continuing to enhance our advertising products, offering the*
3 *most effective solutions to our advertisers and publishers, while also*
4 *seeking to generate maximum value for our network.”*

5 **Full Year 2005 Financial Results**

- 6 • Revenues for the year ended December 31, 2005 were \$5,258
7 million, a 47 percent increase compared to \$3,575 million for
8 2004.
- 9 • Marketing services revenue was \$4,594 million for 2005, a
10 47 percent increase compared to \$3,127 million for 2004.
- 11 • Fees revenue was \$664 million for 2005, a 48 percent
12 increase compared to \$447 million for 2004.
- 13 • Revenues excluding TAC for 2005 were \$3,696 million, a 42
14 percent increase compared to \$2,600 million for 2004.
- 15 • Gross profit for 2005 was \$3,225 million, a 42 percent increase
16 compared to \$2,276 million for 2004.
- 17 • Operating income for 2005 was \$1,108 million, a 61 percent
18 increase compared to \$689 million for 2004.
- 19 • Operating income before depreciation and amortization for 2005
20 was \$1,557 million, a 51 percent increase compared to \$1,032
21 million for 2004.
- 22 • Cash flow from operating activities for 2005 was \$1,711 million, a
23 57 percent increase compared to \$1,090 million for 2004.
- 24 • Free cash flow for 2005 was \$1,292 million, a 53 percent increase
25 compared to \$844 million for 2004.
- 26 • Net income for 2005 was \$1,896 million or \$1.28 per diluted
27 share compared to \$840 million or \$0.58 per diluted share for
28 2004.

- 1 • Adjusted net income for 2005 was \$854 million or \$0.58 per
2 diluted share compared to \$525 million or \$0.36 per diluted share
3 for the same period of 2004.
- 4 • The provision for income taxes for 2005 was \$768 million and
5 yielded an effective tax rate of 30 percent for 2005 as a result of a
6 tax benefit related to a subsidiary restructuring transaction
7 completed in the fourth quarter of 2005. The provision for income
8 taxes for 2004 was \$438 million, and yielded an effective tax rate
9 of 37 percent.

10 **Segment Financial Results**

- 11 • United States revenues for the fourth quarter of 2005 were \$1,056
12 million, a 36 percent increase compared to \$775 million for the
13 same period of 2004.
- 14 • International revenues for the fourth quarter of 2005 were \$445
15 million, a 47 percent increase compared to \$303 million for the
16 same period of 2004.
- 17 • United States segment operating income before depreciation and
18 amortization for the fourth quarter of 2005 was \$352 million, a 26
19 percent increase compared to \$278 million for the same period of
20 2004.
- 21 • International segment operating income before depreciation and
22 amortization for the fourth quarter of 2005 was \$107 million, a
23 118 percent increase compared to \$49 million for the same period
24 of 2004.
- 25 • United States revenues for the year ended December 31, 2005
26 were \$3,668 million, a 38 percent increase compared to \$2,653
27 million for 2004.

- 1 • International revenues for the year ended December 31, 2005 were
2 \$1,590 million, a 73 percent increase compared to \$921 million
3 for 2004.
- 4 • United States segment operating income before depreciation and
5 amortization for the year ended December 31, 2005 was \$1,220
6 million, a 37 percent increase compared to \$891 million for 2004.
- 7 • International segment operating income before depreciation and
8 amortization for the year ended December 31, 2005 was \$338
9 million, a 140 percent increase compared to \$141 million for
10 2004.

11 **Cash Flow Information**

12 Free cash flow was \$330 million in the fourth quarter of 2005
13 compared to \$251 million for the same period of 2004. In addition to free
14 cash flow, Yahoo! generated \$369 million from the issuance of common
15 stock as a result of the exercise of employee stock options, and a net
16 \$141 million from structured stock repurchase transactions. These
17 increases were offset by \$1,571 million used for acquisitions and \$14
18 million used for direct stock repurchases. Cash, cash equivalents and
19 investments in marketable debt securities were \$4,000 million at
20 December 31, 2005 as compared to \$4,764 million at September 30,
21 2005, a reduction of \$764 million.

22 Free cash flow was \$1,292 million for the year ended December
23 31, 2005 compared to \$844 million for 2004. In addition to free cash
24 flow, Yahoo! generated \$747 million from the issuance of common stock
25 as a result of the exercise of employee stock options and \$1,006 million
26 was received as proceeds from sales of marketable equity securities.
27 These increases were offset by \$1,698 million used for acquisitions,
28 \$388 million used for direct stock repurchases and a net \$611 million

1 used in structured stock repurchase transactions. Cash, cash equivalents
2 and investments in marketable debt securities were \$4,000 million at
3 December 31, 2005 as compared to \$3,742 million at December 31,
4 2004, an increase of \$258 million.

5 26. On April 18, 2006, the Company issued a press release entitled “Yahoo!
6 Reports First Quarter 2006 Financial Results; Revenues – \$1,567 Million, Operating
7 Income – \$201 Million, Operating Income Before Depreciation and Amortization –
8 \$435 Million.” The press release stated in relevant part:

9 Yahoo! Inc. today reported results for the first quarter ended March 31,
10 2006.

11 *“Yahoo! had another strong performance this quarter. Our*
12 *overall advertising business saw solid growth and our user numbers*
13 *continued to climb,” said Terry Semel, chairman and chief executive*
14 *officer, Yahoo! “We believe that our business model and our focus on*
15 *exploring new opportunities in emerging areas has set us apart from*
16 *the competition and has enabled us to offer our users the best online*
17 *experience and our advertisers the most value online.”*

18 **First Quarter 2006 Financial Results**

- 19 • Revenues were \$1,567 million for the first quarter of 2006, a 34
20 percent increase compared to \$1,174 million for the same period
21 of 2005.
- 22 • Marketing services revenue was \$1,381 million for the first
23 quarter of 2006, a 35 percent increase compared to \$1,025
24 million for the same period of 2005.
- 25 • Fees revenue was \$186 million for the first quarter of 2006,
26 a 25 percent increase compared to \$149 million for the
27 same period of 2005.

28

- 1 • Revenues excluding traffic acquisition costs (“TAC”) were \$1,088
2 million for the first quarter of 2006, a 33 percent increase
3 compared to \$821 million for the same period of 2005.
- 4 • Gross profit for the first quarter of 2006 was \$909 million, a 29
5 percent increase compared to \$707 million for the same period of
6 2005.
- 7 • Operating income for the first quarter of 2006 was \$201 million
8 (including \$109 million for stock compensation expense recorded
9 under the fair value method), a 19 percent decrease compared to
10 \$247 million (including \$9 million for stock compensation
11 expense recorded under the intrinsic value method) for the same
12 period of 2005.
- 13 • Operating income before depreciation and amortization for the
14 first quarter of 2006 was \$435 million, a 26 percent increase
15 compared to \$345 million for the same period of 2005.
- 16 • Cash flow from operating activities for the first quarter of 2006
17 was \$445 million, a 15 percent increase compared to \$386 million
18 for the same period of 2005.
- 19 • Free cash flow for the first quarter of 2006 was \$343 million, an 8
20 percent increase compared to \$318 million for the same period of
21 2005.
- 22 • Net income for the first quarter of 2006 was \$160 million or \$0.11
23 per diluted share (including \$71 million of stock compensation
24 expense, net of tax, recorded under the fair value method),
25 compared to \$205 million or \$0.14 per diluted share for the same
26 period of 2005 (including \$6 million of stock compensation
27 expense, net of tax, recorded under the intrinsic value method) or
28 compared to adjusted net income of \$138 million or \$0.09 per

1 diluted share (including \$57 million of stock compensation, net of
2 tax, calculated under the fair value method and excluding gains of
3 \$15 million, net of tax, on the sale of certain investments and
4 settlements) for the first quarter of 2005.

5 • Adjusted net income excluding stock compensation expense, net
6 of tax, recorded under the fair value method for the first quarter of
7 2006 was \$231 million or \$0.15 per diluted share. This compares
8 to adjusted net income of \$195 million or \$0.13 per diluted share,
9 excluding stock compensation expense, net of tax, recorded under
10 the intrinsic value method and gains on the sale of certain
11 investments and settlements, net of tax, for the same period of
12 2005.

13 • Explanations of the Company's non-GAAP financial measures
14 and the related reconciliations to the GAAP financial measures the
15 Company considers most comparable are included in the
16 accompanying "Note to Unaudited Condensed Consolidated
17 Statements of Operations" and the "Reconciliations to Unaudited
18 Condensed Consolidated Statements of Operations"

19 *We are off to a terrific start to the year, demonstrated by strong*
20 *revenue and profitability growth, along with significant free cash*
21 *generation," said Susan Decker, chief financial officer, Yahoo! "Our*
22 *business strength allowed us to both invest close to \$750 million in*
23 *buying back stock this quarter while also investing in key operating*
24 *initiatives that will enhance our solutions for our advertisers and our*
25 *offerings for our user community."*

1 **Segment Financial Results**

- 2 • United States revenues for the first quarter of 2006 were \$1,097
3 million, a 34 percent increase compared to \$819 million for the
4 same period of 2005.
- 5 • International revenues for the first quarter of 2006 were \$470
6 million, a 32 percent increase compared to \$355 million for the
7 same period of 2005.
- 8 • United States segment operating income before depreciation and
9 amortization for the first quarter of 2006 was \$335 million, a 24
10 percent increase compared to \$270 million for the same period of
11 2005.
- 12 • International segment operating income before depreciation and
13 amortization for the first quarter of 2006 was \$100 million, a 34
14 percent increase compared to \$75 million for the same period of
15 2005.

16 **Cash Flow Information**

17 Free cash flow was \$343 million in the first quarter of 2006
18 compared to \$318 million for the same period of 2005. In addition to free
19 cash flow, Yahoo! generated \$88 million from the issuance of common
20 stock as a result of the exercise of employee stock options, and a net \$22
21 million from structured stock repurchase transactions. These increases
22 were offset by \$639 million used for direct stock repurchases. Cash, cash
23 equivalents and investments in marketable debt securities were \$3,833
24 million at March 31, 2006 as compared to \$4,000 million at December
25 31, 2005, a reduction of \$167 million.

26 27. On July 18, 2006, the Company issued a press release entitled “Yahoo!
27 Reports Second Quarter 2006 Financial Results; Revenues – \$1,576 Million,
28 Operating Income – \$230 Million, Operating Income Before Depreciation,

1 Amortization and Stock-Based Compensation Expense – \$457 Million.” The press
2 release stated in relevant part:

3 Yahoo! Inc. today reported results for the second quarter ended June 30,
4 2006.

5 “Yahoo! continued to make major strides this quarter against some
6 of our most valuable business initiatives, further strengthening our
7 foundation for ongoing growth,” said Terry Semel, chairman and chief
8 executive officer, Yahoo!. “Our ability to remain focused on our
9 advertiser and consumer communities, while also continuing to innovate
10 and take advantage of new opportunities in the marketplace, has put us in
11 a great position.”

12 **Second Quarter 2006 Financial Results**

- 13 • Revenues were \$1,576 million for the second quarter of 2006, a
14 26 percent increase compared to \$1,253 million for the same
15 period of 2005.
- 16 • Marketing services revenue was \$1,386 million for the
17 second quarter of 2006, a 27 percent increase compared to
18 \$1,094 million for the same period of 2005.
- 19 • Fees revenue was \$190 million for the second quarter of
20 2006, a 19 percent increase compared to \$159 million for
21 the same period of 2005.
- 22 • Revenues excluding traffic acquisition costs (“TAC”) were \$1,123
23 million for the second quarter of 2006, a 28 percent increase
24 compared to \$875 million for the same period of 2005.
- 25 • Gross profit for the second quarter of 2006 was \$930 million, a 24
26 percent increase compared to \$753 million for the same period of
27 2005.

28

- 1 • Operating income for the second quarter of 2006 was \$230 million
2 (including \$100 million for stock-based compensation expense
3 recorded under the fair value method), a 12 percent decrease
4 compared to \$261 million (including \$11 million for stock-based
5 compensation expense recorded under the intrinsic value method)
6 for the same period of 2005.
- 7 • Operating income before depreciation, amortization and stock-
8 based compensation expense for the second quarter of 2006 was
9 \$457 million, a 24 percent increase compared to \$368 million for
10 the same period of 2005.
- 11 • Cash flow from operating activities for the second quarter of 2006
12 was \$430 million, a 6 percent increase compared to \$404 million
13 for the same period of 2005.
- 14 • Free cash flow for the second quarter of 2006 was \$358 million, a
15 19 percent increase compared to \$300 million for the same period
16 of 2005.
- 17 • Net income for the second quarter of 2006 was \$164 million or
18 \$0.11 per diluted share (including \$73 million of stock-based
19 compensation expense, net of tax, recorded under the fair value
20 method), compared to \$755 million or \$0.51 per diluted share for
21 the same period of 2005 (including \$7 million of stock-based
22 compensation expense, net of tax, recorded under the intrinsic
23 value method) or compared to adjusted net income of \$152
24 million or \$0.10 per diluted share (including \$57 million of stock-
25 based compensation, net of tax, calculated under the fair value
26 method and excluding gains of \$552 million, net of tax, on the
27 sale of certain investments and settlements) for the second quarter
28 of 2005.

- 1 • Adjusted net income excluding stock-based compensation
2 expense, net of tax, recorded under the fair value method for the
3 second quarter of 2006 was \$237 million or \$0.16 per diluted
4 share. This compares to adjusted net income of \$209 million or
5 \$0.14 per diluted share, excluding stock-based compensation
6 expense, net of tax, recorded under the intrinsic value method and
7 gains on the sale of certain investments and settlements, net of tax,
8 for the same period of 2005.
- 9 • Explanations of the Company’s non-GAAP financial measures
10 and the related reconciliations of the GAAP financial measures
11 the Company considers most comparable are included in the
12 accompanying “Note to Unaudited Condensed Consolidated
13 Statements of Operations” and the “Reconciliations to Unaudited
14 Condensed Consolidated Statements of Operations.”

15 “We continued to execute on our plan in the second quarter –
16 delivering strong revenue growth, profitability, and returns on our
17 significant free cash flow – while also investing in our business to
18 position the company for future growth,” said Susan Decker, chief
19 financial officer, Yahoo! “We believe these investments will expand our
20 unique collection of online services to best meet the objectives of our
21 customers and users, generating maximum value for our network.”

22 **Segment Financial Results**

- 23 • United States revenues for the second quarter of 2006 were \$1,070
24 million, a 23 percent increase compared to \$870 million for the
25 same period of 2005.
- 26 • International revenues for the second quarter of 2006 were \$506
27 million, a 32 percent increase compared to \$383 million for the
28 same period of 2005.

- 1 • United States segment operating income before depreciation,
2 amortization and stock-based compensation expense for the
3 second quarter of 2006 was \$341 million, a 17 percent increase
4 compared to \$291 million for the same period of 2005.
- 5 • International segment operating income before depreciation,
6 amortization and stock-based compensation expense for the
7 second quarter of 2006 was \$116 million, a 51 percent increase
8 compared to \$77 million for the same period of 2005.

9 **Cash Flow Information**

10 Free cash flow was \$358 million in the second quarter of 2006
11 compared to \$300 million for the same period of 2005. In addition to free
12 cash flow, Yahoo! generated \$102 million from the issuance of common
13 stock as a result of the exercise of employee stock options. These sources
14 of cash were offset by \$250 million used for structured stock repurchase
15 transactions, \$51 million used for direct stock repurchases and \$61 used
16 for acquisitions. Cash, cash equivalents and investments in marketable
17 debt securities were \$3,965 million at June 30, 2006 as compared to
18 \$3,833 million at March 31, 2006, an increase of \$132 million.

19 28. Yahoo!'s sales disappointed the market as they were significantly lower
20 than investors had been led to expect. Yahoo!'s market share of Web searches had
21 also declined while Google's had increased from 37% to 45%. Yahoo!'s stock price,
22 which had been driven up on defendants' positive Class Period statements, reaching a
23 Class Period high of over \$43 per share on January 6, 2006, fell precipitously by 22%
24 to \$25.20 per share on news of the Company's dismal Q2 2006 performance and
25 analyst downgrades, erasing billions of dollars in market capitalization.

26 29. Defendants' Class Period statements describing Yahoo!'s business
27 model, financial results and continued sales and earnings growth potential were false
28 and misleading as:

1 (a) Yahoo! generated fraudulent revenue by deliberately misleading
2 Internet advertising business customers to induce these customers to buy Yahoo!
3 advertising products through deceptive means;

4 (b) Yahoo! made literally false, misleading, and deceptive
5 representations regarding its advertising technology and products to investors and
6 potential investors, industry analysts, and customers to increase sales and stock prices;

7 (c) Yahoo!'s false, deceptive, and misleading representations were
8 material in that they had a natural tendency to influence, or were capable of
9 influencing, purchasing decisions, and they related to the essential characteristics,
10 quality, and/or nature of competing products and commercial activities, including
11 relevance, potential click-throughs and quality;

12 (d) Yahoo!'s advertising technology was operationally defective,
13 causing its own advertising offerings to substantially under-perform those of its rivals;

14 (e) Whereas Yahoo!'s rivals were paying high-traffic vendors to route
15 traffic *through* their Web sites, Yahoo! was *charging* large vendors for *access* and
16 was dependent on that revenue to make its revenue targets, making Yahoo!'s Web site
17 a less desirable location for vendors to drive traffic to; and
18

19 (f) Yahoo! was losing market share to Google and other Internet
20 search providers.
21

22 **SCIENTER AND SCHEME ALLEGATIONS**

23
24 30. During the Class Period, the defendants had both the motive and
25 opportunity to conduct fraud. They also had actual knowledge of the falsity of the
26 statements they made or acted in reckless disregard of the truth or falsity of those
27 statements. In so doing, the defendants participated in a scheme to defraud and
28

1 committed acts, practices and participated in a course of business that operated as a
2 fraud or deceit on purchasers of Yahoo! stock during the Class Period.

3 31. The Individual Defendants were Yahoo!'s top directors and/or officers
4 charged with not only developing Yahoo!'s business strategy, but also with overseeing
5 the implementation and execution of that strategy during the Class Period. Due to the
6 circumstances described in this Complaint, nothing was more important to them than
7 convincing the public marketplace that they were continuing to maintain high levels of
8 traffic on Yahoo!'s Web site and increasing advertising revenues, because their jobs
9 and millions of dollars in salaries, bonuses, stock option profits and other benefits
10 depended on their doing so.

11 **NO SAFE HARBOR**

12 32. The statutory safe harbor provided for forward-looking statements under
13 certain circumstances does not apply to any of the allegedly false statements pleaded
14 in this Complaint. Many of the specific statements pleaded in this Complaint were not
15 identified as "forward-looking statements" when made. To the extent forward-
16 looking statements were identified when made, specific meaningful cautionary
17 statements identifying important factors that could cause actual results to differ
18 materially from those in the purportedly forward-looking statements were not
19 presented. Yahoo!'s 10-Qs, 10-Ks, Annual Reports and press releases, before and
20 during the Class Period, used boilerplate language in connection with forward-looking
21 statements.

22 **CLASS ACTION ALLEGATIONS**

23 33. This is a class action on behalf of all persons who purchased or otherwise
24 acquired Yahoo! publicly traded securities during the Class Period (the "Class").
25 Excluded from the Class are officers and directors of the Company, as well as their
26 families and the families of the defendants. Class members are so numerous that
27 joinder of them is impracticable.

28

1 participants in the wrongful and illegal conduct and fraudulent scheme and course of
2 business charged in this Complaint.

3 39. These defendants employed devices, schemes and artifices to defraud.
4 While in possession of material adverse non-public information, they engaged in acts,
5 practices, and a scheme as alleged herein in an effort to assure investors of Yahoo!'s
6 business and financial success and prospects for continued substantial sales growth.
7 This included the making of, or the participation in the making of, untrue statements
8 of material fact and concealing facts necessary in order to make the statements made,
9 in the light of the circumstances under which they were made, not misleading. This
10 conduct artificially inflated the prices of Yahoo! publicly traded securities and
11 operated as a fraud and deceit upon the purchasers of Yahoo! publicly traded
12 securities during the Class Period, proximately causing them economic loss and
13 damage.

14 40. The defendants had actual knowledge of the misrepresentations and
15 omissions of material facts set forth in this Complaint, or acted with reckless disregard
16 of the truth in that they failed to ascertain and to disclose such facts, even though such
17 facts were available to them.

18 41. As a result of the dissemination of the materially false and misleading
19 information and failure to disclose material facts, as set forth above, the market price
20 of Yahoo! publicly traded securities was artificially inflated during the Class Period.
21 Relying directly or indirectly on the false and misleading statements made by
22 defendants or upon the integrity of the market, plaintiff and the other members of the
23 Class purchased Yahoo! publicly traded securities during the Class Period at
24 artificially high prices and were damaged thereby.

25 42. At the time of defendants' misrepresentations and omissions, plaintiff
26 and other members of the Class were ignorant of their falsity. Had plaintiff and the
27 other members of the Class and the market known the truth which was not disclosed
28 by defendants, plaintiff and other members of the Class would not have purchased

1 their Yahoo! publicly traded securities, or, if they had acquired such securities during
2 the Class Period, they would not have done so at the artificially inflated prices which
3 they paid.

4 43. As a direct and proximate result of defendants' wrongful conduct,
5 plaintiff and the other members of the Class suffered damages in connection with their
6 respective purchases and sales of the Company's publicly traded securities during the
7 Class Period.

8 **COUNT II**

9 **Violation of §20(a) of the 1934 Act** 10 **Against All Defendants**

11 44. Plaintiff repeats and realleges each and every allegation as fully set forth
12 herein.

13 45. The Individual Defendants acted as controlling persons of Yahoo! within
14 the meaning of §20(a) of the 1934 Act as alleged in this Complaint. By virtue of their
15 business expertise, their high-level positions, and their ownership and contractual
16 rights, participation in and/or awareness of the Company's operations, accounting
17 policies and methods, and/or intimate knowledge of the financial statements filed by
18 the Company with the SEC and disseminated to the investing public, the Individual
19 Defendants had the power to influence and control and did influence and control,
20 directly or indirectly, the decision-making of the Company, including the content and
21 dissemination of the various statements which plaintiff contends are false and
22 misleading. The Individual Defendants were provided with or had unlimited access to
23 copies of the Company's reports, press releases, public filings and other statements
24 alleged by plaintiff to be misleading prior to and/or shortly after these statements were
25 issued and had the ability to prevent the issuance of the statements or cause the
26 statements to be corrected.

27 46. In particular, each of these defendants had direct and supervisory
28 involvement in the day-to-day operations, and in the accounting policies and practices

1 of the Company and, therefore, each is presumed to have had the power to control or
2 influence the particular transactions giving rise to the securities violations as alleged
3 in this Complaint, and exercised the same. The Company controlled the Individual
4 Defendants and all of its employees.

5 47. As set forth above, Yahoo! and the Individual Defendants each violated
6 §10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By
7 virtue of their positions as controlling persons, the defendants are liable pursuant to
8 §20(a) of the 1934 Act. As a direct and proximate result of defendants' wrongful
9 conduct, plaintiff and other members of the Class suffered damages in connection
10 with their purchases of the Company's publicly traded securities during the Class
11 Period.

12 **PRAYER**

13 WHEREFORE, plaintiff prays for relief and judgment, as follows:

14 A. Determining that this action is a proper class action, certifying plaintiff as
15 class representative under Rule 23 of the Federal Rules of Civil Procedure and
16 designating this Complaint as the operable complaint for class purposes;

17 B. Awarding compensatory damages in favor of plaintiff and the other Class
18 members against all defendants, jointly and severally, for all damages sustained as a
19 result of defendants' wrongdoing, in an amount to be proven at trial, including interest
20 thereon;

21 C. Awarding extraordinary, equitable and/or injunctive relief as permitted
22 by law, equity and the federal statutory provisions sued hereunder, pursuant to Rules
23 64 and 65 to assure that the Class has an effective remedy;

24 D. Awarding plaintiff and the Class their reasonable costs and expenses
25 incurred in this action, including counsel fees and expert fees; and

26 E. Awarding such other and further relief as the Court may deem just and
27 proper.

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JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: May 11, 2007

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