



**IN THE COURT OF THE CHANCERY OF THE STATE OF DELAWARE**

POLICE AND FIRE RETIREMENT SYSTEM  
OF THE CITY OF DETROIT and GENERAL  
RETIREMENT SYSTEM OF THE CITY OF  
DETROIT, on behalf of themselves and all other  
similarly situated shareholders of Yahoo! Inc.,

Plaintiffs,

v.

YAHOO! INC., JERRY YANG, ROY  
BOSTOCK, RON BURKLE, ERIC HIPPEAU,  
VYOMESH JOSHI, ARTHUR KERN, ROBERT  
KOTICK, EDWARD KOZEL, MAGGIE  
WILDEROTTER, AND GARY WILSON,

Defendants.

Civil Action No.

**VERIFIED CLASS ACTION COMPLAINT**

Plaintiffs Police & Fire Retirement System of the City of Detroit and the General Retirement System of the City of Detroit (collectively "Plaintiffs"), by their undersigned counsel, on behalf of themselves and all other similarly situated public shareholders (the "Class") of Yahoo! Inc. (hereafter, "Yahoo" or the "Company"), bring the following Verified Class Action Complaint ("Complaint") against Yahoo and the members of its board of directors (the "Board"). The allegations of this Complaint are based on the personal knowledge of Plaintiffs as to themselves and on information and belief (including the investigation of counsel and review of publicly available information) as to all other matters.

## **SUMMARY OF THE ACTION**

1. Much has been said and written about the viability of the so-called “Just Say No” defense in response to unsolicited acquisition proposals. This case presents a new twist on the subject. The Yahoo Board, in its desperation to pull off a “Just Say No to Microsoft” defense, is fighting off a non-coercive **62% *premium offer*** by pursuing all manner of value-destructive third party deals. In particular, recent news reports indicate a potential imminent deal specifically structured to avoid any shareholder vote and to thwart the desire of Yahoo’s shareholders to sell their shares for the maximum available value.

2. Over a year ago, Yahoo’s Board received a private offer by Microsoft Corporation (“Microsoft”) to commence merger discussions. Instead of exploring whether such a deal could benefit shareholders, Yahoo’s Board insisted that it wished to pursue certain strategic or operational initiatives, such as “Project Panama,” as well as other organizational changes. Rather than press the issue immediately by making its offer public or taking other “hostile” action, Microsoft gave the Yahoo Board time to pursue those strategies.

3. None of the long term strategies that Yahoo pursued as an alternative to a combination with Microsoft have panned out. In fact, the Company’s financial condition has worsened, its stock performance weakened, and shareholder discontent has reached a boiling point. The Yahoo Board had its chance to pursue its pre-existing strategies, and was unable to execute them.

4. Fortunately for Yahoo's shareholders, Microsoft returned. On February 1, 2008, Microsoft announced a proposal to acquire Yahoo for \$31 per share, comprised of half cash and half stock – a staggering 62% premium above the \$19.18 closing price of Yahoo common stock on January 31, 2008. Analysts hailed Microsoft's bid as a "gift" for Yahoo's shareholders, many of whom publicly demanded that the Yahoo directors enter into good faith negotiations to fully inform themselves as to the potentially added value Microsoft can offer. Numerous research analysts believe that Microsoft would be willing to raise its offer.

5. Instead, Yahoo's board rejected Microsoft's offer outright and has looked far and wide for anyone but Microsoft to rescue them from their own failed strategy. Yahoo's desperation to fend off Microsoft is driven by resentment, and some Yahoo directors recognize as much. The *New York Post* reports that several members of the Board have recognized that Chief Executive Officer Jerry Yang is hurting Yahoo and its shareholders by placing pride over prudence:

The friction on the board centers on Yang and his board loyalists, *who are so opposed to Microsoft's offer that the independent committee is worried that the Yang group might act out of emotion rather than their fiduciary duty...*

According to one source close to the situation, "The emotional part of Yang would rather do anything but sell to Microsoft...."

6. All Yahoo directors share responsibility for Yahoo's self-destructive response to Microsoft's offer. Yahoo has initiated talks with Time Warner, Inc. ("TimeWarner") regarding a possible acquisition of AOL LLC ("AOL"), explored deals with its chief competitor, Google, Inc. ("Google"), and entered discussions with News

Corporation (“News Corp.”) regarding a deal that would combine the online service MySpace and other News Corp. owned internet properties with Yahoo.

7. A February 14, 2008 *Wall Street Journal* article quotes unnamed sources familiar with Yahoo’s strategy as saying that Yahoo is seeking to finalize a deal with News Corp. that involves the issuance of slightly less than 20% of Yahoo’s outstanding stock, ***so that the Yahoo Board can thwart Microsoft’s efforts without ever having to put their tactics to a shareholder vote.*** This new-founded flailing about for a strategic partner warrants no judicial deference.

8. Moreover, although not disclosed until Yahoo filed a Form 8-K on February 19, 2008, its Compensation Committee decided, ***the day after the Board formally rejected Microsoft’s offer,*** to adopt new severance plans that effectively grant “change in control” golden parachute payments ***to every single Yahoo employee.*** That is in itself unusual, as severance plans are typically reserved only for executives. The severance plans are also unusual in giving Company employees the option to accept their benefits – not only if they are terminated, but also if they decide to quit their jobs for “good reason.” Analysts and media promptly recognized that these severance plans are a blatant effort to thwart Microsoft by unreasonably driving up the cost to Microsoft of completing any takeover transaction. The estimated additional cost to Microsoft (or any other intervening acquiror) is ***\$1 to \$3 billion,*** which represents ***2% to 7% of the total value of the Microsoft proposal.***

9. The Board’s refusal to negotiate with Microsoft evidences an improper purpose to thwart any sale to this particular bidder. Refusing to initiate negotiations is

simply value-destructive. Yahoo's directors cannot "just say no" indefinitely to legitimate acquisition offers when the effect of that decision is to deny shareholder choice in the face of a non-coercive and economically beneficial bid – especially where, as here, the bid may yet be improved through negotiations. Likewise, Yahoo's directors cannot pursue transactions that do not require shareholder approval for the primary purpose of making Yahoo unattractive to Microsoft.

10. In light of the Yahoo Board's refusal to give Microsoft's offer fair consideration, Microsoft has, according to published news reports, retained a proxy solicitor and is preparing to launch a proxy fight to remove the Yahoo Board at the next annual shareholders meeting. Instead of obtaining the highest price Microsoft may pay in a negotiated context, the Board has left Microsoft no option but to depart or take a hostile posture, and the Board is evidently prepared to enter into a value-destructive transaction to deter Microsoft and avoid their own ouster.

11. The Yahoo Board members have placed personal distaste for Microsoft ahead of shareholder welfare. Accordingly, Plaintiffs seek to enjoin the Yahoo Board from taking any further steps to effectuate any transaction that will prevent Yahoo's shareholders from selling their shares for the maximum price available.

### **PARTIES**

12. Plaintiff Police & Fire Retirement System of the City of Detroit ("Detroit Police & Fire") is a public pension fund for the benefit of the active and retired police officers and firefighters of the City of Detroit, Michigan. Detroit Police & Fire is a

stockholder of Yahoo, has been a stockholder of Yahoo at all material times alleged in this Complaint, and will continue to be a stockholder through its pendency.

13. Plaintiff General Retirement System of the City of Detroit (“Detroit General”) is a public pension fund for the benefit of the active and retired public employees of the City of Detroit, Michigan. Detroit General is a stockholder of Yahoo, has been a stockholder of Yahoo at all material times alleged in this Complaint, and will continue to be a stockholder through its pendency. Detroit Police & Fire, together with Detroit General, are referred to herein as “Plaintiffs” or the “Detroit Funds.”

14. Defendant Yahoo is incorporated under the laws of the State of Delaware and has its corporate headquarters in Sunnyvale, California located at 701 First Avenue, Sunnyvale, California 94089. Yahoo is a leading global internet brand providing company owned and operated online properties and services (“Yahoo Properties”) as well as access to third-party content and services. To its advertisers and publishers, Yahoo provides a range of marketing solutions and tools that enable businesses to reach users who visit the Yahoo Properties and to reach the users of its distribution network of third-party entities who have integrated Yahoo’s advertising offerings into their websites or their other offerings.

15. Defendant Jerry Yang (“Yang”) was appointed Chief Executive Officer (“CEO”) of Yahoo in June 2007. He is and was at all relevant times a member of Yahoo’s board of directors. Defendant Yang co-created the Yahoo! Internet navigational guide in April 1994 and co-founded Yahoo in April 1995.

16. Defendant Roy Bostock (“Bostock”) has served as a member of Yahoo’s board of directors since May 2003 and as Chairman of the Board since January 31, 2008.

17. Defendant Ron Burkle (“Burkle”) has served as a member of Yahoo’s board of directors since November 2001.

18. Defendant Eric Hippeau (“Hippeau”) has served as a member of Yahoo’s board of directors since 1996.

19. Defendant Vyomesh Joshi (“Vyomesh”) has served as a member of Yahoo’s board of directors since July 2005.

20. Defendant Arthur Kern (“Kern”) has served as a member of Yahoo’s board of directors since January 1996.

21. Defendant Robert Kotick (“Kotick”) has served as a member of Yahoo’s board of directors since March 2003.

22. Defendant Edward Kozel (“Kozel”) has served as a member of Yahoo’s board of directors since October 2000.

23. Defendant Maggie Wilderotter (“Wilderotter”) has served as a member of Yahoo’s board of directors since July 2007.

24. Defendant Gary Wilson (“Wilson”) has served as a member of Yahoo’s board of directors since November 2001.

25. The individual defendants named above are referred to collectively herein as the “Yahoo Board” or “Yahoo Directors” or “Individual Defendants.” Each of the Yahoo Directors was a member of the Board of Directors at all pertinent times and participated in the decisions and conduct challenged herein. By reason of their positions,

the Yahoo Directors owe fiduciary duties to Yahoo and its shareholders, including the obligations of loyalty, good faith, fair dealing, and due care.

### **FACTUAL BACKGROUND**

#### **A. Yahoo's Business Prospects Dim As One Strategic Shift After Another Flounders**

26. Founded by Stanford University classmates Defendant Yang and David Filo in 1994, Yahoo was once considered to be a darling of the internet age and was perceived as one of the few internet companies to actually introduce a viable business model built on sound economic principles that actually turned a profit. From humble beginnings of a rudimentary list of favorite websites located on Messrs. Yang's and Filo's personal computers, Yahoo was incorporated in March of 1995 with an initial capital investment of \$2 million, and launched an initial public offering in April of 1996 with a mere 49 employees. Today, Yahoo is a global brand that employs over 12,000 people, has 25 properties around the globe, and has offices in Europe, Asia, Latin America, Australia, Canada, and the United States.

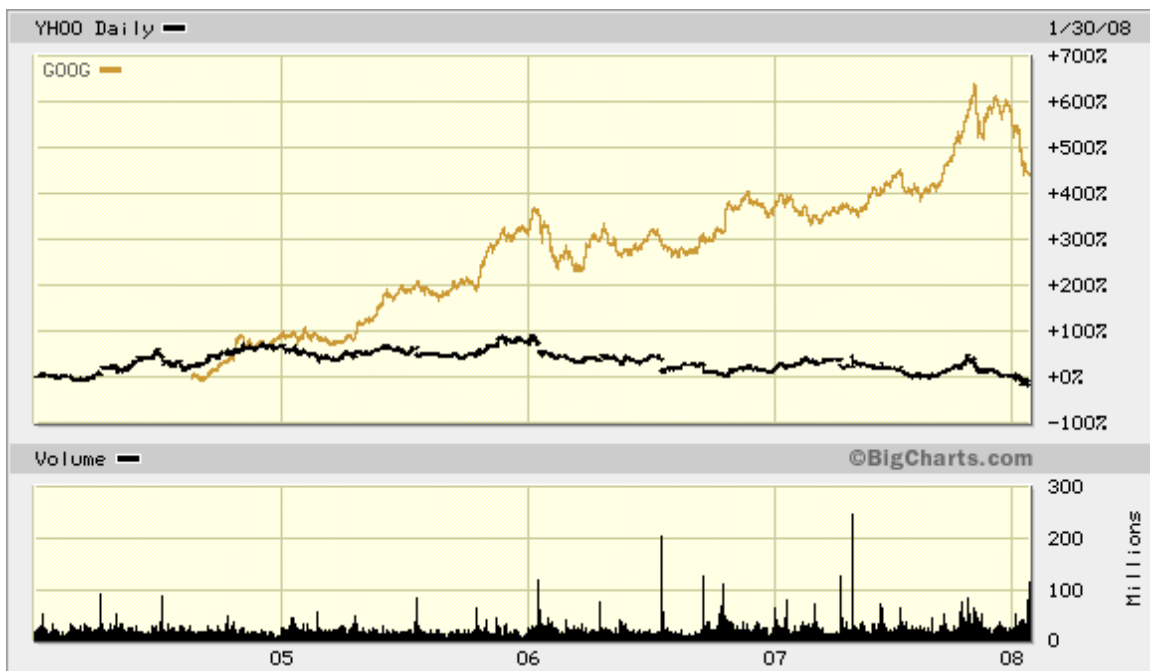
27. However, Yahoo has floundered in recent years as the Company failed to meet user demand as an internet search engine, and customer demand as an effective advertising vehicle. Since 2005, Yahoo lost significant market share as a search engine to its chief competitor, Google, and its profits have virtually collapsed, falling over 60% in 2006, and falling again nearly 20% in 2007 (based on third quarter results, annualized).

28. Google's dominance over Yahoo is clear. In 2004, Yahoo's revenues of \$3.5 billion exceeded Google's \$3.2 billion, and Yahoo's profits were more than double that of its competitor: \$399 million for Google and \$840 million for Yahoo. But



thereafter, Yahoo's relative performance has been dismal. By 2006, Google's revenue exceeded Yahoo's by almost \$4 billion, and for the first three quarters of 2007, Google's revenues were more than double that of its rival: over \$15.6 billion for Google, compared to \$6.8 billion for Yahoo. But the difference in the companies' profitability is even starker. While Yahoo's net income fell over 60% in 2006 to \$750 million, Google's profits continued to grow by over 100% to over \$3 billion. And for 2007, Google's profits are on target to exceed Yahoo's by more than six-fold - \$3 billion for Google versus \$450 million for Yahoo.

29. Not surprisingly, since 2004 Yahoo's stock has remained flat, while Google's stock has risen over 400%:



30. Yahoo's Board has pursued one strategic shift after another, but all have failed.

31. After the collapse of the “bubble” that saw the demise of many internet companies, Yahoo hired Terry Semel, the former co-Chief Executive Officer of Warner Brothers, as Yahoo’s Chairman and CEO. Mr. Semel initiated a business plan of building Yahoo’s content, designed to transform the Company from a search engine to a media and content company providing information and services to web users.

32. In furtherance of this plan, and under Mr. Semel’s guidance, Yahoo acquired smaller internet search engines, greatly expanded its content of offerings, and adopted a specific plan – code-named “Project Panama” – designed to expand Yahoo’s position in not only on-line search capabilities but also advertising influence.

33. Yahoo’s efforts, however, have been for naught. One report explained Yahoo’s failings as follows:

Yahoo’s problem was not the lack of content.

Rather, it was the fact that Yahoo failed to focus on its core business: helping web users to find information.

While Mr. Semel accumulated content, Yahoo's website got ever more cluttered and difficult to navigate, and the quality of its search engine fell well behind that of archrival Google.

This is the main reason for Yahoo's underperformance: Google’s search results made Yahoo’s endless lists of sorted results somewhat irrelevant.

When Yahoo realised [sic] that it had to improve both its design and search, it was too late. Buying several smaller search engines - from AltaVista to Inktomi - did little to improve results.

Tim Webber, *Can Yahoo revive its digital dreams?* BBC News website, June 19, 2007, available at <http://news.bbc.co.uk/2/hi/business/6765997.stm>.

34. Not only did Yahoo's management lose focus on the Company's core business, they failed to position the Company to generate essential advertising revenue. By limiting the number of sponsored links on a given search page, Google generated considerably more advertising revenue through "click through" links than Yahoo. And, as discussed above, the difference in revenue is startling.

35. Given these failures, co-founder Defendant Yang assumed the role of Chief Executive Officer in June of 2007, retaining Mr. Semel as the non-executive Chairman. As further discussed below, Defendant Bostock was suddenly elevated to replace Mr. Semel as Chairman on January 31, 2008 – the day before Microsoft went public with its takeover offer.

**B. Microsoft Solicits Yahoo For A Merger Transaction In 2006 And Early 2007**

36. For years, Microsoft attempted to expand its influence in the internet marketplace. Internal company memos repeatedly stressed the need for Microsoft to take a greater position in the internet arena in order to maintain its revenue and market preeminence.

37. In early May 2006, major news media such as *The Wall Street Journal* and *Reuters* reported that an internet deal was in the works involving Microsoft and Yahoo. *The Wall Street Journal* reported that Yahoo was attractive due to its very strong portal presence, including the most popular website in 2006 with over 100 million unique visitors. Yahoo appeared to strengthen its position by acquiring the sites Flickr and del.icio.us. *The Wall Street Journal* reported that in 2005 and 2006 the parties held senior-level talks, with the most likely scenario being Microsoft buying a significant

equity stake in Yahoo. Analysts, however, assumed that Microsoft generally would not pursue such a large acquisition.

38. Then-CEO Terry Semel confirmed that Yahoo had been approached by Microsoft for buying a portion of Yahoo's search business. Mr. Semel ruled out a deal for what he saw as a centerpiece of Yahoo's new strategy to sell web advertising. While he dismissed an outright merger between Microsoft and Yahoo, saying "that conversation has never come up," news sources indicate that talks were ongoing as early as May of 2006.

39. On May 11, 2006, Mr. Semel said he had turned down an offer to buy a stake in Yahoo's search business. Semel said that Microsoft had offered to co-own some of Yahoo's search capabilities, and Semel responded "I will not sell a piece of search – it is like selling your right arm while keeping your left; it does not make any sense."

40. As first publicly disclosed in the January 31, 2008 letter to Yahoo's Board from Microsoft Chief Executive Officer Steven Ballmer ("Ballmer"), in late 2006 and early 2007, Microsoft formally approached Yahoo with "a broad range of ways in which [Yahoo and Microsoft] might work together," including Microsoft's outright acquisition of Yahoo. According to Ballmer's letter, the Yahoo Board specifically rejected each such proposal.

41. Instead, Yahoo's Board told Microsoft that it was electing to pursue a reformulated strategy based on certain initiatives, such as revamped online advertising strategies using Project Panama, coupled with significant organizational realignment. Yet, Yahoo's alternative business strategy just has not worked.

**C. Yahoo's Latest Turn-Around Plans Fail**

42. As discussed above, Microsoft attempted to engage in discussions with Yahoo's board about a possible acquisition for over a year, but Yahoo's board refused to engage in any such discussions. Instead, Yahoo's board justified their refusal by pursuing a reformulated strategy based on certain initiatives, such as revamped online advertising strategies using "Project Panama," coupled with significant organizational realignment.

43. The strategic plan that Yahoo used to justify its rejection of Microsoft's offers in 2006 and early 2007 failed. The Company flirted with increasing its presence in new media, but by October 2006, as Yahoo's revenues slipped even further behind that of Google, almost 45% from its peak in January, then-CEO Terry Semel pledged to "get back to basics" amidst harsh criticism. For example, an internal memo from Senior Vice President Brad Garlinghouse to Semel leaked in November 2006 stated "I've heard our strategy described as spreading peanut butter across the myriad opportunities that continue to evolve in the online world. The result: a thin layer of investment spread across everything we do and thus we focus on nothing in particular . . . ."

44. Recognizing that the Company's turn-around plan was a dismal failure, in June of 2007, Defendant Yang re-assumed the position of CEO, relegating Mr. Semel to the position of non-executive Chairman amidst a shareholder revolt. In resigning as CEO, Mr. Semel acknowledged Yahoo's disappointing financial performance: "The past year has been a difficult one for Yahoo and none of us has been satisfied with the company's financial performance." Elinor Mills, *Yang replaces Semel as Yahoo CEO*,

CNet News.com June 18, 2007 available at [http://www.news.com/Yang-replaces-Semel-as-Yahoo-CEO/2100-1030\\_3-6191768.html](http://www.news.com/Yang-replaces-Semel-as-Yahoo-CEO/2100-1030_3-6191768.html). Yahoo's investors, however, were not impressed. Greg Sterling, principal of Sterling Market Intelligence, observed "[t]hey still have real issues to solve. This takes the pressure off and the distraction around Semel, but now they've got to right the ship." *Id.*

45. Defendant Yang's appointment as CEO gave little comfort to Yahoo's shareholders:

One analyst said it's too soon to tell if the elevation of Yang and Decker and demotion of Semel will benefit Yahoo or not.

"Time will tell if this is good for Yahoo. But what strikes me is that there doesn't seem like there will be any radical changes," said Derek Brown, an analyst with Cantor Fitzgerald.

A shareholder agreed that the jury is out on whether Yang and Decker can do a better job of competing with Google and others than Semel.

"This announcement raises as many questions as it answers. I wouldn't view it as a negative but I don't know if I would view it as a positive either," said Morris Mark, president of Mark Asset Management, a New York-based hedge fund that owns a small stake in Yahoo.

Paul R. La Monica, *Semel out as Yahoo! CEO*, CNNMoney.com (June 18, 2007) (available at [http://money.cnn.com/2007/06/18/news/companies/yahoo\\_semel/](http://money.cnn.com/2007/06/18/news/companies/yahoo_semel/)).

46. Indeed, Defendant Yang's installation as CEO appears to have little effect on the Company's failing business model. It has now been over a year since Yahoo rejected Microsoft's acquisition proposal and adopted its turn-around plan. History demonstrates that Yahoo's strategy adopted in 2006 failed. Yahoo posted a 23% drop in fourth quarter profit recently, its stock remains depressed, and prior to Microsoft's announcement, had fallen 18% since this time last year.

47. On January 22, 2008, amid reports of a dismal fourth quarter, public reports revealed that “Yahoo [was] planning to lay off hundreds of employees in an effort to increase its profitability, prop up its deflated stock price and narrow the focus of its sprawling Internet portal to a small number of crucial areas.” Miguel Helft, *Hundreds of Layoffs Expected at Yahoo*, The New York Times Jan. 22, 2008, available at [http://www.nytimes.com/2008/01/22/technology/22yahoo.html?\\_r=1&ref=technology+or+ef=slogin](http://www.nytimes.com/2008/01/22/technology/22yahoo.html?_r=1&ref=technology+or+ef=slogin). These anticipated layoffs were part of a desperate effort by Yahoo’s Board to fend off a possible hostile acquisition amid a continuing decline in the Company’s stock price: “With the stock price sliding, Mr. Yang and the board may see layoffs as necessary to ensure the company can indeed remain independent. Yahoo shares have lost more than half of their value since early 2006, closing Friday at \$20.78.” *Id.*

48. In other words, the Yahoo Board has yet again abandoned its strategic plans, this time trying to shrink the business in order salvage what can be saved.

**D. Microsoft Makes A “Gift” Offer For Yahoo**

49. In response to Yahoo’s early 2007 rejection of its offer, Microsoft waited patiently. Recognizing that shareholders and this Court will typically allow a board a reasonable amount of leeway in implementing good faith strategic efforts, Microsoft did not attempt to force its 2007 offer on Yahoo’s board or bring it directly to shareholders. However, Microsoft also recognized that even a “just say no” defense has its limits.

50. After waiting over a year for Yahoo to effectuate its turnaround strategy, on February 1, 2008, prior to the markets’ opening, Microsoft announced a proposal to acquire Yahoo for \$31 per share in a transaction valued at approximately \$44.6 billion in

cash and stock. The offered price provided a 62% premium to the previous day's closing share price for Yahoo. The proposal would allow Yahoo shareholders to elect to receive cash or a fixed number of shares of Microsoft common stock, with the total consideration payable to Yahoo shareholders consisting of one-half cash and one-half Microsoft common stock.

51. Microsoft's acquisition proposal specifically recounted its prior efforts to acquire the Company, and explained that Microsoft actually gave Yahoo's Board the opportunity to implement the business strategies designed to turn the Company around. In announcing the offer, Microsoft CEO Ballmer noted that when Yahoo rejected Microsoft's February 2007 proposal, Yahoo's Board may have had confidence that their new strategy would enable the Company to remain independent, but that by the time of Microsoft's \$31 per share offer, *"A year has gone by, and the competitive situation has not improved."* The letter stated, in pertinent part:

Dear Members of the Board:

I am writing on behalf of the Board of Directors of Microsoft to make a proposal for a business combination of Microsoft and Yahoo!. Under our proposal, Microsoft would acquire all of the outstanding shares of Yahoo! common stock for per share consideration of \$31 based on Microsoft's closing share price on January 31, 2008, payable in the form of \$31 in cash or 0.9509 of a share of Microsoft common stock. Microsoft would provide each Yahoo! shareholder with the ability to choose whether to receive the consideration in cash or Microsoft common stock, subject to pro-ration so that in the aggregate one-half of the Yahoo! common shares will be exchanged for shares of Microsoft common stock and one-half of the Yahoo! common shares will be converted into the right to receive cash. Our proposal is not subject to any financing condition.

Our proposal represents a 62% premium above the closing price of Yahoo! common stock of \$19.18 on January 31, 2008. The implied premium for the operating assets of the company clearly is considerably greater when adjusted for the minority, non-controlled assets and cash. By



whatever financial measure you use — EBITDA, free cash flow, operating cash flow, net income, or analyst target prices — this proposal represents a compelling value realization event for your shareholders.

\*\*\*\*\*

Microsoft's consistent belief has been that the combination of Microsoft and Yahoo! clearly represents the best way to deliver maximum value to our respective shareholders, as well as create a more efficient and competitive company that would provide greater value and service to our customers. *In late 2006 and early 2007, we jointly explored a broad range of ways in which our two companies might work together. These discussions were based on a vision that the online businesses of Microsoft and Yahoo! should be aligned in some way to create a more effective competitor in the online marketplace. We discussed a number of alternatives ranging from commercial partnerships to a merger proposal, which you rejected. While a commercial partnership may have made sense at one time, Microsoft believes that the only alternative now is the combination of Microsoft and Yahoo! that we are proposing.*

In February 2007, I received a letter from your Chairman indicating the view of the Yahoo! Board that “now is not the right time from the perspective of our shareholders to enter into discussions regarding an acquisition transaction.” According to that letter, the principal reason for this view was the Yahoo! Board's confidence in the “potential upside” if management successfully executed on a reformulated strategy based on certain operational initiatives, such as Project Panama, and a significant organizational realignment. *A year has gone by, and the competitive situation has not improved.*

\*\*\*\*\*

*Due to the importance of these discussions and the value represented by our proposal, we expect the Yahoo! Board to engage in a full review of our proposal. My leadership team and I would be happy to make ourselves available to meet with you and your Board at your earliest convenience.* Depending on the nature of your response, Microsoft reserves the right to pursue all necessary steps to ensure that Yahoo!'s shareholders are provided with the opportunity to realize the value inherent in our proposal.

We believe this proposal represents a unique opportunity to create significant value for Yahoo!'s shareholders and employees, and the combined company will be better positioned to provide an enhanced value proposition to users and advertisers. We hope that you and your Board share our enthusiasm, and we look forward to a prompt and favorable reply.

Sincerely yours,

Steven A. Ballmer

(Emphases added)

52. Analysts have hailed Microsoft's bid as a "gift" for Yahoo shareholders. Dave Stepherson of Hardesty Capital Management, for example, actually criticized Microsoft's bid for Yahoo as *too high* for a company whose sales growth is stagnating. Georges Yared of Yared Investment Research was more poetic – he called the offer a "gift from heaven" for Yahoo shareholders.

**E. Yahoo's Poison Pill Is A Pre-Existing Hurdle Preventing Yahoo's Shareholders From Accepting Microsoft's Bid Independent Of The Board**

53. In the face of the Yahoo Board's refusal to enter friendly negotiations of a possible deal, Microsoft had little choice but to make its January 31, 2008 letter to the Yahoo Board public. Due to a revised shareholder rights plan, or "poison pill" initiated in 2001 and amended in 2005, Microsoft had to bring its offer to the Yahoo Board and could not go directly to the shareholders, under the terms of the plan.

54. Yahoo's pill would be triggered if Microsoft acquired 15% of the outstanding shares in a tender offer, and would allow rights-holders to purchase a determined number of shares per right, exponentially increasing the total number of Yahoo shares outstanding. However, the shareholder rights plan has a provision that states that the pill will not be triggered if the acquisition event is one that is approved by the Yahoo Board. Thus, for Microsoft to proceed with a tender offer, the Yahoo Board first must take the necessary action to "redeem" (or cancel) the Company's poison pill.

55. As discussed below, the Yahoo Board adopted a “just say no” posture, refusing to redeem the pill in response to Microsoft’s offer, and formally rejecting the Microsoft offer on February 11, 2008. Further, recognizing that the existence of the poison pill will force Microsoft to remove the entire Board at the next annual election (so that a more reasonable board can act solely for the shareholders’ interests), the Yahoo Board is pursuing various transactions that would be consummated before any shareholder vote or would otherwise irreparably impair the ability of Yahoo’s shareholders to obtain the maximum value that Microsoft – or any other bidder – is willing to pay.

**F. Yahoo Pursues An “Anyone But Microsoft” Approach, Seeking Defensive Options To Thwart Microsoft At The Expense Of Yahoo Shareholders**

56. In response to Microsoft’s February 1, 2008 offer, Yahoo said it would take some time to evaluate the offer. The Company posted in a brief FAQ section on its website that the process “will include evaluating all of the Company’s strategic alternatives – including maintaining Yahoo as an independent company.” Defendant Yang said in an email on February 6, 2008 that no decision had been made about Microsoft’s proposal: “the board is focused on maximizing the value of [Y]ahoo!’s tremendous assets for our shareholders. And it is going to take the time it needs to do it right.” Spokesmen for Yahoo repeated statements that the Board is “thoroughly evaluating the Microsoft proposal in the context of all the company’s strategic alternatives.”

57. Despite its commitment to “consider” Microsoft’s offer, the simple truth is that Defendant Yang and his loyalists on the Yahoo Board never had any intention to negotiate with Microsoft in good faith. Indeed, the Yahoo Board’s supposed commitment to “consider” Microsoft’s proposal appears to have been a hollow promise. The Yahoo Board had a meeting on February 8 without including any investment bankers in the discussion.

58. The next day, however, Saturday, February 9, 2008, news leaks indicated that the Yahoo Board would in fact reject Microsoft’s offer. The *New York Times* reported that Google CEO Eric Schmidt called Defendant Yang over February 2-3 to offer help in fending off Microsoft. Over that same weekend, top Google executives started making “back-channel” calls to allies at TimeWarner, who owns AOL, to see if they were planning on making a rival offer and how Google could assist them.

59. The Yahoo Board formally rejected Microsoft’s offer on Monday, February 11, 2008. The Yahoo Board stated that it had concluded that Microsoft’s offer “substantially undervalues” the Company, saying “[t]he board of directors is continually evaluating all of its strategic options in the context of the rapidly evolving industry environment and we remain committed to pursuing initiatives that maximize value for all stockholders.”

60. Critically, although Defendant Yang has said that the Board’s rejection of Microsoft was unanimous, it appears that Yang’s desperate effort to refuse even to negotiate with Microsoft has caused a division in the Yahoo Board among Yang’s long-

standing loyalists, and the newcomers to the Yahoo Board who bear no personal animus against Microsoft. Defendant Yang, however, continues to control the debate.

61. On February 15, 2008 the *New York Post* reported that “friction” had developed on the Yahoo Board over Microsoft’s offer due to Defendant Yang’s determination to keep the company he founded independent. Reportedly, Defendant Yang and his followers on the board are letting their emotions get the best of them:

While Yahoo! Chief Jerry Yang desperately seeks an alternative to Microsoft’s \$44.6 billion hostile takeover, an independent group of Yahoo!’s board members are taking the lead in shaping the company’s future.

The informal group is being led by Yahoo! Chairman Roy Bostock and includes other board members and billionaire Ron Burkle.

The friction on the board centers on ***Yang and his board loyalists, who are so opposed to Microsoft’s offer than the independent committee is worried that the Yang group might act out of emotion rather than their fiduciary duty***, thereby exposing the board to shareholder lawsuits.

According to one source close to the situation, “The emotional part of Yang would rather do anything but sell to Microsoft, but he doesn’t have the cards to come up with a value-creating, competitive alternative for shareholders.”

*See Board Bucks Yang*, Kouwe, Zachery and Lauria, Peter; *New York Post* (February 15, 2008) (emphasis added).

62. Regardless of their emotional ties to Yahoo and their desire to retain their positions as directors at the Company, the Yahoo Directors owe fiduciary duties to Yahoo and its shareholders. In this regard, the *New York Post* further reported:

“While Yahoo!’s board has a fiduciary duty to maximize shareholder returns, running the risk of derailing a deal is dangerous to Yahoo! shareholders,” said Jefferies analyst Youssef Squali.

“We believe Yahoo! would have to show substantial re-acceleration in revenue growth and margin expansion for the stock to be back

substantially above \$30 – something that requires a leap of faith today – if it were to stay independent,” he [Mr. Squali] said.

“There just as emotional as Jerry and as biased against selling to Microsoft as he is,” this source said of Hippeau and Kotick.

*Id.*

63. Other recent press reports indicate that Defendant Yang is doing everything in his power to keep the Company he founded independent. “Former Yahoo employees who know Yang have no doubt he is exhausting all avenues that might allow his company to escape Microsoft’s clutches. ‘Jerry bleeds purple and gold (Yahoo’s corporate colors),’ said Rob Solomon, a former Yahoo executive who spent six years at the company before leaving in 2006. ‘He always envisioned building a company that would be around for 100 years, not just 14 years.’” Michael Liedtke, *Yahoo CEO hoping to thwart Microsoft*, Feb. 6, 2008, (available at [http://news.yahoo.com/s/ap/20080206/ap\\_on\\_hi\\_te/microsoft\\_yahoo](http://news.yahoo.com/s/ap/20080206/ap_on_hi_te/microsoft_yahoo)).

**G. Yahoo Pursues Google and AOL as a Defensive Tactic Designed to Thwart a Microsoft Takeover**

64. After receipt of Microsoft’s recent offer but prior to renewing discussions with News Corp., the Yahoo Board signaled its true intent – to keep the Company independent regardless of the long term interests of the Company and its shareholders – by indicating Yahoo intended to acquire AOL as an alternative to being acquired by Microsoft. Any proposed Yahoo/AOL deal must be seen for what it is – an obvious defensive tactic designed to thwart any Microsoft takeover.

65. Prior negotiations between Yahoo and AOL failed in 2006 due to the two sides’ inability to agree upon price. Since then, both companies have floundered

financially. In light of AOL's ongoing troubles, TimeWarner announced that it was considering splitting AOL into two separate divisions in order to make it easier to sell AOL's floundering access business.

66. The Yahoo Directors' renewed interest in AOL is plainly a defensive tactic designed to further lever Yahoo with a costly asset that has little potential for creating long term shareholder value. Moreover, because the Yahoo Directors' decision to enter talks with TimeWarner to purchase its AOL division occurred *after* Microsoft's February 1, 2008 announced acquisition offer, the decision must pass scrutiny as an appropriate defensive response under *Unocal* and its progeny before the protections of the business judgment rule may be conferred.

67. Financial commentators have criticized the Yahoo Directors' decision to enter talks with AOL. "[T]he thought of Yahoo trying to merge with AOL just smacks of desperation." Paul R. La Monica, *Yahoo Gets Desperate, Investors must hope the search engine is trying to squeeze more cash out of microsoft because a purchase of aol doesn't make sense*, CNNMoney.com, Feb. 11, 2008, available at <http://money.cnn.com/2008/02/11/markets/morningbuzz/?postversion=2008021113>. Mr.

La Monica goes on to write:

Sure, as our sister publication *Fortune* reported back in 2006, Yahoo and AOL were at one time in talks to merge. But a deal now is not something that would lead to a bigger, better Yahoo – ***it is merely a 2008 version of the old 1980s style of scorched earth takeover defenses.***

Yahoo would be purchasing a struggling asset [AOL] that doesn't necessarily improve Yahoo's chances of surpassing industry leader Google (GOOG, Fortune 500).

When Time Warner announced last week that it was splitting AOL into two, the thought was that this would make it easier for Time Warner to eventually sell off the floundering access business of AOL. ***Adding this side of AOL to Yahoo would be the proverbial two wrongs not making a right.***

*Id* (emphasis added).

68. Further, the Editor at Large for CNNMoney.com also questioned why Yahoo investors should have any reason to trust that the Company's management would do a better job of managing AOL than TimeWarner has:

After all, Yahoo is a company that has made numerous acquisitions in the past few years.

And despite having bought - take a deep breath - GeoCities, Broadcast.com, Inktomi, Overture Services, HotJobs, MusicMatch and Flickr, just to name a few, Yahoo still trails Google in the online advertising market. ***Why should investors have any reason to believe that Yahoo-AOL (YAOL? AOL-hoo?) would be a more formidable competitor to Google?***

*Id* (emphasis added).

**H. Yahoo Seeks to Structure a Deal With News Corp. In Order to Thwart Microsoft by Circumventing any Shareholder Vote**

69. Recently, on February 13, 2008, *The Wall Street Journal* ("WSJ") announced that News Corp. (NWS) and Yahoo commenced discussions about combining the online service MySpace and other News Corp. owned properties with Yahoo. According to the *Wall Street Journal*, these discussions are "aimed at helping Yahoo fend off Microsoft Corp's (MSFT) \$44.6 billion unsolicited takeover offer." Jessica Vascellaro, *WSJ: News Corp in Talks With Yahoo On Combining Internet Ops*, *The Wall Street Journal*, Feb. 13, 2008.



70. Reportedly, the deal discussed would include a contribution of cash from News Corp. and a private-equity firm and News Corp. would receive a stake in Yahoo of approximately 20%. *Id.* Although a similar deal had reportedly been discussed previously, such talks broke down over the parties' inability to agree upon the value of the MySpace online property, which impacts the size of the stake News Corp. would get in Yahoo. *Id.*

71. The proposed deal with News Corp. is designed to deprive Yahoo's shareholders of the opportunity to vote on Microsoft's superior offer. Although the exact size of the stake News Corp. would receive in Yahoo has not been confirmed, *The Wall Street Journal* reported, based on unnamed sources, that a likely scenario is that Yahoo would issue 19.99% of its stock or less to News Corp. According to the February 14, 2008 report by *The Wall Street Journal*:

News Corp. Executives have ruled out a bid for all of Yahoo. And the deal on the table is an asset swap that News Corp. hopes would put a high valuation on MySpace and other News Corp.-owned web sites.... News Corp. ... is likely to push for MySpace to be valued at more than \$10 billion, according to people familiar with the matter. The exact size of the stake News Corp. would get in Yahoo isn't clear, but ***people close to the situation point out that if News Corp.'s stake was limited to 19.9% or less, Yahoo wouldn't have to put the deal to its shareholders for approval.***

*Jessica E. Vascellaro, Yahoo, News Corp. in Talks Amid Microsoft Bid*, *The Wall Street Journal Online*, Feb. 14, 2008 (emphasis added).

72. In order to effectuate the transaction immediately upon signing, or as promptly as possible after signing, News Corp. and Yahoo may also agree to structure the transaction without any financing contingencies.

73. Without the need to obtain shareholder approval or satisfy financing contingencies, the Yahoo Board will be in position to rapidly foreclose Microsoft's superior offer at the expense of Yahoo and its shareholders. The Yahoo Directors should be enjoined from doing so because, as alleged in detail herein, they have allowed their own inflated egos and self interest impair their ability to assess the true value presented by Microsoft's latest acquisition offer.

74. Commentators continue to question the Yahoo Directors' decision to outright reject Microsoft's offer. "The rejection may raise eyebrows, since Microsoft's bid proposal valued Yahoo! at a 62 per cent premium to its closing price the day before the offer was made public on February 1." Siobhan Kennedy and Suzy Jagger, *Yahoo! set to revive merger talks with AOL after rejecting hostile takeover*, TimesOnline, Feb. 11, 2008, (Times Newspapers Ltd. 2008). Such criticism is supported by the fact that, "Yahoo! has suffered eight consecutive quarters of profit decline. Critically, it has also lost part of its share of the \$40 billion online advertising market to Google, its dominant rival." *Id.*

75. Finally, Yahoo's own investors have voiced their displeasure with the Yahoo Directors' decision to further entrench itself by refusing to negotiate for the sale of the Company. A group called "Yahoo Plan B" is working to convince shareholders to sell out to whichever group comes out with the best offer. The group's website claims it consists of 100 current and former Yahoo employees who own 2.1 million shares. The group said it plans to vote as a block and will negotiate separately with Microsoft or any other bidder, according to a blog by the group's founder, Eric Jackson.

We have no desire to see Yahoo! continue independently with the current board and management team in place," said the blog. "We believe that is a recipe for a \$17 stock price. Therefore, we will band together as a group and agree to sell our Yahoo! shares to the highest bidder.

Peter Moreira, *Yahoo! Rebuffs Microsoft*, The Deal.com, Feb. 11, 2008 (The Deal, LLC 2008). Jackson led the push against the Company's former CEO Terry Semel at Yahoo's annual meeting in June of 2007, accusing Semel of mismanaging the Company and failing to do more to revive its share price.

76. However, shareholder "self-help" efforts may well die on the vine if, as threatened, the Yahoo Board defeats Microsoft's overtures by hastily acquiring AOL or reaching an agreement with News Corp. in order to alter Yahoo's balance sheet beyond anything Microsoft would buy. Accordingly, this Court should preserve the status quo by preventing the Yahoo Board from acting to consummate any AOL or News Corp. transaction that does not require shareholder approval.

**I. The Yahoo Board Secretly Grants Expensive "Golden Parachutes" To Every One Of Its Employees**

77. On February 19, 2008, Yahoo filed with the SEC a Form 8-K which disclosed that the Compensation Committee of Yahoo's Board had approved two "change in control" severance plans (the "Severance Plans"), *as early as February 12, 2008* (the day after the Board rejected Microsoft's bid). Together, these plans cover *all full time employees* of Yahoo, including the Company's Chief Executive Officer, Chief Financial Officer and other executives.

78. The Severance Plans offer all of Yahoo's employees enhanced severance packages (worth up to two years' salary for top executives and a minimum of four months to all employees) if they are laid off following a change in control of Yahoo.

79. Under the enhanced Severance Plans, all eligible Yahoo employees who are terminated without cause, or who quit their job for "good reason," within two years after a change of control are entitled to a continuation of salary for four months to two years. They will also be entitled to reimbursement for outplacement services. Additionally, all stock options, restricted stock units and other equity-based awards would be subject to accelerated vesting if an employee were terminated without cause or quit for "good reason," according to the filing.

80. The Dow Jones Newswire reports that the Severance Plans are unusual in that they apply a "good-reason" walk-away provision throughout the entire Company, citing executive-compensation consultant Pearl Meyers, senior managing director at Steven Hall & Partners. Scott Morrison, *Yahoo Change-In-Control Plans Cover All Employees*, Dow Jones Newswires, Feb. 20, 2008. Such "good reason" walk-away provisions are typically limited to select groups of executives, ***not all employees***. The Dow Jones Newswire report concludes, "The scope of Yahoo's plan could make it more expensive for Microsoft to restructure Yahoo's operations should the software company win control of the Internet company."

81. The creation of the Severance Plans are part of an effort to thwart Microsoft. They cannot be reconciled with Yahoo's admission, on January 29, 2008, that it had a bloated workforce and would be cutting 1,000 jobs, or 7.1 percent of its

workforce. Microsoft plans on saving as much as \$1 billion a year with the Yahoo purchase by taking advantage of the companies' synergies. Laura Martin, an analyst at Soleil Securities, said of the Severance Plans, "it makes it more expensive for a potential acquirer to come in and cut costs. It makes it less attractive to Microsoft."

82. It has been estimated by a market commentator that the Severance Plan would cost an acquirer at least \$1 billion, and up to \$3 billion when one considers the value of the options, plus the dilution that would result from the issuance of 100 million new shares, plus the cash severance payment from a layoff of one-fourth of Yahoo's staff. That \$1 - \$3 billion estimate is equivalent to approximately 2% to 7% of the total value of the Microsoft proposal – or approximately an extra \$0.70 to \$2.00 per share.

**J. The Yahoo Board Needs to Avoid a Shareholder Vote With Microsoft's Proxy Fight Looming**

83. On February 19, 2008, with the Yahoo Board still looking to engage anybody but Microsoft, the media reported that Microsoft – which may be willing to raise its bid in a negotiation context – is preparing to launch a proxy fight in the absence of a negotiating partner. An article in *Fortune* online, entitled "Microsoft Readies Assault on Board," explained:

The software giant is poised to take its takeover bid of more than \$40 billion directly to Yahoo (YHOO) shareholders, overthrowing a Yahoo board of directors that dismissed the offer as too low. Microsoft executives hope that by forcing a shareholder vote, they can get speedier regulatory approval and avoid having to fork over billions more for Yahoo.

Microsoft would not officially comment about its next moves. ***But the company has retained a proxy firm to round up shareholder support, and a source familiar with the company's plans said Microsoft is indeed preparing to replace Yahoo's board and smooth the way for a takeover.***

\*\*\*\*

But will Microsoft still have to raise its bid to get Yahoo? The company is doing its best to avoid it. Microsoft Chairman Bill Gates pointed out that Yahoo hasn't gotten any better deals, telling the Associates Press this week: "We think that's a fair offer. They should take a hard look at it."

Indeed, Microsoft has a lot to lose by raising its bid too far. Even offering an extra \$1 per share would cost about \$1.4 billion, whereas waging a proxy fight would cost only about \$30 million, one insider said. And since some large Microsoft shareholders already feel that the company is overpaying for Yahoo, it's no surprise that executives aren't waving more dollar bills around.

(emphases added)

84. The Yahoo Board is facing imminent ouster for its failures in managing the business and its unreasonable refusal to give fair consideration to Microsoft's bid. An imminent proxy fight necessitates judicial intervention since it poses a deadline for Yahoo's board to place shares in friendly hands.

#### **CLASS ACTION ALLEGATIONS**

85. Plaintiffs bring this action pursuant to Rule 23 of the Rules of the Court of Chancery, individually and on behalf of all other holders of Yahoo common stock (except defendants herein and any persons, firm, trust, corporation or other entity related to or affiliated with them and their successors in interest) who are or will be threatened with injury arising from defendants' wrongful actions, as more fully described herein (the "Class").

86. This action is properly maintainable as a class action.

87. The Class is so numerous that joinder of all members is impracticable. The number of shares of common stock of Yahoo outstanding as of October 31, 2007, Yahoo's most recent quarterly filing, was 1.336 billion. Plaintiffs believe there are

thousands, if not hundreds of thousands, of beneficial holders of Yahoo stock, including investors spread around the world.

88. There are questions of law and fact which are common to the Class and which predominate over questions affecting any individual class member. The common questions include, *inter alia*, the following:

- a. Whether the Yahoo Directors have fulfilled, and are capable of fulfilling, their fiduciary duties to Plaintiffs and the other members of the Class, including their duties of loyalty, due care, and candor;
- b. Whether the Yahoo Directors are engaging in self-dealing in connection with the offers from Microsoft for an acquisition transaction;
- c. Whether the Yahoo Directors are unjustly enriching themselves and other insiders or affiliates of Yahoo;
- d. Whether the refusal by the Yahoo Directors to consider and respond in good faith to the offers by Microsoft to acquire Yahoo is entirely fair to the members of the Class;
- e. Whether potential defensive measures, including a poison pill, considered and/or implemented by the Yahoo Directors and designed to make an acquisition transaction more difficult or costly for a potential acquirer are reasonable under the circumstances and/or fair to members of the Class;
- f. Whether the Defendants have disclosed all material facts in connection with their decision not to consider and respond in good faith to acquisition offers which are in the best interest of members of the Class; and
- g. Whether Plaintiffs and the other members of the Class would be irreparably damaged if the Defendants are not compelled to consider and respond in good faith to the Microsoft offer.

89. Plaintiffs anticipate that there will be no difficulty in the management of this litigation as a class action.

90. The Yahoo Directors have acted on grounds generally applicable to the Class with respect to the matters complained of herein, thereby making appropriate the

relief sought herein with respect to the Class as a whole. To the extent the Yahoo Directors continue their refusal to consider and respond in good faith to the acquisition transaction offers or adopt defensive measures to make such an acquisition more difficult or costly to Microsoft or any other potential acquirer, preliminary and final injunctive relief on behalf of the Class as a whole will be entirely appropriate.

91. Plaintiffs are committed to prosecuting this action and have retained competent counsel experienced in litigation of this nature. Plaintiffs' claims are typical of the claims of the other members of the Class and Plaintiffs have the same interests as the other members of the Class. Accordingly, Plaintiffs are an adequate representative of the Class and will fairly and adequately protect the interests of the Class.

92. The prosecution of separate actions by individual members of the Class would create the risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for defendants, or adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of the other members not parties to the adjudications or substantially impair or impede their ability to protect their interests.

### **CLAIMS FOR RELIEF**

#### **COUNT I**

#### **(Breach of Fiduciary Duty Against the Yahoo Directors)**

93. Plaintiffs reallege each and every allegation above as if set forth in full herein.



94. The Yahoo Directors owe the Class the utmost fiduciary duties of due care, good faith, and loyalty. The Yahoo Directors have failed to consider and respond in good faith to the acquisition offers by Microsoft to the detriment of Yahoo and its shareholders. Despite the failure of their restructuring initiatives, the Yahoo Directors have given no indication of intent to conduct any legitimate negotiations with Microsoft.

95. The Yahoo Directors have a duty not to adopt, implement or maintain any defensive measures, such as the Severance Plans or the poison pill, designed to make the acquisition of Yahoo unduly burdensome or expensive for a potential suitor. They are obligated to refrain from entering into any agreements that would either harm the Company or its shareholders or inhibit the Yahoo Directors' ability to maximize shareholder value. Given the substantial premium offered by Microsoft, there is no threat posed to Yahoo or its shareholders by the offer. Moreover, because the Yahoo Directors had sufficient time to implement any contemplated restructuring and explore alternative value-maximizing transactions (over a year), any legitimate purpose afforded the Company's poison pill has expired, thus requiring its redemption by the Yahoo Directors.

96. As a result of the foregoing, the Yahoo Directors have breached their fiduciary duties to Yahoo and its shareholders, including the obligations of loyalty, good faith, fair dealing, and due care, causing harm to Plaintiffs and the Class.

97. Plaintiffs and the Class have no adequate remedy at law.

### **RELIEF REQUESTED**

**WHEREFORE**, Plaintiffs demand judgment as follows:

- (a) Declaring this action properly maintainable as a class action;

(b) Declaring that the Individual Defendants' conduct of refusing to consider and respond in good faith to offers to acquire Yahoo, including the offers made by Microsoft, is in breach of the Yahoo Directors' fiduciary duties of loyalty, good faith, fair dealing, and due care;

(b) Preliminarily and permanently enjoining the Yahoo Directors from placing their own interests ahead of those of Yahoo and its shareholders by refusing to consider and respond in good faith to acquisition offers that would maximize value to Yahoo's shareholders;

(c) Preliminarily and permanently enjoining the Yahoo Directors from entering into any contractual agreements that inhibit the Yahoo Directors' ability to maximize shareholder value;

(d) Preliminarily and permanently enjoining the Yahoo Directors from initiating any defensive measures which may render the acquisition of the Company more burdensome or expensive for a potential acquirer;

(e) Ordering the Yahoo Directors to rescind or redeem the poison pill and/or declaring the poison pill invalid;

(f) Invalidating the Severance Plans;

(g) Awarding Plaintiffs the costs and disbursements of this action, including attorneys', accountants', and experts' fees; and

(h) Awarding such other and further relief as is just and equitable.

OF COUNSEL:

Mark Lebovitch

Brett M. Middleton

BERNSTEIN LITOWITZ BERGER  
& GROSSMANN LLP

1285 Avenue of the Americas

New York, New York 10019

(212) 554-1400

Dated: February 21, 2008

/s/ Joel Friedlander

Andre G. Bouchard (Bar No. 2504)

David J. Margules (Bar No. 2254)

Joel Friedlander (Bar No. 3163)

Evan O. Williford (Bar No. 4162)

BOUCHARD MARGULES &  
FRIEDLANDER, P.A.

222 Delaware Avenue, Suite 1400

Wilmington, Delaware 19801

(302) 573-3500

*Counsel for Plaintiffs Police & Fire Retirement  
System of the City of Detroit and the General  
Retirement System of the City of Detroit*

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

POLICE AND FIRE RETIREMENT SYSTEM  
OF THE CITY OF DETROIT and GENERAL  
RETIREMENT SYSTEM OF THE CITY OF  
DETROIT, on behalf of themselves and all other  
similarly situated shareholders of Yahoo! Inc.,

Plaintiffs,

v.

C.A. No.

YAHOO! INC., JERRY YANG, ROY  
BOSTOCK, RON BURKLE, ERIC HIPPEAU,  
VYOMESH JOSHI, ARTHUR KERN, ROBERT  
KOTICK, EDWARD KOZEL, MAGGIE  
WILDEROTTER, AND GARY WILSON,

Defendants.

VERIFICATION

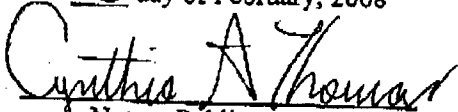
STATE OF MICHIGAN )

COUNTY OF WAYNE ) ss.

I, Ronald Zajac, General Counsel for plaintiffs the Police & Fire Retirement System of the City of Detroit and the General Retirement System of the City of Detroit, being duly sworn, depose and say that I am authorized to make this verification on behalf of plaintiffs, that I have read the foregoing Verified Class Action Complaint, and that the factual statements contained therein are true to the best of my knowledge, information and belief.

  
Signature

Sworn to and subscribed before me  
this 20 day of February, 2008

  
Notary Public

(BMF-W0084475.)

CYNTHIA A. THOMAS  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES May 30, 2011  
ACTING IN COUNTY OF Wayne