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SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SANTA CLARA

PATRICIA SPAIN, derivatively on behalf of Yahoo! Inc., Plaintiff, vs. MARISSA MAYER, DAVID FILO, ERIC BRANDT, MAYNARD WEBB, JR., TOR BRAHAM, CATHERINE FRIEDMAN, EDDY HARTENSTEIN, RICHARD HILL, THOMAS MCINERNEY, JANE E. SHAW, JEFFREY SMITH, RONALD S. BELL, KENNETH A. GOLDMAN, SUSAN M. JAMES, H. LEE SCOTT, JR., VERIZON COMMUNICATIONS INC. Defendants, and YAHOO! INC., Nominal Defendant.	Case No.: **17CV307054** SHAREHOLDER CLASS ACTION AND DERIVATIVE COMPLAINT FOR BREACH OF FIDUCIARY DUTIES DEMAND FOR JURY TRIAL

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Plaintiff Patricia Spain, by and through her undersigned attorneys, hereby submits this verified Shareholder Class Action and Derivative Complaint against certain directors and officers of nominal defendant Yahoo! Inc. ("Yahoo" or the "Company"), in connection with their breaches of fiduciary duties. In support of these claims, Plaintiff alleges the following (1) upon personal knowledge with respect to the matters pertaining to herself; and (2) upon information and belief with respect to all other matters, based upon, *inter alia*, the investigations undertaken by her counsel. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth below after a reasonable opportunity for discovery.

I. NATURE AND SUMMARY OF THE ACTION

1. An Internet-based Fortune 500 company headquartered in Sunnyvale, California, Yahoo provides search, communication, and entertainment services to hundreds of millions of Internet users worldwide. It is estimated that Yahoo's websites attract a billion visitors per month. In connection with providing its Internet-based services, Yahoo collects and stores massive amounts of confidential, sensitive personal information with regard to its users, including their names, email addresses, telephone numbers, birth dates, gender, ZIP codes, occupations, industries, and personal interests.

2. This action asserts direct and derivative claims against the Individual Defendants for breaches of fiduciary duty, and direct claims against Verizon for aiding and abetting breach of fiduciary duty. Once valued at more than $44 billion, the Company is soon set to be acquired by Verizon for $4.48 billion, which, as set forth herein, reflects a recent $350 million price cut due to Yahoo's serious security problems over the past few years.

3. On July 23, 2016, Yahoo and Verizon announced the transaction pursuant to which Verizon Communications Inc. ("Verizon") will purchase Yahoo's operating assets (hereinafter the "Purchase Agreement").

4. The transaction is conditioned on a majority of Yahoo's shareholders voting in favor of the transaction. To that end, Yahoo and Verizon filed a Preliminary Proxy with the SEC on September 9, 2016 soliciting Yahoo's shareholders to vote in favor of two items: (1) the transaction

itself; and (2) golden parachute payments will be paid to certain of the Individual Defendants if the transaction is approved.

5. The Proxy was reviewed and approved by the entire Board, and signed by Defendants Marissa Mayer and Maynard Webb, Jr. The Proxy attached and incorporated a Stock Purchase Agreement and Reorganization Agreement (the "Stock Purchase Agreement") expressly representing, among other things, that there had been no security breaches of Yahoo's systems. The representations in the Stock Purchase Agreement were consistent with Yahoo's previous public filings, which made no disclosure of any security breaches of Yahoo's networks.

6. On September 22, 2016 — less than two weeks after the Proxy was filed, Yahoo issued a press release, announcing that, in 2014, the confidential, sensitive personal information of approximately 500 million Yahoo users — including names, email addresses, telephone numbers, birth dates, passwords, and security questions (referred to as "Personal Information" or "PI") — was stolen by online hackers:[1]

> A recent investigation by Yahoo has confirmed that a copy of *certain user account information was stolen from the company's network in late 2014* by what it believes is a state-sponsored actor. The account information may have included *names, email addresses, telephone numbers, dates of birth, hashed passwords* (the vast majority with bcrypt) and, in some cases, encrypted or unencrypted *security questions and answers*. The ongoing investigation suggests that stolen information did not include unprotected passwords, payment card data, or bank account information; payment card data and bank account information are not stored in the system that the investigation has found to be affected. Based on the ongoing investigation, Yahoo believes that *information associated with at least 500 million user accounts was stolen* and the investigation has found no evidence that the state-sponsored actor is currently in Yahoo's network.[2]

7. In this September 22, 2016 press release, Yahoo failed to disclose the point in time it discovered the data breach. ***The next day, on September 23, 2016, the Financial Times reported that Yahoo's Chief Executive Officer ("CEO") and director, Marissa A. Mayer had known about the data breach since at least July — around the time when the Verizon acquisition was***

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[1] AN IMPORTANT MESSAGE ABOUT YAHOO USER SECURITY, Sept. 22, 2016, *available at* https://yahoo.tumblr.com/post/150781911849/an-importantmessage-about-yahoo-user-security (last visited Mar. 3, 2017).

[2] All emphases are added unless otherwise noted.

announced.[3] On the same day, Verizon stated that it was first notified of Yahoo's 2014 data breach just two days before, on September 20, 2016.

8. Subsequent information has revealed that the data intrusion occurred in September 2014, was promptly discovered by Yahoo, and was internally code named the "Siberia Intrusion" by Yahoo – an apparent reference to the fact that Yahoo believed Russia to be behind the hack.[4]

9. Despite promptly discovering the "Siberia Intrusion" when it occurred in September 2014, Yahoo did not disclose the massive data breach at the time and did not notify its users of the intrusion.

10. Yahoo's delayed disclosure of the 2014 data breach reveals that (a) for two years, Yahoo failed to securely store its users' confidential, sensitive personal information; and (b) Yahoo failed to timely notify its users of the 2014 data breach. However, as demonstrated below, less than two months later Yahoo would make yet another belated disclosure admitting that it had been subject to a much more massive data breach in 2013 affecting over one billion users.

11. Two months later – late in the day on December 14, 2016 -- Yahoo disclosed that it had suffered yet another breach of user data in 2013 (the "2013 Breach") that compromised the personal information of over one billion Yahoo users – one of the largest information hacks in history. Yahoo said the 2013 Breach was twice as large as the September 2014 data breach. *See, e.g.,* Robert McMillan, "Yahoo Discloses New Breach of 1 Billion User Accounts," THE WALL STREET JOURNAL, Dec. 15, 2016.

12. The Individual Defendants knew about these data breaches, failed to timely disclose the data breaches, signed SEC filings falsely stating that they were not aware of any material data breaches, and then attempted to cover up the data breaches when news reports began to suggest that

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[3] Madhumita Murgia, Tim Bradshaw & David J. Lynch, *Marissa Mayer Knew of Yahoo Breach Probe in July*, FINANCIAL TIMES, Sept. 23, 2016, *available at* https://www.ft.com/content/d0d07444-81aa-11e6-bc52-0c7211ef3198 (last visited Mar. 3, 2017).

[4] After the data breach was belatedly disclosed two years later, it was reported that a hacker named 'Peace' had been claiming to sell leaked information on 200 million Yahoo users in hacker forums. This was allegedly the same hacker that was also selling LinkedIn leaked information and has claimed to be a former member of a Russian cybercrime organization.

data breaches may have occurred at Yahoo. Such conduct by directors constitutes bad faith and disloyal conduct which cannot be indemnified. As a result, the Defendants named herein face a substantial likelihood of liability and any demand on them to bring this case would be a futile and useless act. Plaintiff is therefore excused from making any demand prior to filing this complaint.

13. Moreover, the Individual Defendants engaged in self-dealing in connection with the failure to timely disclose the data breaches. First, some Individual Defendants sold Yahoo stock at inflated prices prior to disclosure of the data breaches. Second, Yahoo has foundered for years, significantly underperforming the market and failing to deliver results to its shareholders. Back in 2008, this attracted the attention of Microsoft, which offered to buy Yahoo for $33 per share. Defendant Filo, along with Jerry Yang, rejected the offer as too low and said they would not even consider any offer below $37. After a Saturday meeting in Seattle between Steve Ballmer, Filo, and Yang, Microsoft withdrew its offer. Yahoo's stock never surpassed $33 for the next five years. After surpassing this price in 2013 and 2014, Yahoo's stock price plummeted back down to below $29 per share in August 2015. At this point, Yahoo's Board and management basically threw in the towel, conceding that they could not increase revenues and profits in such a manner as to deliver any more value than what Microsoft had offered back in 2008. The Board had also failed to execute a planned tax-free distribution to shareholders of Yahoo's significant stake in Alibaba due to a failure to obtain a comfort letter from the IRS that such distribution would be tax-free.

14. When the Defendants were not able to deliver results, they sought to sell the Company. However, no suitors were willing to pay a premium price for Yahoo. Indeed, the offer from Softbank Japan that Yahoo received in 2016 offered no premium. As a result, Defendants were eventually forced to sell just part of Yahoo to Verizon in an asset sale. Despite being a mere asset sale, the Individual Defendants negotiated for themselves full "change of control" and "golden parachute" provisions that typically apply only in merger transactions.

15. Defendant Mayer alone was estimated in July 2016 to receive $122,578,795 in total compensation as a result of the closing of the Verizon deal. *See* Stephen Gandel, Marissa Mayer's

Payday Is Even More Insane Than You Think," FORTUNE, July 26, 2016.[5] Those estimates, however, were based on Yahoo's stock price as of July 25, 2016 of $38.76. Since then, Yahoo's stock has increased to $45.94 as of March 2, 2017, significantly increasing the value to be received by Mayer from exercising her stock options and restricted stock units.

16. In March 2017, Mayer was forced to forfeit her 2016 annual bonus because of her wrongdoing. In a post on Tumblr in March 1, 2017, Mayer wrote: "I am the CEO of the company and since this incident happened during my tenure, I have agreed to forgo my annual bonus and my annual equity grant this year and have expressed my desire that my bonus be redistributed to our company's hardworking employees, who contributed so much to Yahoo's success in 2016." However, the Board has still not forced Mayer to claw back or forfeit any of well over $122 million in severance benefits she will receive upon consummation of the asset sale to Verizon.

17. While Mayer's action might seem like a generous gesture, the hallmark of a true leader, a review of the company's SEC filing reveals another story. The same day that Mayer made her post on Tumblr, Yahoo filed its 2016 Annual Report. That filing reveals that, far from being some "gift" by Mayer to forfeit her 2016 annual bonus, she was involuntarily stripped of it by the Board: "In response to the Independent Committee's findings related to the 2014 Security Incident, the Board determined not to award to the Chief Executive Officer a cash bonus for 2016 that was otherwise expected to be paid to her," according to the filing. In another sentence, the filing states that it appears certain senior executives did not properly comprehend or investigate and therefore failed to act sufficiently upon the full extent of knowledge known internally by the company's information security team.

18. By failing to disclose the data breaches in connection with the press releases and SEC filings Yahoo made concerning the asset sale to Verizon, the Individual Defendants breached their fiduciary duties out of a desire to preserve their significant personal payments in the Verizon transaction.

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[5] Available at http://fortune.com/2016/07/26/marissa-mayers-verizon-yahoo-pay/ , last visited Mar. 3, 2017.

19. The Individual Defendants never did "come clean" voluntarily. Instead, Verizon asked Yahoo about the data breaches after the deal was signed, when information was brought to Verizon's attention that Yahoo may have been the subject of a significant hack or hacks. When Verizon brought the information to Yahoo's attention, the Individual Defendants had no choice but to publicly disclose the September 2014 data intrusion. Yahoo did not, however, disclose the 2013 data intrusion at the same time, and continues to assert that it only discovered the 2013 data breach on November 7, 2016 when it was contacted by law enforcement agents.

20. When Yahoo was forced to reveal the truth about the massive September 2014 data breach, Verizon continued its due diligence, which involved the review of substantial pages of Yahoo internal documents, meetings and interviews with Yahoo's executives, directors, and employees, and further investigation by Verizon's investment bankers and lawyers. As part of this due diligence, Verizon discovered that Yahoo's executives and directors had known about the 2014 data breach for years, but had failed to properly disclose and respond to the data intrusion, thus breaching their fiduciary duties.

21. Armed with knowledge of the significant breaches of fiduciary duty that had been committed by Yahoo's officers and directors, Verizon sought to use such information to gain a bargaining advantage in the negotiations. Verizon told Yahoo that the newly-discovered information constituted a "material adverse event" under the Purchase Agreement and thus told Yahoo it was considering canceling the deal or requiring significant concessions and an amendment of the deal. *See, e.g.,* "Verizon Sees Yahoo Data Breach as 'Material' to Takeover" THE WALL STREET JOURNAL, Oct. 13, 2016. *See also* "Verizon Puts Yahoo on Notice After Data Breach," THE WALL STREET JOURNAL, Oct. 13, 2016 (citing an Oct. 13, 2016 meeting at Verizon's Washington, D.C. office at which General Counsel Craig Silliman said it was "reasonable" to believe that Yahoo's 2014 data breach would constitute a "material adverse event" under the Purchase Agreement with Yahoo). *See also* David Jones, "Verizon Signals Cold Feet Over Yahoo Deal, ECOMMERCE TIMES, Oct. 17, 2016 (quoting Verizon General Counsel Craig Stillman as stating "I think we have a reasonable basis to believe right now that the impact is material, and we're looking

to Yahoo to demonstrate to us the full impact," he said. "If they believe that it's not, then they'll need to show us that."

22. As Verizon was digesting this new information, Yahoo dropped the further bombshell about the October 2013 Breach on December 14, 2016. *See, e.g.,* Elizabeth Weise, "It's New and It's Bad: Yahoo Discloses 1B Account Breach," USA TODAY, Dec. 14, 2016.

23. As the negotiations between Verizon and Yahoo unfolded, it was reported that Verizon was requesting a $250 million reduction in the purchase price. The additional negotiations regarding the deal also caused the parties to delay the closing date, which was originally schedule to occur in Q1 2017.

24. Ultimately, Verizon was able to utilize its knowledge of the significant breaches of fiduciary duty committed by Yahoo's officers and directors to obtain an even greater bargaining advantage – forcing Yahoo to reduce the purchase price by $350 million. By using its knowledge of the significant breaches of fiduciary duty that had been committed by Yahoo's officers and directors to gain a bargaining advantage in the negotiations, Verizon aided and abetted the breaches of fiduciary duty committed by the Individual Defendants.

25. There can be no doubt that that $350 million reduction in the consideration to be received by Yahoo in the asset sale was the direct result of a re-negotiation of the deal mandated by Verizon after the data breaches were disclosed. On February 28, 2017, Matt Ellis, Verizon Communications Inc.'s EVP and CFO, stated the following in response to a question from Morgan Stanley analyst Simon Flannery at the Morgan Stanley Technology, Media & Telecom Conference:

> **Simon Flannery**: ***So you have a new agreement on Yahoo where you've got a new purchase price;*** you've had some arrangements around the liabilities. Can you just update us on that and what's the timeline now to closing? Then what's the opportunity financially, both in terms of accretion but also in terms of the ability to drive digital advertising revenue, combine it with AOL, and so forth?
>
> **Matt Ellis**: If you read the announcement last week, ***we had the price renegotiation as a result of the breach***, as we also have a liability sharing arrangement as we go forward here so if there are future liabilities related to those breaches we will share in those. The original agreement would've assumed that we had all of those liabilities going forward.

26. Thus, Yahoo and its shareholders have been harmed in at least two distinct ways. First, Yahoo will receive $350 million less from Verizon. Second, Yahoo is being forced to assume more than half the liabilities resulting from the data breaches. It is actually much more than half because the Amended Purchase Agreement states that Yahoo is responsible for all the damages resulting from the SEC investigation and also the shareholder lawsuits which have been filed against Yahoo and its officers and directors. With respect to the liabilities surrounding the data breaches, as Matt Ellis of Verizon stated on February 28, 2017, any such liabilities were attributed to Verizon under the original Purchase Agreement. Thus, because of the Individual Defendants' wrongdoing, those costs are being reassessed to Yahoo.

27. The $350 million reduction in the purchase price is drastic when compared to the much smaller costs incurred by Yahoo to-date related to the data breach. According to Yahoo's 2016 Annual Report, filed March 1, 2017, Yahoo has spent $16 million on costs related to the data breach: "We recorded expenses of $16 million related to the Security Incidents in the year ended December 31, 2016, of which $5 million was associated with the ongoing forensic investigation and remediation activities and $11 million was associated with nonrecurring legal costs."

28. After concluding an internal investigation, the Board blamed the wrongdoing on Yahoo's main in-house counsel, Defendant Bell, and fired Bell, but did not take meaningful action against itself or other culpable executives. Yahoo's 2016 Form 10-K states: "Based on its investigation, the Independent Committee concluded that the Company's information security team had contemporaneous knowledge of the 2014 compromise of user accounts, as well as incidents by the same attacker involving cookie forging in 2015 and 2016. ***In late 2014, senior executives and relevant legal staff were aware that a state-sponsored actor had accessed certain user accounts by exploiting the Company's account management tool.*** The Company took certain remedial actions, notifying 26 specifically targeted users and consulting with law enforcement. While significant additional security measures were implemented in response to those incidents, ***it appears certain senior executives did not properly comprehend or investigate, and therefore failed to act sufficiently upon, the full extent of knowledge known internally by the Company's information***

security team. Specifically, as of December 2014, the information security team understood that the attacker had exfiltrated copies of user database."

29. As noted *supra*, Mayer was required to forfeit her 2016 bonus and 2017 stock award, but was not sued or held accountable for the massive damages caused to Yahoo. It is not apparent that the Board has taken any other meaningful action, and has not acknowledged its own liability in the matter. Instead, the Board largely just decided to throw Mr. Bell under the bus. *See* Kara Swisher, "Yahoo's head lawyer is taking the fall for its hacking, while CEO Marissa Mayer is getting her pay docked," RECODE, March 1, 2017 ("So when is the lawyer the one who gets dinged for hacking screw-ups? Never. Let's be clear, most people inside Yahoo think Mayer and the board should have shouldered the bulk of the blame for the breach.").

30. Ultimately, ***these significant liabilities will be directly borne by Yahoo's shareholders*** because of the unique nature of the Verizon deal. The deal is an asset sale, not a merger, and Yahoo is selling all its operating assets and businesses to Verizon but not its "non-operating assets" such as its significant stake in Alibaba and some of its patents. As a result Yahoo will cease to be an operating company after the Verizon deal closes and it will be solely a holding company, with its main assets consisting of the $4,475,800,000 in cash to be received from Verizon, the Alibaba shares, shares in Yahoo Japan, and patents. As a result, Yahoo will be forced to change its corporate structure to that of a holding company, and register as such under the Investment Company Act of 1940. Ultimately, Yahoo expects to liquidate the patents and its Alibaba stake and then distribute cash to Yahoo's shareholders. However, the amount to be received by Yahoo's shareholders will be directly reduced on a dollar-for-dollar basis by the $350 million reduction in the asset sale price that Yahoo has already been forced to accept plus the amount of liabilities it has to pay out for the data breach and shareholder lawsuit liabilities Yahoo has also been forced to assume.

31. Yahoo also faces many other types of damage from the Defendants' wrongdoing with respect to failing to timely disclose the data breaches. According to the Company's 2016 Annual Report filed on March 1, 2017, 43 consumer data breach class actions have been filed against Yahoo, and those cases have been centralized by the MDL in the Northern District of California. In

addition, the SEC has opened an investigation into the Company's disclosures, and a securities fraud class action has been filed against Yahoo and certain of its directors and officers in San Francisco. As Yahoo's 2016 Annual Report also admits, "In addition, the Company is cooperating with federal, state, and foreign governmental officials and agencies seeking information and/or documents about the Security Incidents and related matters, including the U.S. Securities and Exchange Commission ("SEC"), the U.S. Federal Trade Commission, the U.S. Attorney's Office for the Southern District of New York, and two State Attorneys General."

32. Through this shareholder direct and derivative action, Plaintiff seeks to recover from the Individual Defendants the damages caused to Yahoo and its shareholders.

II. JURISDICTION AND VENUE

33. This Court has jurisdiction pursuant to the California Constitution, Article IV, §10, and California Corporations Code §800.

34. Venue is proper in this Court because Yahoo has a substantial presence in California and is headquartered in Sunnyvale, California. Moreover, each defendant has extensive contacts with California as a director and/or officer of Yahoo or otherwise, which makes the exercise of personal jurisdiction over them proper.

III. THE PARTIES

35. Plaintiff Patricia Spain ("Plaintiff" and "Spain") is a current shareholder of Yahoo and has continuously owned Yahoo stock at all times relevant hereto.

36. Nominal Defendant Yahoo ("Yahoo") is a corporation duly organized and existing under the laws of the State of Delaware. Yahoo maintains its headquarters at 701 First Avenue, Sunnyvale, California. Yahoo is a multinational technology company known for its Web portal, search engine Yahoo! Search, and a wide variety of related Internet services.

37. Defendant Verizon Communications Inc. ("Verizon") is a corporation and is a broadband telecommunications company and the largest U.S. wireless communications service provider. Verizon is headquartered in New York, NY at 1095 Avenue of the Americas. On July 23, 2016, Verizon announced an agreement to purchase certain assets of Yahoo in a transaction that requires the approval of Yahoo's shareholders.

38. Defendant Marissa Mayer ("Mayer") is the CEO and President of Yahoo. Mayer has served as a member of the Board since July 2012.

39. Defendant David Filo ("Filo") is the Co-Founder of Yahoo. Filo has served as a member of the Board since June 2014. Filo is a substantial shareholder of Yahoo who owns 70,711,390, or 7.4%, of Yahoo's outstanding shares and thus is able to exert significant control and influence over Yahoo.

40. Defendant Ronald S. Bell ("Bell") was, until March 1, 2017, Yahoo's General Counsel. According to Yahoo's Proxy Statement, Bell became Yahoo's General Counsel in August 2012 and Secretary in July 2012 and served as a Vice President of Yahoo from 2001 until March 2017. Mr. Bell served as Yahoo's interim General Counsel in July 2012; Yahoo's Deputy General Counsel, Americas Region from March 2010 to July 2012; Yahoo's Deputy General Counsel, North America Region from January 2008 to March 2010; Yahoo's Deputy General Counsel, Transactions and Business Counseling from June 2001 to January 2008; and in various other positions in the Yahoo legal department from July 1999 to June 2001. Prior to joining Yahoo, Mr. Bell served as senior corporate counsel at Apple Computer, Inc. and as an associate at the law firm of Sonnenschein Nath & Rosenthal. Mr. Bell serves on the board of directors of Yahoo Japan Corporation, a Japanese Internet company. After an investigation by a committee of Yahoo's Board into the issues referenced in this complaint concerning Yahoo's 2013 and 2014 data breaches and the failure of Yahoo to disclose such breaches at the time they occurred and in connection with the announcement of the Purchase Agreement with Verizon, Mr. Bell was fired or asked to resign effective March 1, 2017.

41. Defendant Eric Brandt ("Brandt") is the Chairman of the Board since January 2017, and has served as a member of the Board since March 2016. Brandt is also the Chair of the Audit and Finance Committee of the Board.

42. Defendant Maynard Webb, Jr. ("Webb") is the Chairman Emeritus of the Board, and has been a member of the Board since February 2012. Webb served as interim Chairman of the Board from April 2013 to August 2013, and as Chairman of the Board from August 2013 to January

2017. Webb is also a member of the Compensation and Leadership Development Committee of the Board.

43. Defendant Tor Braham ("Braham") is a member of the Board since April 2016. Braham is also a member of the Audit and Finance Committee of the Board.

44. Defendant Catherine Friedman ("Friedman") is a member of the Board since March 2016. Friedman is also the Chair of the Nominating and Corporate Governance Committee, and a member of the Compensation and Leadership Development Committee of the Board.

45. Defendant Eddy Hartenstein ("Hartenstein") is a member of the Board since April 2016. Hartenstein is also a member of the Compensation and Leadership Development Committee of the Board.

46. Defendant Kenneth A. Goldman is the Chief Financial Officer of Yahoo and signed many of the false and misleading SEC filings which failed to disclose data breaches at Yahoo and which also falsely stated that Yahoo had effective internal controls in place regarding privacy, user data, and data breach security measures.

47. Defendant Richard Hill ("Hill") is a member of the Board since April 2016. Hill is also a member of the Nominating and Corporate Governance Committee of the Board.

48. Defendant Thomas McInerney ("McInerney") is a member of the Board since April 2012. McInerney is also a member of the Audit and Finance Committee of the Board.

49. Defendant Susan M. James ("James") was a member of Yahoo's Board of Directors from January 2010 until June 30, 2016. James signed several of the SEC filings which failed to disclose the 2014 data breach, including Yahoo's 2015 Annual Report. James served as Chair of Yahoo's Audit and Finance Committee until her resignation from the Board. Ms. James joined Ernst & Young LLP, a global accounting services firm, in 1975, serving as a partner from 1987 until her retirement in June 2006, and as a consultant from June 2006 to December 2009. During her tenure with Ernst & Young, she was the lead partner or partner-in-charge of audit work for a number of significant technology companies, including Intel Corporation, Sun Microsystems, Inc., Amazon.com, Inc., Autodesk, Inc., and Hewlett-Packard Company.

50. Defendant H. Lee Scott, Jr. ("Scott") was a member of Yahoo's Board of Directors from June 2014 until June 30, 2016. Scott signed several of the SEC filings which failed to disclose the 2014 data breach, including Yahoo's 2015 Annual Report.

51. Defendant Jane E. Shaw ("Shaw") is a member of the Board since June 2014. Shaw is also the Chair of the Compensation and Leadership Development Committee, and a member of the Nominating and Corporate Governance Committee of the Board.

52. Defendant Jeffrey Smith ("Smith") is a member of the Board since April 2016. Smith is also a member of the Compensation and Leadership Development Committee of the Board.

53. Collectively, Defendants Mayer, Filo, Brandt, Webb, Braham, Friedman, Hartenstein, Hill, McInerney, Shaw, Scott, James, Bell, Goldman, and Smith are referred to herein as the "Individual Defendants." All such defendants except Bell and Goldman are referred to as the "Director Defendants."

IV. CLASS ACTION ALLEGATIONS

54. Plaintiff brings this action individually and as a class action pursuant to California Code of Civil Procedure §382 on behalf of all current holders of Yahoo stock who are being and will be harmed by defendants' actions described below (the "Class"). Excluded from the Class are defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated with any defendants.

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

56. The Class is so numerous that joinder of all members is impracticable. According to Yahoo's SEC filings, there were 956,487,217 shares of Yahoo common stock outstanding as of February 10, 2017, held by 8,762 shareholders of record.

57. 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 Individual Defendants have breached their fiduciary duties of undivided loyalty, independence, or due care with respect to plaintiff and the other members of the Class in connection with the Verizon Purchase Agreement;

(b) whether defendants are engaging in self-dealing in connection with the Verizon Purchase Agreement;

(c) whether defendants have disclosed all material facts to Yahoo's shareholders in connection with soliciting their vote in support of the Verizon Purchase Agreement;

(c) whether the Individual Defendants have breached their fiduciary duty to secure and obtain the best value reasonable under the circumstances for the benefit of Yahoo and its shareholders in connection with the Verizon Purchase Agreement;

(d) whether defendants are unjustly enriching themselves and other insiders or affiliates of Yahoo;

(e) whether the Individual Defendants have breached any of their other fiduciary duties to plaintiff and the other members of the Class in connection with the Verizon Purchase Agreement, including the duties of good faith, diligence, honesty and fair dealing;

(f) whether the defendants, in bad faith and for improper motives, have preferred their own interests over those of Yahoo and its shareholders;

(g) whether plaintiff and the other members of the Class will suffer irreparable injury unless defendants' conduct is enjoined.

40. Plaintiff's claims are typical of the claims of the other members of the Class and plaintiff does not have any interests adverse to the Class.

41. Plaintiff is an adequate representative of the Class, has retained competent counsel experienced in litigation of this nature, and will fairly and adequately protect the interests of the Class.

42. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class which would establish incompatible standards of conduct for the party opposing the Class.

43. Plaintiff anticipates that there will be no difficulty in the management of this litigation. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

44. Defendants 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.

V. DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

58. Plaintiff also brings this action derivatively in the right and for the benefit of Yahoo to redress injuries suffered, and to be suffered, by Yahoo and its stockholders as a direct result of the breaches of fiduciary duty by the Individual Defendants.

59. Yahoo is named as a nominal defendant solely in a derivative capacity.

60. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

61. At the time this action was commenced, Yahoo's Board consisted of the following eleven (11) persons: Defendants Mayer, Filo, Brandt, Hill, Friedman, Smith, Shaw, McInerney, Braham, Webb, and Hartenstein.

62. Plaintiff has not made any demand on Yahoo to institute this action because such a demand would be a futile, wasteful, and useless act for the reasons set forth below.

A. Demand Is Futile as to Mayer and Filo Because They are Interested

63. Demand is futile as to Defendants Mayer and Filo because they are interested. Both Mayer and Filo sold substantial amounts of their personal Yahoo stock while in possession of material, non-public information about the data breaches. They profited by millions of dollars through such sales and thus have received an improper financial benefit.

64. Mayer and Filo are also interested because they will receive hundreds of millions of dollars in change of control payments upon consummation of the Verizon Purchase Agreement. Defendants Mayer and Filo secured these personal benefits to themselves, yet their wrongful conduct has harmed Yahoo by over $350 million since Verizon forced Yahoo to reduce the purchase price for the Yahoo assets by $350 million, in addition to requiring Yahoo to assume 50% of future liabilities relating to the data breaches, which obligations were originally ascribed to Verizon under the original version of the Purchase Agreement dated July 2016. After defendants' wrongdoing became public thereafter, Verizon and Yahoo signed an amended Purchase Agreement which forced Yahoo to pay for 50% of the data breach liabilities and 100% of all liabilities relating to shareholder lawsuits and SEC investigation related to the data breaches.

65. Despite causing Yahoo well over $366 million in damages to-date ($350 million in the reduced purchase price and $16 million in data breach investigation and remediation costs, as disclosed in Yahoo's 2016 Annual Report filed March 1, 2017), Mayer and Filo have not been required to forfeit any of the change of control and "golden parachute" payments they will receive upon completion of the Verizon Purchase Agreement. Because their wrongdoing caused the damages to Yahoo, Mayer and Filo should not be allowed to retain the full amount, or any, of their change of control and golden parachute payments. These improper financial benefits to Mayer and Filo make them interested in the subject matter of this action. As a result, demand is futile as to them.

66. Demand is also futile as to Mayer and Filo because they are members of Yahoo's management. As such, they rely upon their jobs at Yahoo for their income and are neither independent nor disinterested for the purpose of considering a demand. Yahoo itself concedes in its proxy statements filed with the SEC that Mayer and Filo are not independent directors.

67. Filo is also interested and not independent because he is a substantial shareholder of Yahoo who owns 70,711,390, or 7.4%, of Yahoo's outstanding shares and thus is able to exert significant control and influence over Yahoo and the Board.

B. Demand Is Futile as to the Entire Board Because They Acted in Bad Faith and Breached Their Duty of Candor by Actively Concealing the Data Breaches

68. The entire Board is ***interested*** because Yahoo is currently subject to ongoing investigations by the SEC, DOJ, and state attorney generals. The Company's 2016 Form 10-K, filed March 1, 2017 states: "The Company is cooperating with federal, state, and foreign governmental officials and agencies seeking information and/or documents about the Security Incidents and related matters, including the U.S. Securities and Exchange Commission ("SEC"), the U.S. Federal Trade Commission, the U.S. Attorney's Office for the Southern District of New York, and two State Attorneys General." Given the ongoing nature of these investigations, none of the current Board members can objectively consider a demand to sue themselves since suing themselves could subject them to potential criminal liability in the DOJ investigation, and substantial civil damages in the

SEC, foreign, and state attorney general investigations. The pendency of an active DOJ investigation makes this case particularly unique given the directors' potential for criminal liability.

69. Indeed, the Board itself conducted an internal investigation and determined that senior executives had actual knowledge of the 2014 data breach yet failed to timely disclose the breach or take appropriate action. Yahoo's 2016 Form 10-K states: "Based on its investigation, the Independent Committee concluded that the Company's information security team had contemporaneous knowledge of the 2014 compromise of user accounts, as well as incidents by the same attacker involving cookie forging in 2015 and 2016. ***In late 2014, senior executives and relevant legal staff were aware that a state-sponsored actor had accessed certain user accounts by exploiting the Company's account management tool.*** The Company took certain remedial actions, notifying 26 specifically targeted users and consulting with law enforcement. While significant additional security measures were implemented in response to those incidents, ***it appears certain senior executives did not properly comprehend or investigate, and therefore failed to act sufficiently upon, the full extent of knowledge known internally by the Company's information security team***. Specifically, as of December 2014, the information security team understood that the attacker had exfiltrated copies of user database."

70. A fair inference from the facts disclosed by the Board is that the senior executives and the Company's main in-house lawyer, Mr. Bell, advised the Board of the relevant facts concerning the 2014 data breach. This inference is particularly plausible given the admission in the 2016 Annual Report that "The Company took certain remedial actions, notifying 26 specifically targeted users and consulting with law enforcement." It is completely implausible to conclude that Yahoo would have taken certain remedial actions and consulted with law enforcement without fully informing the Board of these major decisions, especially given the fact that *Yahoo's Board took a direct and active role in monitoring data breaches*.

71. Based on these facts and the reasonable inferences that can and must be drawn in Plaintiff's favor from those facts, the Board knew about the data breach in 2014 and "*failed to act sufficiently upon the full extent of knowledge known internally by the Company's information security team" and relayed to the Board by the security team and/or Mr. Bell*.

72. As such, the entire Board failed to act in the face of a known duty to act. Such conduct constitutes bad faith, thus excusing demand. Demand is therefore excused as to the entire Board.

73. Moreover, the Board itself approved the change of control payments and golden parachutes to management, including Mayer, Bell and Filo, notwithstanding their knowledge that Mayer, Bell and Filo bore substantial liability for the damages to Yahoo from the data breaches and the failure to promptly report the breaches and taken necessary and prompt remedial measures.[6] As such, the entire Board breached its duty of loyalty to Yahoo by subjugating Yahoo's best interests to those of Mayer, Filo, and Bell. Quite simply, the Board knowingly approved payments of millions of dollars to Mayer notwithstanding knowledge of the massive damage caused to Yahoo. This is the epitome of disloyal conduct by a fiduciary and also constitutes bad faith, thus excusing demand.

C. Demand is Futile as to the Audit Committee Defendants

74. Defendants Brandt, Braham, and McInerney are members of the Audit and Finance Committee of the Board. Pursuant to the Audit and Finance Committee Charter, these defendants had the responsibility to oversee legal matters that could have a significant impact on the Company's financial condition and to oversee the Company's compliance with legal or regulatory requirements. Brandt, Braham, and McInerney knew or were reckless in not knowing the facts identified herein about the data breaches. By failing to act in the face of a known duty to act, Brandt, Braham, and McInerney acted in bad faith and breached their duty of loyalty to Yahoo. Demand is thus excused as to Brandt, Braham, and McInerney.

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[6] It is not clear whether Mr. Bell will receive his golden parachute payments in light of the fact that he was fired or forced to resign effective Mar. 1, 2017.

VI. SUBSTANTIVE ALLEGATIONS

A. Yahoo Collects Massive Personal Information from Users and Promises to Safeguard Such Information

75. A publicly-traded company with billions of dollars in market capitalization, Yahoo maintains Internet websites for searches, email, shopping, and news. According to its 2015 annual report to shareholders,[7] "Yahoo is focused on informing, connecting, and entertaining our users with our search (Yahoo Search), communications (including Yahoo Mail and Yahoo Messenger), and digital content products (including Tumblr), and [Yahoo's] 4 core verticals: Yahoo News, Yahoo Sports, Yahoo Finance, and Yahoo Life Style."

76. With over a billion visitors to its websites every month, Yahoo has collected confidential, personal information from hundreds of millions of Internet users. For example, for each new user who signs up for an email account on Yahoo.com, Yahoo requires that the new user provide first and last names, date of birth, telephone number, and account name and password. Yahoo also asks new users to identify their gender and to provide alternative email addresses for "account recovery" purposes. In addition, Yahoo collects massive amounts of personal information regarding its users' transactions. According to Yahoo's own Privacy Policy:

> **Information Collection & Use**
>
> **General**
>
> Yahoo collects personal information when you register with Yahoo, when you use Yahoo products or services, when you visit Yahoo pages or the pages of certain Yahoo partners, and when you enter promotions or sweepstakes. Yahoo may combine information about you that we have with information we obtain from business partners or other companies.
>
> *When you register we ask for information such as your name, email address, birth date, gender, ZIP code, occupation, industry, and personal interests. For some financial products and services we might also ask for your address, Social Security number, and information about your assets*. When you register with Yahoo and sign in to our services, you are not anonymous to us.
>
> *Yahoo collects information about your transactions with us and with some of our business partners, including information about your use*

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[7] YAHOO! 2015 ANNUAL REPORT, Feb. 16, 2016, *available at* http://files.shareholder.com/downloads/YHOO/2958064783x0x893458/96E76DB6-C10F-4514-AAB0-24BFC488B422/yahoo_ar15_annual_report.pdf (last visited Mar. 3, 2017).

of financial products and services that we offer.

Yahoo analyzes and stores all communications content, including email content from incoming and outgoing email.

Yahoo automatically receives and records information from your computer and browser, including your IP address, Yahoo cookie information, software and hardware attributes, and the page you request.

Yahoo uses information for the following general purposes: *to customize the advertising and content you see, fulfill your requests for products and services, improve our services, contact you, conduct research, and provide anonymous reporting for internal and external clients.*

77. In its Privacy Policy, Yahoo promises users that it takes their privacy "seriously" and implements systems and procedures to safeguard users' personal information:

Confidentiality & Security

We limit access to personal information about you to employees who we believe reasonably need to come into contact with that information to provide products or services to you or in order to do their jobs.

We have physical, electronic, and procedural safeguards that comply with federal regulations to protect personal information about you.

B. Yahoo's Board Was Aware of the Duty to Notify Its Customers and Law Enforcement Upon Becoming Aware of a Data Breach

78. Yahoo's 2015 Annual Report, filed Feb. 29, 2016 and signed by the entire Board of Directors at the time, acknowledged Yahoo's duty to notify its customers and law enforcement promptly upon learning of any data breach at Yahoo. The Annual Report on Form 10-K acknowledged that "[m]any states have passed laws requiring notification to users where there is a security breach for personal data, such as California's Information Practices Act."

79. Thus, the entire Yahoo Board knew that, if Yahoo experienced a data breach and failed to advise its users, Yahoo would be violated the law and exposing itself to significant damages. Indeed, most states that have data breach notification laws provide for treble damages.

80. Because of the importance to Yahoo's operations and financial results of cybersecurity and compliance with applicable laws, the Board or its Audit and Finance Committee received detailed updates from management about the Company's cybersecurity, including information about any data breaches, at all Board and Board Committee meetings.

81. The Board or the Audit and Finance Committee received consistent updates on a quarterly basis from Yahoo's Chief Information Security Officer ("CISO"). Those updates included a review of data security breaches, both large and small.

82. The Audit and Finance Committee received updates from the CISO at a minimum of eight meetings, including those held on June 24, 2014, October 15, 2014, April 15, 2015, June 23, 2015, October 14, 2015, December 2, 2015, February 22, 2016, and April 3, 2016.

83. The Audit and Finance Committee's Charter states that it is responsible for briefing the Board on important matters: "The Committee shall regularly report to the Board on Committee findings, recommendations, or other matters the Committee deems appropriate or the Board requests. In connection therewith, the Committee should review with the Board any issues that arise with respect to . . . the Company's compliance with legal or regulatory requirements."

84. Moreover, the full Board received updates from the CISO at a minimum of six meetings, including those held on April 8, 2014, June 25, 2014, October 16, 2014, June 23, 2015, October 14-15, 2015, and April 13-14, 2016.

85. As noted herein, with respect to the 2014 Siberia Intrusion, Yahoo was notified about the data breach shortly after it occurred in September 2014 and yet failed to notify users of the breach, in violation of these laws.

C. Yahoo Failed to Protect Users' Personal Information from Theft by Hackers

86. According to a September 28, 2016 article from the *New York Times*,[8] "Yahoo's computer systems and customer email accounts were penetrated by Chinese military hackers" in 2010.

87. Although the 2010 data breach also occurred at Google, Inc. ("Google") and a number of other technology companies, the responses from those companies to the data breach were substantially different from Yahoo's response. For example, Yahoo never publicly admitted that it had been hacked. In contrast, Google's response was public and swift. In fact, Google's co-founder publicly announced that he regarded the attack on Google's systems as "a personal affront" and

[8] Nicole Perlroth & Vindu Goel, *Defending Against Hackers Took a Back Seat at Yahoo, Insiders Say*, N.Y. TIMES, Sept. 28, 2016, *available at* http://www.nytimes.com/2016/09/29/technology/yahoo-data-breach-hacking.html (last visited March 4, 2017).

responded by making security a top corporate priority. As a result, Google hired hundreds of security engineers with six-figure signing bonuses, invested hundreds of millions of dollars in security infrastructure and adopted a new internal motto, "Never Again," to signal that it would never again allow anyone — be they spies or criminals — to hack into Google customers' accounts.

88. By comparison, Yahoo was slower to invest in the kinds of defenses necessary to thwart sophisticated hackers, such as state actors, that are now considered standard in Silicon Valley. Instead of making security a top priority, Yahoo called its own security team "The Paranoids," allowed the team's requests to be overridden, and opted to focus on other competing priorities. All told, Yahoo's security efforts fell short, when compared with those of other technology companies.

D. On September 22, 2016, Yahoo Disclosed a Massive Data Breach by a State-Sponsored Actor That Took Place Two Years Before — in 2014

89. On September 22, 2016, Yahoo informed its users that they were victims of a massive data breach, dating back to 2014.

90. In its September 22, 2016 press release, Yahoo stated that "the account information may have included names, email addresses, telephone numbers, dates of birth, hashed passwords (the vast majority with bcrypt) and, in some cases, encrypted or unencrypted security questions and answers." Such types of information are highly valuable to perpetrators of identity theft.

91. Yahoo further stated that a "state-sponsored actor" — an individual or entity acting on behalf of a foreign government — was believed to be behind the data breach. It is estimated that at least 500 million user accounts have been stolen.

92. Yahoo's data breach has long-lasting, potentially devastating consequences to its users. In addition to compromising existing accounts, the stolen personal information can be used to open new financial accounts, incur charges, originate loans, and initiate other unauthorized activities in the names of class members. The personal information can also be used to harm Yahoo users through blackmail or harassment.

93. As reported in a study conducted by the President's Identity Theft Task Force in April 2007, headed by the Attorney General of the United States and the Chairman of the Federal

Trade Commission, massive data breaches, such as the one announced by Yahoo, are costly to users both financially and emotionally:[9]

> In addition to the losses that result when identity thieves fraudulently open accounts or misuse existing accounts, … individual victims often suffer indirect financial costs, including the costs incurred in both civil litigation initiated by creditors and in overcoming the many obstacles they face in obtaining or retaining credit. Victims of nonfinancial identity theft, for example, health-related or criminal record fraud, face other types of harm and frustration.
>
> *In addition to out-of-pocket expenses that can reach thousands of dollars for the victims of new account identity theft, and the emotional toll identity theft can take, some victims have to spend what can be a considerable amount of time to repair the damage caused by the identity thieves*. Victims of new account identity theft, for example, must correct fraudulent information in their credit reports and monitor their reports for future inaccuracies, close existing bank accounts and open new ones, and dispute charges with individual creditors.

94. In addition to the massive scale, Yahoo's data breach is particularly egregious due to the two-year delay in discovery and disclosure. Indeed, six United States Senators — the Honorable Patrick Leahy (of Vermont), the Honorable Al Franken (of Minnesota), the Honorable Elizabeth Warren (of Massachusetts), the Honorable Richard Blumenthal (of Connecticut), the Honorable Ron Wyden (of Oregon), and the Honorable Edward J. Markey (of Massachusetts) — sent a letter to Mayer, Yahoo's CEO, on September 27, 2016, expressing outrage in Yahoo's delays:[10]

> *We are even more disturbed that user information was first compromised in 2014, yet the company only announced the breach last week*. That means millions of Americans' data may have been compromised *for two years*. *This is unacceptable*. This breach is the latest in a series of data breaches that have impacted the privacy of millions of American consumers in recent years, but it is by far the largest. Consumers put their trust in companies when they share personal and sensitive information with them, and they expect all possible steps be taken to protect that information.

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[9] The President's Identity Theft Task Force, *Combating Identity Theft: A Strategic Plan*, at 11 (April 2007), *available at* https://www.ftc.gov/sites/default/files/documents/reports/combating-identity-theft-strategic-plan/strategicplan.pdf (last visited Mar. 4, 2017).

[10] *Available at* https://www.leahy.senate.gov/imo/media/doc/9-27-16%20Yahoo%20Breach%20Letter.pdf (last visited Oct. 10, 2016).

E. The Individual Defendants Were Well Aware of Yahoo's Duty to Promptly Disclose All Material Facts Regarding Data Breaches and Cyber-Attacks, and Yet Caused Yahoo to File False and Misleading Statements with the SEC That Failed to Disclose the Data Breaches

95. The Individual Defendants – Yahoo's officers and directors – were well aware of their obligation to cause Yahoo to disclose all material facts regarding any data breach at Yahoo. They knew that, as an Internet company whose email accounts were utilized by millions of consumers, Yahoo was at a heightened risk of data breaches and cyber-attacks. The Individual Defendants knew that Yahoo's customers would be negatively impacted in the event of a data breach, and Yahoo would face substantial liability in the event that it did not maintain the security of its users' personal information.

96. On November 12, 2013, Yahoo filed a Quarterly Report on Form 10-Q with the SEC, announcing the Company's financial and operating results for the quarter ended September 30, 2013. The Quarterly Report acknowledged the potential harm that might result from a data breach. Despite acknowledging the materiality of a data breach to the Company, the Form 10-Q does not mention that Yahoo was victim to the largest ever data breach. In particular, Yahoo stated:

> ***If our security measures are breached***, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.
>
> Our products and services involve the storage and transmission of Yahoo's users' and customers' personal and proprietary information in our facilities and on our equipment, networks and corporate systems. ***Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability***. Our user data and corporate systems and security measures have been and may in the future be breached due to the actions of outside parties (including cyber attacks), employee error, malfeasance, a combination of these, or otherwise, allowing an unauthorized party to obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. ***Any breach or unauthorized access could result in significant legal and financial exposure***, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. ***If an actual or***

> ***perceived breach of our security occurs***, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

97. Defendants Mayer, Goldman, Webb, James, and McInerney made the same statements without acknowledging the 2013 data breach in the Company's Annual Report on Form 10-K filed with the SEC on February 28, 2014.

98. In fact, for the next three years, every one of the Company's quarterly filings and yearly filings contains nearly the exact same language. Despite Yahoo's knowledge of the 2014 Siberia Intrusion data breach, no mention of it ever occurs until September 2016.

99. In particular, the following public filings are misleading, Yahoo's: (a) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended March 31, 2014; (b) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended June 30, 2014; (c) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended September 30, 2014; (d) Annual Report on Form 10-K announcing the Company's financial and operating results for the quarter and year ended December 31, 2014, which was signed by defendants Mayer, Goldman, Webb, Filo, James, McInerney, Scott, and Shaw; (e) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended March 31, 2015 (signed by Mayer and Goldman); (f) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended June 30, 2015 (signed by Mayer and Goldman); (g) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended September 30, 2015 (signed by Mayer and Goldman); (h) Annual Report on Form 10-K announcing the Company's financial and operating results for the quarter and year ended December 31, 2015, signed by defendants Mayer, Goldman, Webb, Filo, McInerney, Scott, James and Shaw; (i) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended March 31, 2016; and (j) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for the quarter ended June 30, 2016.

100. For example, Yahoo’s Annual Report for the fiscal year ended December 31, 2015, which was reviewed, approved, and signed by Defendants Mayer, Goldman, Webb, Filo, McInerney, Scott, James and Shaw, stated the following:

> ***If our security measures are breached, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.***
>
> Our products and services involve the storage and transmission of Yahoo's users' and customers' personal and proprietary information in our facilities and on our equipment, networks and corporate systems. ***Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability.*** Outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information to gain access to our data or our users' or customers' data. In addition, hardware, software or applications we procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise network and data security. Additionally, some third parties, such as our distribution partners, service providers and vendors, and app developers, may receive or store information provided by us or by our users through applications integrated with Yahoo. If these third parties fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our data or our users' data may be improperly accessed, used or disclosed. ***Security breaches or unauthorized access have resulted in and may in the future result in a combination of significant legal and financial exposure, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could have an adverse effect on our business.*** We take steps to prevent unauthorized access to our corporate systems, however, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a triggering event, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

101. The 2015 Annual Report was false and misleading for failing to disclose the 2013 and 2014 data breaches at Yahoo, and for failing to disclose that Yahoo did not have adequate internal controls in place to safeguard its users' data and to remedy a data breach.

102. In addition, the Individual Defendants were aware that the SEC has adopted rules mandating full disclosure of data breaches. On October 13, 2011, the SEC issued CF Disclosure Guidance: Topic No. 2 (the "SEC Disclosure Guidance"), which contains guidance regarding disclosures that must be made by publicly-traded companies concerning data breaches. The SEC Disclosure Guidance states that if a company experiences a "material cyber-attack" it "would not be sufficient" to merely disclose that a risk exists, and that the company may be required to disclose specific information regarding any such attack.

103. The SEC Disclosure Guidance mandates that companies address cyber-security risks and incidents in their public filings "if the costs or other consequences associated with one or more known incidents or the risk of potential incidents represents a material event, trend, or uncertainty that is reasonably likely to have a material effect" on the company's financial results.

F. Yahoo Discloses That, Contrary to the Representations in the Preliminary Proxy Regarding the Purchase Agreement, It Was Aware of the 2014 Breach

104. On September 22, 2016, less than two weeks after filing the Proxy, Yahoo issued a press release that contradicted its prior representations. Yahoo disclosed that in 2014 there had been a breach of its users' personal information by what it believed to be a "state-sponsored actor" who had stolen certain user account information. Yahoo revealed that the security breach affected at least 500 million user accounts.

105. Although it did not publicly disclose it at the time, Yahoo had even given a code name to the September 2014 breach – the "Siberia Intrusion."

106. As noted *supra*, in response to this disclosure, six United States Senators — the Honorable Patrick Leahy (of Vermont), the Honorable Al Franken (of Minnesota), the Honorable Elizabeth Warren (of Massachusetts), the Honorable Richard Blumenthal (of Connecticut), the Honorable Ron Wyden (of Oregon), and the Honorable Edward J. Markey (of Massachusetts) — sent a letter to Mayer, Yahoo's CEO, on September 27, 2016, expressing outrage in Yahoo's delay in reporting the data breaches.

107. On November 9, 2016, Yahoo filed with the SEC its Q3 2016 10-Q, which was signed by Defendant Mayer and the Company's Chief Financial Officer ("CFO") Kenneth Goldman ("Goldman"). The Q3 2016 10-Q stated that the Company knew about the 2014 data breach prior to entering into the Purchase Agreement with Verizon. The Form 10-Q stated:

> In late July 2016, a hacker claimed to have obtained certain Yahoo user data. After investigating this claim with the assistance of an outside forensic expert, the Company could not substantiate the hacker's claim. Following this investigation, the Company intensified an ongoing broader review of the Company's network and data security, including a review of prior access to the Company's network by a state-sponsored actor that the Company *had identified in late 2014*. Based on further investigation with an outside forensic expert, the Company disclosed the Security Incident on September 22, 2016, and began notifying potentially affected users, regulators, and other stakeholders.

> The Company, with the assistance of outside forensic experts, continues to investigate the Security Incident and related matters. The Company is actively working with U.S. law enforcement authorities on this matter.
>
> As described above, the Company had identified that a state-sponsored actor had access to the Company's network in late 2014. An Independent Committee of the Board, advised by independent counsel and a forensic expert, is investigating, among other things, the scope of knowledge within the Company in 2014 and thereafter regarding this access, the Security Incident, the extent to which certain users' account information had been accessed, the Company's security measures, and related incidents and issues.
>
> In addition, the forensic experts are currently investigating certain evidence and activity that indicates an intruder, believed to be the same state-sponsored actor responsible for the Security Incident, created cookies that could have enabled such intruder to bypass the need for a password to access certain users' accounts or account information.
>
> Separately, on November 7, 2016, law enforcement authorities began sharing certain data that they indicated was provided by a hacker who claimed the information was Yahoo user account data. Yahoo will, with the assistance of its forensic experts, analyze and investigate the hacker's claim that the data is Yahoo user account data.

108. On December 14, 2016, Yahoo issued another press release, this time disclosing that in 2013 an unauthorized third party had stolen data associated with "more than one billion user accounts." The 2013 data breach was one of the largest, if not the largest, cyber-security breach in history. The press release stated:

> As Yahoo previously disclosed in November, law enforcement provided the company with data files that a third party claimed was Yahoo user data. The company analyzed this data with the assistance of outside forensic experts and found that it appears to be Yahoo user data. Based on further analysis of this data by the forensic experts, ***Yahoo believes an unauthorized third party, in August 2013, stole data associated with more than one billion user accounts. The company has not been able to identify the intrusion associated with this theft. Yahoo believes this incident is likely distinct from the incident the company disclosed on September 22, 2016.***
>
> For potentially affected accounts, the stolen user account information may have included names, email addresses, telephone numbers, dates of birth, hashed passwords (using MD5) and, in some cases, encrypted or unencrypted security questions and answers. The investigation indicates that the stolen information did not include passwords in clear text, payment card data, or bank account information. Payment card data and bank account information are not stored in the system the company believes was affected.
>
> Yahoo is notifying potentially affected users and has taken steps to secure their accounts, including requiring users to change their passwords. Yahoo has also invalidated unencrypted security questions and answers so that they cannot be used to access an account.

109. On January 5, 2017, news reports indicated that Verizon considered the data breaches to be a "Material Adverse Event" under the contract, thereby giving Verizon the right to cancel the deal.

110. On January 23, 2017, Yahoo announced that it had delayed consummation of the Purchase Agreement until the second quarter of 2017, despite previously announced plans to close the deal during the first quarter of 2017.

111. On January 23, 2017, it was also reported that the SEC was investigating whether Yahoo should have disclosed the two major data breaches sooner. *See* Aruna Viswanatha and Robert McMillan, "Yahoo Faces SEC Probe Over Data Breaches, The Wall Street Journal, Jan. 23, 2017.

112. On January 24, 2017, Yahoo, Marissa Mayer, and Kenneth A. Goldman were sued for securities fraud in a class action lawsuit filed in the United States District Court for the Northern District of California, styled *Madrack v. Yahoo! Inc. et al.*, Case No. 5:17-cv-00373-LHK. The lawsuit alleges that the defendants' SEC filings and press releases were fraudulent due to failure to disclose the data breaches and the fact that Yahoo did not have adequate internal controls in place to safeguard its users' private information.

113. Meanwhile, the U.S. Senate continued to request additional information from Yahoo about the data breaches. Yahoo was scheduled to brief congressional staffers about its data breaches on Jan. 31, 2017, but Yahoo abruptly cancelled the meeting on Jan. 28, 2017. Thereafter, Sen. John Thune and Sen. Jerry Moran reprimanded Defendant Marissa Mayer in a Feb. 10, 2017 letter for not being more forthcoming about the security problems.

114. "Yahoo!'s recent, last-minute cancellation of a planned congressional staff briefing, originally scheduled for January 31, 2017, has prompted concerns about the company's willingness to deal with Congress with complete candor," the letter stated. The senators presented a list of questions about the breaches to Yahoo and demanded an answer no later than Feb. 23, 2017.

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G. Verizon Obtains Actual Knowledge of Breaches of Fiduciary Duty Committed By Yahoo's Officers and Directors and Then Uses Such Information to Gain an Advantage in the Bargaining Negotiations

115. During this time, Verizon and Yahoo held numerous meetings to discuss the data breaches, which Verizon stated constituted a Material Adverse Event ("MAE") under the Purchase Agreement. As such, Verizon had the right to back out of the deal. To attempt to prevent Verizon from doing so, the Individual Defendants shared the details of Yahoo's investigation into the data breaches with Verizon.

116. As revealed in Yahoo's 2016 Annual Report, at a minimum those details which were shared with Verizon during January and February 2017 included the fact that Yahoo's information security team had contemporaneous knowledge of the 2014 compromise of user accounts, as well as incidents by the same attacker involving cookie forging in 2015 and 2016, and that ***in late 2014, senior executives and relevant legal staff of Yahoo were aware that a state-sponsored actor had accessed certain user accounts by exploiting the Company's account management tool.***

117. Verizon was also told by Yahoo prior to amendment of the Purchase Agreement that ***certain senior executives of Yahoo did not properly comprehend or investigate, and therefore failed to act sufficiently upon, the full extent of knowledge known internally by the Company's information security team***. Verizon was also told that Yahoo's Independent Committee had decided to fire Defendant Bell and strip Defendant Mayer of her 2016 bonus and 2017 stock equity award based on their involvement in and response to the data breaches.

118. Verizon also had full access to all of Yahoo's books, records, and information, since the Purchase Agreement explicitly obligated Yahoo to provide Verizon full access to all such information from the date of the execution of the Purchase Agreement on July 23, 2016 to the closing of the transaction. Section 4.03 of the Purchase Agreement states: "From the date hereof until the Closing (or until the earlier termination of this Agreement in accordance with Section 6.01), upon reasonable notice, Seller shall, as promptly as reasonably practicable: (i) afford Purchaser and its Representatives reasonable access to the personnel, properties and Books and Records of the Business." Verizon thus had full access to Yahoo's ongoing information and data regarding Yahoo's investigation into the data breaches. Indeed, as demonstrated below, it could not have

agreed to amend the Purchase Agreement and pick a specific number for the reduction in the purchase price ($350 million) without performing a full, complete, and extensive analysis of the data breach, the liabilities expected to be incurred from such breach, and all related matters prior to agreeing to amend the Purchase Agreement.

119. In fact, when Verizon signed the Amended Purchase Agreement with Yahoo, it did not disclaim knowledge of the breaches of fiduciary duty committed by the Individual Defendants, but instead only professed "uncertainty" regarding the breach of candor committed by such executives at the time of the signing of the original purchase agreement. For example, the settlement agreement which is attached as an exhibit to the Amended Purchase Agreement states "Purchaser hereby ***expressly acknowledges present uncertainty*** about the facts concerning the Knowledge of Seller and the knowledge of any of Seller's directors, officers, employees or independent contractors, or any recklessness or negligence by Seller or any of its directors, officers, employees or independent contractors with respect to the existence of Data Breaches at the time of the signing of the Purchase Agreement. . . " *See* Amended Purchase Agreement, Ex. 10.1, at Section 2(c). Explicitly expressing "uncertainty" implies at a minimum some knowledge, and obviously Verizon had enough information in its possession about the lack of candor of Yahoo's executives at the time the original purchase agreement was signed to exact a $350 million reduction in the purchase price.

120. Moreover, upon information and belief, Verizon was fully advised of and approved the decisions regarding Mayer's forfeiture of her 2016 bonus and the firing of Bell. The Purchase Agreement itself contains customary and broad-ranging restrictions on what action Yahoo can take with respect to its operations pending completion of the transaction. Thus, pursuant to Section 4.01 of the Purchase Agreement, Yahoo has been restrained since July 23, 2016 from taking a broad range of actions without the prior consent of Verizon. While firing an employee is not necessarily one of those actions, hiring a replacement employee whose salary exceeds $225,000 per year is specifically prohibited. Because Bell earned more than $225,000 per year (his salary was $600,000 in 2015), Yahoo cannot hire a replacement for Bell without Verizon's consent. Thus, it is likely that Yahoo had to fully inform Verizon about the decision to fire Bell and obtain Verizon's consent to such action before taking it.

121. Verizon thereafter proceeded to use such knowledge of the breaches of fiduciary duty which had been committed by Yahoo's officers and directors to gain a bargaining advantage in its negotiations with Yahoo. On February 20, 2017, Yahoo and Verizon entered into an Amendment to Stock Purchase Agreement amending the Original Stock Purchase Agreement (the "SPA Amendment" and, together with the Original Stock Purchase Agreement, the "Amended Stock Purchase Agreement"), and, concurrently with the execution of the SPA Amendment, Yahoo and Yahoo Holdings entered into an Amendment to Reorganization Agreement amending the Original Reorganization Agreement (the "RA Amendment"). Additionally, concurrently with the execution of the SPA Amendment and the RA Amendment, Yahoo, Yahoo Holdings, and Verizon entered into a Settlement and Release Agreement (the "Settlement and Release Agreement").

122. The SPA Amendment, among other things, (i) reduced the consideration to be paid by Verizon to Yahoo in connection with the Sale by $350,000,000 to $4,475,800,000, (ii) provided that certain data security incidents to which Yahoo has been subject will be disregarded for purposes of determining whether certain closing conditions have been satisfied and in determining whether a "Business Material Adverse Effect" has occurred, and (iii) provided that the date after which each of Yahoo and Verizon may terminate the Amended Stock Purchase Agreement if the Closing (as defined in the Amended Stock Purchase Agreement) has not occurred has been extended to July 24, 2017.

123. The RA Amendment provides, among other things, that Yahoo and Verizon will each be responsible for 50 percent of certain post-closing cash liabilities related to certain data security incidents and other data breaches incurred by the Company.

124. Under the terms of the Settlement and Release Agreement, among other things, ***Verizon released certain claims, subject to certain exceptions, it (and its affiliates and representatives) may have against the Company (or its affiliates and representatives) relating to certain data security incidents and other data breaches incurred by the Company***.

125. Upon completion of the Sale, Verizon will also receive for its benefit and that of its current and certain of its future affiliates, a non-exclusive, worldwide, perpetual, royalty-free license to certain intellectual property not core to the operating business held by Excalibur IP, LLC, a

wholly-owned subsidiary of the Company ("Excalibur"), that is not being transferred to Yahoo Holdings with the operating business.

126. Thus, in agreeing to amend the Purchase Agreement, Verizon carved the data breaches out of the definition of the MAE, released Yahoo and its executives from liability relating to the data breaches, and in exchange procured substantial benefits for itself including but not limited to a reduction of $350 million in the purchase price, forcing Yahoo to assume 50% of the liabilities relating to the data breach, and forcing Yahoo to assume 100% of the liabilities relating to shareholder lawsuits related to the data breaches.

127. Upon information and belief, the $350 million benefit Verizon procured for itself in the Amended Purchase Agreement significantly exceeds Verizon's estimate of its own liabilities with respect to the data breaches, since Yahoo will continue to be separately liable for 50% of all future damages related to the data breach and will be liable for 100% of any fines or damages in the SEC investigation and the shareholder lawsuits.

128. However, having received what it wanted, Verizon gave Yahoo's executives officers what they wanted: (1) a full release from Verizon for their conduct; and (2) a guarantee that they would receive their full Golden Parachute Payments and other change of control payments which were called for in the original Purchase Agreement. None of those payments were reduced in any way in the Amended Purchase Agreement, notwithstanding the finding by Yahoo's Independent Committee that "certain senior executives of Yahoo did not properly comprehend or investigate, and therefore failed to act sufficiently upon, the full extent of knowledge known internally by the Company's information security team" relating to the data breaches.

129. Because of their liability for the damages caused to Yahoo and its shareholders by the data breaches, Yahoo's executives should not be entitled to receive their golden parachutes and other change of control agreements.

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H. Yahoo Continues to Provide Incomplete and In Some Cases Inconsistent Information About When It Knew of the Data Breaches

130. The U.S. Senate has stated that Yahoo has provided inconsistent information and disclosures relating to the data breaches and when Yahoo learned of them, and that Yahoo still has not answered important questions about the data breaches.

131. Yahoo says it did not know about the 2013 breach until it was approached by law enforcement in Nov. 2016, but the company learned about the 2014 incident the same year it happened — leading to questions about why the breach wasn't announced until two years later.

132. Yahoo admits some employees knew about the breach in "late 2014," according to a November filing with the Securities and Exchange Commission. But Yahoo claimed in a September proxy statement that it had no knowledge of any security breaches. The discrepancy led Sen. Mark Warner to call on the SEC to investigate Yahoo. "Yahoo's September filing asserting lack of knowledge of security incidents involving its IT systems creates serious concerns about truthfulness in representations to the public," Warner said.

133. Yahoo did not clear up the timeline in its response to questions from Thune and Moran. Here is all that Yahoo's vice president April Boyd had to say about it:

> "On September 22, 2016, Yahoo disclosed the 2014 Incident. Following the September 22, 2016 disclosure, the company, with the assistance of outside forensic experts, continued to investigate the 2014 Incident and related matters. The company has also actively been working with U.S. law enforcement agencies on this matter."

134. The Board's allegedly independent committee is investigating the timeline, but has not provided important details. A spokesperson for Thune's office said the newly announced briefing with the board's independent committee is not yet scheduled, but that it will be an important part of the Senate inquiry.

135. Defendants McInerney, Brandt, and Smith are the Yahoo directors who were appointed to the special committee of the Board to explore the sale of Yahoo's operating company. Upon information and belief, these same directors constitute the so-called Independent Committee of the Board investigating the data breaches.

136. McInerney, Brandt, and Smith have all been promised a seat on Yahoo's Board after the transaction with Verizon closes, even though a majority of current directors will not keep their seats. Defendants Mayer, Filo, Webb, Shaw, Hartenstein and Hill will not retain their director positions.

137. Yahoo will be renamed Altaba after the Verizon transaction closes.

138. In its 2016 Annual Report, Yahoo admitted that its internal controls were not effective as of December 31, 2016: "The Company's principal executive officer and principal financial officer have concluded (based on the findings and recommendations of the Independent Committee set forth in Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Security Incidents") that, due exclusively to deficiencies in the Company's existing security incident response protocols related to the 2014 Security Incident, the Company's disclosure controls and procedures were not effective at December 31, 2016."

VII. SOME OF THE INDIVIDUAL DEFENDANTS ENGAGED IN UNLAWFUL INSIDER SELLING WHILE IN POSSESSION OF MATERIAL NON-PUBLIC INFORMATION ABOUT THE DATA BREACHES

139. While in possession of material non-public information about Yahoo, the Individual Defendants identified below engaged in unlawful insider selling as reflected in their SEC filings and reported disposition of shares below:

RONALD S. BELL

SALE DATE	***SHARES SOLD***	***PRICE PER SHARE***	***TOTAL SALE VALUE***
1/17/2014	5,750	$39.7448	$228,532.60
1/17/2014	5,750	$39.9485	$229,703.88
2/25/2014	1,879	$37.2600	$70,011.54
2/25/2014	2,254	$37.2600	$83,984.04
2/27/2014	9,884	$38.4700	$380,237.48
2/27/2014	1,879	$38.4700	$72,285.13
2/28/2014	19,085	$38.6700	$738,016.95
3/11/2014	13,500	$37.8776	$511,347.60
3/11/2014	13,500	$37.8739	$511,297.65

3/17/2014	26,000	$39.1000	$1,016,600.00
3/28/2014	1,590	$35.9000	$57,081.00
4/28/2014	1,590	$33.9900	$54,044.10
5/28/2014	1,590	$34.7800	$55,300.20
6/28/2014	1,590	$34.2500	$54,457.50
7/28/2014	1,590	$35.9000	$57,081.00
8/28/2014	1,590	$38.3100	$60,912.90
9/28/2014	1,590	$40.6600	$64,649.40
10/28/2014	1,590	$45.8700	$72,933.30
11/28/2014	1,590	$51.7400	$82,266.60
12/28/2014	1,590	$50.8600	$80,867.40
1/28/2015	1,220	$46.4600	$56,681.20
2/25/2015	2,254	$44.4300	$100,145.22
2/27/2015	1,879	$44.2800	$83,202.12
2/27/2015	3,865	$44.2800	$171,142.20
2/28/2015	1,590	$44.2800	$70,405.20
3/6/2015	6,870	$43.4400	$298,432.80
3/6/2015	1,830	$43.4400	$79,495.20
3/27/2015	423	$45.1000	$19,077.30
3/28/2015	1,590	$45.1000	$71,709.00
4/6/2015	375	$43.6700	$16,376.25
4/27/2015	423	$44.3600	$18,764.28
4/28/2015	1,590	$44.3400	$70,500.60
5/6/2015	375	$41.6600	$15,622.50
5/27/2015	425	$43.3800	$18,436.50
5/28/2015	1,591	$43.0700	$68,524.37
6/6/2015	376	$42.8100	$16,096.56
6/27/2015	424	$40.0600	$16,985.44
6/28/2015	1,591	$40.0600	$63,735.46
7/6/2015	376	$38.6100	$14,517.36
7/27/2015	424	$37.8350	$16,042.04
7/28/2015	1,591	$37.7200	$60,012.52
8/6/2015	376	$36.4600	$13,708.96
8/27/2015	425	$33.6900	$14,318.25
8/28/2015	1,591	$33.1400	$52,725.74
9/6/2015	376	$31.5800	$11,874.08
9/27/2015	424	$29.1300	$12,351.12
9/28/2015	1,591	$27.6000	$43,911.60
10/6/2015	376	$30.9550	$11,639.08
10/27/2015	424	$34.3000	$14,543.20
10/28/2015	1,591	$35.1850	$55,979.34

11/6/2015	375	$34.2000	$12,825.00
11/27/2015	425	$32.9400	$13,999.50
11/28/2015	1,591	$32.9400	$52,407.54
12/6/2015	376	$34.9100	$13,126.16
12/27/2015	424	$34.1100	$14,462.64
12/28/2015	1,591	$33.6000	$53,457.60
1/6/2016	315	$32.1600	$10,130.40
1/27/2016	356	$29.6900	$10,569.64
1/28/2016	1,167	$28.7500	$33,551.25
2/6/2016	266	$27.9700	$7,440.02
2/27/2016	1,880	$31.3700	$58,975.60
2/27/2016	306	$31.3700	$9,599.22
2/28/2016	1,146	$31.3700	$35,950.02
3/6/2016	271	$33.8600	$9,176.06
3/7/2016	1,925	$33.9600	$65,373.00
3/7/2016	513	$33.9600	$17,421.48
3/7/2016	454	$33.9600	$15,417.84
3/27/2016	306	$34.8600	$10,667.16
3/28/2016	1,146	$35.2300	$40,373.58
4/6/2016	271	$36.6600	$9,934.86
4/7/2016	1,153	$36.1700	$41,704.01
4/27/2016	306	$36.9500	$11,306.70
4/28/2016	1,146	$36.5900	$41,932.14
5/6/2016	271	$37.2300	$10,089.33
5/7/2016	1,203	$37.2300	$44,787.69
5/27/2016	425	$37.8200	$16,073.50
5/28/2016	1,591	$37.8200	$60,171.62
6/6/2016	376	$37.0700	$13,938.32
6/7/2016	1,601	$36.7300	$58,804.73
6/27/2016	424	$35.2200	$14,933.28
6/28/2016	1,591	$36.0400	$57,339.64
7/6/2016	376	$37.5100	$14,103.76
7/7/2016	1,601	$37.5200	$60,069.52
7/27/2016	424	$38.6600	$16,391.84
7/28/2016	1,591	$38.5200	$61,285.32
8/6/2016	376	$38.9900	$14,660.24
8/7/2016	1,601	$38.9900	$62,422.99
8/27/2016	425	$42.2700	$17,964.75
8/28/2016	1,591	$42.2700	$67,251.57
9/6/2016	376	$44.7100	$16,810.96
9/7/2016	1,601	$44.3500	$71,004.35
9/27/2016	424	$43.3700	$18,388.88

9/28/2016	1,591	$43.6900	$69,510.79
10/6/2016	376	$43.6800	$16,423.68
10/7/2016	1,601	$43.2200	$69,195.22
10/27/2016	424	$41.8700	$17,752.88
10/28/2016	1,591	$41.7800	$66,471.98
11/6/2016	376	$40.2800	$15,145.28
11/7/2016	1,601	$41.0500	$65,721.05
11/27/2016	425	$40.8700	$17,369.75
11/28/2016	1,591	$41.4500	$65,946.95
12/6/2016	376	$39.9700	$15,028.72
12/7/2016	1,601	$40.5200	$64,872.52
12/27/2016	424	$38.9200	$16,502.08
12/28/2016	1,591	$38.7300	$61,619.43
1/6/2017	316	$41.2300	$13,028.68
1/7/2017	1,275	$41.2300	$52,568.25
1/27/2017	306	$44.4200	$13,592.52
1/28/2017	1,146	$44.4200	$50,905.32
2/6/2017	271	$44.4200	$12,037.82
2/7/2017	1,153	$44.3700	$51,158.61
2/27/2017	306	$45.7100	$13,987.26
2/28/2017	1,146	$45.6600	$52,326.36
TOTAL NUMBER OF SHARES	**208,701**	**TOTAL VALUE OF SHARES**	**$8,166,024.61**

MARISSA A. MAYER

SALE DATE	***SHARES SOLD***	***PRICE PER SHARE***	***TOTAL SALE VALUE***
2/7/2014	36,000	18.8700	$679,320.00
2/7/2014	36,000	36.8308	$1,325,908.80
2/21/2014	36,000	18.8700	$679,320.00
2/21/2014	36,000	37.3989	$1,346,340.40
2/27/2014	29,010	34.8600	$1,011,288.60
2/28/2014	50,387	38.6700	$1,948,465.29
3/4/2014	36,000	18.8700	$679,320.00
3/4/2014	36,000	39.5437	$1,423,573.20
3/17/2014	36,000	18.8700	$679,320.00
3/17/2014	36,000	38.8829	$1,399,784.40
4/1/2014	36,000	18.8700	$679,320.00
4/1/2014	36,000	36.3353	$1,308,070.80
4/15/2014	36,000	18.8700	$679,320.00
4/15/2014	36,000	33.6913	$1,212,886.80
4/28/2014	4,241	33.9900	$144,151.59
4/30/2014	36,000	18.8700	$679,320.00
4/30/2014	36,000	35.8599	$1,290,956.40
5/15/2014	36,000	18.8700	$679,320.00
5/15/2014	36,000	33.7879	$1,216,364.40
5/17/2014	8,256	33.4100	$275,832.96
5/28/2014	4,241	34.7800	$147,501.98
5/30/2014	36,000	18.8700	$679,320.00
5/30/2014	36,000	34.5592	$1,244,131.20
6/10/2014	36,000	18.8700	$679,320.00
6/10/2014	36,000	36.0406	$1,297,461.60
6/17/2014	8,256	34.4300	$284,254.08
6/26/2014	36,000	18.8700	$679,320.00
6/26/2014	36,000	33.5978	$1,209,520.80
6/28/2014	4,241	34.2500	$145,254.25
7/10/2014	36,000	18.8700	$679,320.00
7/10/2014	36,000	34.8575	$1,254,870.00
7/17/2014	8,256	33.2100	$274,181.76
7/23/2014	36,000	18.8700	$679,320.00
7/23/2014	36,000	33.8102	$1,217,167.20
7/26/2014	66,050	36.1200	$2,385,726.00
7/26/2014	99,075	36.1200	$3,578,589.00
7/28/2014	7,241	35.9000	$259,951.90
8/5/2014	9,229	18.8700	$174,151.23

8/5/2014	26,771	18.8700	$505,168.77
8/5/2014	36,000	36.1036	$1,299,729.60
8/17/2014	8,256	36.4700	$301,096.32
8/18/2014	36,000	18.8700	$679,320.00
8/18/2014	36,000	37.5086	$1,350,309.60
8/28/2014	4,241	38.3100	$162,472.71
9/5/2014	36,000	18.8700	$679,320.00
9/5/2014	36,000	39.3710	$1,417,356.00
9/15/2014	36,000	18.8700	$679,320.00
9/15/2014	36,000	42.4386	$1,527,789.60
9/17/2014	8,256	42.5900	$351,623.04
9/28/2014	4,241	40.6600	$172,439.06
10/2/2014	36,000	18.8700	$679,320.00
10/2/2014	36,000	39.9960	$1,439,856.00
10/16/2014	36,000	18.8700	$679,320.00
10/16/2014	36,000	37.7738	$1,359,856.80
10/17/2014	8,255	38.4500	$317,404.75
10/28/2014	4,241	45.8700	$194,534.67
10/31/2014	36,000	18.8700	$679,320.00
10/31/2014	36,000	45.8899	$1,652,036.40
11/12/2014	36,000	18.8700	$679,320.00
11/12/2014	36,000	50.5483	$1,819,738.80
11/17/2014	8,255	52.3700	$432,314.35
11/25/2014	36,000	18.8700	$679,320.00
11/25/2014	36,000	51.7935	$1,864,566.00
11/28/2014	4,241	51.7400	$219,429.34
12/8/2014	36,000	18.8700	$679,320.00
12/8/2014	36,000	49.4542	$1,780,351.20
12/17/2014	8,255	50.1200	$413,740.60
12/22/2014	36,000	18.8700	$679,320.00
12/22/2014	36,000	51.1627	$1,841,857.20
12/28/2014	4,241	50.8600	$215,697.26
1/8/2015	36,000	18.8700	$679,320.00
1/8/2015	36,000	49.6421	$1,787,115.60
1/20/2015	36,000	18.8700	$679,320.00
1/20/2015	36,000	47.6226	$1,714,413.60
1/28/2015	4,241	46.4600	$197,036.86
2/27/2015	27,127	44.2800	$1,201,183.56
2/28/2015	4,241	44.2800	$187,791.48
3/6/2015	18,322	43.4400	$795,907.68
3/6/2015	9,766	43.4400	$424,235.04
3/27/2015	2,620	45.1000	$118,162.00

3/28/2015	4,241	45.1000	$191,269.10
4/6/2015	2,001	43.6700	$87,383.67
4/9/2015	250,000	18.8700	$4,717,500.00
4/9/2015	200,000	46.0000	$9,200,000.00
4/16/2015	125,000	18.8700	$2,358,750.00
4/16/2015	100,000	46.0000	$4,600,000.00
4/27/2015	2,260	44.3600	$100,253.60
4/28/2015	4,241	44.3400	$188,045.94
5/6/2015	2,002	41.6600	$83,403.32
5/27/2015	2,261	43.3800	$98,082.18
5/1/2815	4,242	43.0700	$182,702.94
6/6/2015	2,003	42.8100	$85,748.43
6/27/2015	2,261	40.0600	$90,575.66
6/28/2015	4,242	40.0600	$169,934.52
7/6/2015	2,002	38.6100	$77,297.22
7/26/2015	66,052	38.8500	$2,566,120.20
7/26/2015	99,076	38.8500	$3,849,102.60
7/27/2015	2,261	37.8350	$85,544.94
7/28/2015	4,242	37.7200	$160,008.24
8/6/2015	2,003	36.4600	$73,029.38
8/27/2015	2,261	33.6900	$76,173.09
8/28/2015	4,242	33.1400	$140,579.88
9/6/2015	2,003	31.5800	$63,254.74
9/27/2015	2,261	29.1300	$65,862.93
9/28/2015	4,242	27.6000	$117,079.20
10/6/2015	2,002	30.9550	$61,971.91
10/27/2015	2,261	34.3000	$77,552.30
10/28/2015	4,242	35.1850	$149,254.77
11/6/2015	2,002	34.2000	$68,468.40
11/27/2015	2,261	32.9400	$74,477.34
11/28/2015	4,242	32.9400	$139,731.48
12/6/2015	2,003	34.9100	$69,924.73
12/27/2015	2,261	34.1100	$77,122.71
12/28/2015	4,242	33.6000	$142,531.20
1/6/2016	1,665	32.1600	$53,546.40
1/27/2016	1,628	29.6900	$48,335.32
1/28/2016	3,055	28.7500	$87,831.25
2/6/2016	1,442	27.9700	$40,332.74
2/27/2016	1,629	31.3700	$51,101.73
2/28/2016	3,055	31.3700	$95,835.35
3/6/2016	1,939	33.8600	$65,654.54
3/7/2016	7,126	33.9600	$241,998.96

3/7/2016	3,798	33.9600	$128,980.08
3/7/2016	3,364	33.9600	$114,241.44
3/27/2016	2,261	34.8600	$78,818.46
4/6/2016	2,003	36.6600	$73,429.98
4/7/2016	2,561	36.1700	$92,631.37
4/27/2016	2,261	36.9500	$83,543.95
5/6/2016	2,002	37.2300	$74,534.46
5/7/2016	2,561	37.2300	$95,346.03
5/27/2016	2,261	37.8200	$85,511.02
6/6/2016	2,003	37.0300	$74,171.09
6/7/2016	2,561	36.7300	$94,065.53
6/27/2016	2,261	35.2200	$79,632.42
7/6/2016	2,003	37.5100	$75,132.53
7/7/2016	2,561	37.5200	$96,088.72
7/26/2016	99,077	38.7600	$3,840,224.52
7/27/2016	2,261	33.6600	$76,105.26
8/6/2016	2,002	38.9900	$78,057.98
8/7/2016	2,561	38.9900	$99,853.39
8/27/2016	2,261	42.2700	$95,572.47
9/6/2016	2,003	44.7100	$89,554.13
9/7/2016	2,561	44.3500	$113,580.35
9/27/2016	2,261	43.3700	$98,059.57
10/6/2016	2,003	43.6800	$87,491.04
10/7/2016	2,561	43.2200	$110,686.42
10/27/2016	2,261	41.8700	$94,668.07
11/6/2016	2,002	40.2800	$80,640.56
11/7/2016	2,561	41.0500	$105,129.05
11/27/2016	2,261	40.8700	$92,407.07
12/6/2016	2,003	39.9700	$80,059.91
12/7/2016	2,561	40.5200	$103,771.72
12/27/2016	2,261	38.9200	$87,998.12
1/6/2017	1,609	41.2300	$66,339.07
1/7/2017	1,836	41.2300	$75,698.28
1/27/2017	1,628	44.4200	$72,315.76
2/6/2017	1,442	44.4200	$64,053.64
2/7/2017	1,845	44.3700	$81,862.65
2/27/2017	2,073	45.7100	$94,756.83
TOTAL NUMBER OF SHARES	**3,412,862**	***TOTAL VALUE OF SHARES***	**$109,432,984.38**

DAVID FILO

SALE DATE	*SHARES SOLD*	*PRICE PER SHARE*	*TOTAL SALE VALUE*
10/29/2014	300,000	45.4300	13,629,000
10/28/2015	50,000	35.1850	1,759,250.00
12/16/2016	45,000	38.6100	1,737,450.00
TOTAL NUMBER OF SHARES	**395,000**	**TOTAL VALUE OF SHARES**	**17,125,700.00**

KENNETH A. GOLDMAN

SALE DATE	*SHARES SOLD*	*PRICE PER SHARE*	*TOTAL SALE VALUE*
2/25/2014	2,828	37.2600	$105,371.28
2/28/2014	12,724	38.6700	$492,037.08
3/25/2014	3,926	35.9300	$141,061.18
3/28/2014	1,060	35.9000	$38,054.00
4/25/2014	3,927	34.4800	$135,402.96
4/28/2014	1,060	33.9900	$36,029.40
5/23/2014	3,927	35.0200	$137,523.54
5/28/2014	1,060	34.7800	$36,866.80
6/13/2014	3,000	36.9400	$110,820.00
6/25/2014	3,926	33.2500	$130,539.50
6/27/2014	1,060	34.2500	$36,305.00
7/25/2014	3,927	36.1200	$141,843.24
7/28/2014	1,060	35.9000	$38,054.00
8/25/2014	3,926	37.7100	$148,049.46
8/28/2014	1,060	38.3100	$40,608.60
9/25/2014	3,927	38.9500	$152,956.65
9/26/2014	1,060	40.6600	$43,099.60
10/24/2014	3,927	43.5000	$170,824.50
10/28/2014	1,060	45.8700	$48,622.20
11/25/2014	3,626	51.7200	$187,536.72
11/28/2014	1,060	51.7400	$54,844.40
12/24/2014	3,927	50.6500	$198,902.55
12/26/2014	1,060	50.8600	$53,911.60
1/23/2015	2,896	48.9500	$141,759.20
1/28/2015	763	46.4600	$35,448.98
2/25/2015	2,828	44.4300	$125,648.04
2/27/2015	5,477	44.2800	$242,521.56
3/25/2015	3,926	44.2000	$173,529.20

3/27/2015	1,483	45.1000	$66,883.30
4/6/2015	375	43.6700	$16,376.25
4/24/2015	3,927	44.5200	$174,830.04
4/27/2015	423	44.3600	$18,764.28
4/28/2015	1,060	44.3400	$47,000.40
5/6/2015	375	41.6600	$15,622.50
5/22/2015	3,927	43.4850	$170,765.60
5/27/2015	425	43.3800	$18,436.50
5/28/2015	1,061	43.0700	$45,697.27
6/5/2015	376	42.8100	$16,096.56
6/25/2015	3,927	41.0650	$161,262.26
6/26/2015	1,485	40.0600	$59,489.10
7/6/2015	376	38.6100	$14,517.36
7/24/2015	3,928	38.8500	$152,602.80
7/27/2015	424	37.8350	$16,042.04
7/28/2015	1,061	37.7200	$40,020.92
8/6/2015	376	36.4600	$13,708.96
8/25/2015	3,927	31.7400	$124,642.98
8/27/2015	425	33.6900	$14,318.25
8/28/2015	1,061	33.1400	$35,161.54
9/4/2015	376	31.5800	$11,874.08
9/25/2015	4,352	29.1300	$126,773.76
9/28/2015	1,061	27.6000	$29,283.60
10/6/2015	376	30.9550	$11,639.08
10/23/2015	3,928	33.1700	$130,291.76
10/27/2015	424	34.3000	$14,543.20
10/28/2015	1,061	35.1850	$37,331.29
11/6/2015	375	34.2000	$12,825.00
11/25/2015	3,927	33.1600	$130,219.32
11/27/2015	1,486	32.9400	$48,948.84
12/4/2015	376	34.9100	$13,126.16
12/16/2015	3,027	33.7800	$102,252.06
12/24/2015	5,803	34.1100	$197,940.33
12/28/2015	1,061	33.6000	$35,649.60
1/6/2016	315	32.1600	$10,130.40
1/25/2016	2,894	29.7800	$86,183.32
1/27/2016	306	29.6900	$9,085.14
1/28/2016	764	28.7500	$21,965.00
2/5/2016	271	27.9700	$7,579.87
2/25/2016	4,461	31.3600	$139,896.96
2/26/2016	1,071	31.3700	$33,597.27
3/4/2016	271	33.8600	$9,176.06
3/8/2016	90,194	32.9300	$2,970,088.42
3/9/2016	2,000	33.5100	$67,020.00

3/24/2016	3,723	34.8600	$129,783.78
3/28/2016	1,061	35.2300	$37,379.03
4/6/2016	376	36.6600	$13,784.16
4/7/2016	1,601	36.1700	$57,908.17
4/25/2016	3,928	37.2300	$146,239.44
4/27/2016	424	36.9500	$15,666.80
4/28/2016	1,061	36.5900	$38,821.99
5/6/2016	1,977	37.2300	$73,603.71
5/25/2016	3,928	35.5900	$139,797.52
5/27/2016	1,486	37.8200	$56,200.52
6/6/2016	376	37.0700	$13,938.32
6/7/2016	1,601	36.7300	$58,804.73
6/24/2016	3,927	36.2400	$142,314.48
6/27/2016	424	35.2200	$14,933.28
6/28/2016	1,061	36.0400	$38,238.44
7/6/2016	376	37.5100	$14,103.76
7/7/2016	1,601	37.5200	$60,069.52
7/25/2016	3,928	38.3200	$150,520.96
7/27/2016	424	38.6600	$16,391.84
7/28/2016	1,061	38.5200	$40,869.72
8/5/2016	1,977	38.9900	$77,083.23
8/25/2016	3,927	42.0300	$165,051.81
8/26/2016	1,486	42.2700	$62,813.22
9/6/2016	376	44.7100	$16,810.96
9/7/2016	1,601	44.3500	$71,004.35
9/23/2016	3,928	42.8000	$168,118.40
9/27/2016	424	43.3700	$18,388.88
9/28/2016	1,061	43.6900	$46,355.09
10/6/2016	376	43.6800	$16,423.68
10/7/2016	1,601	43.2200	$69,195.22
10/25/2016	3,928	42.5500	$167,136.40
10/27/2016	424	41.8700	$17,752.88
10/28/2016	1,061	41.7800	$44,328.58
11/4/2016	376	40.2800	$15,145.28
11/7/2016	1,601	41.0500	$65,721.05
11/25/2016	425	40.8700	$17,369.75
11/28/2016	1,061	41.4500	$43,978.45
12/6/2016	376	39.9700	$15,028.72
12/7/2016	1,601	40.5200	$64,872.52
12/27/2016	424	38.9200	$16,502.08
12/28/2016	1,061	38.7300	$41,092.53
12/29/2016	2,000	38.6400	$77,280.00
1/6/2017	1,591	41.2300	$65,596.93
1/27/2016	1,070	44.4200	$47,529.40

2/6/2017	271	44.4200	$12,037.82
2/7/2017	1,153	44.3700	$51,158.61
2/27/2017	306	45.7100	$13,987.26
2/28/2017	765	45.6600	$34,929.90
TOTAL NUMBER OF SHARES	**315,205**	**TOTAL VALUE OF SHARES**	**$11,659,893.83**

VIII. YAHOO'S PRELIMINARY PROXY FAILS TO DISCLOSE MATERIAL FACTS CONCERNING THE DATA BREACHES, DEFENDANTS' INTERESTS IN THE SALE, AND THE ASSET SALE TO VERIZON

140. On September 9, 2016, Yahoo filed with the SEC a Preliminary Proxy Statement (the "Proxy"), which was reviewed and approved by the entire Board and signed by Defendants Mayer and Webb. The Proxy attaches as an exhibit and incorporated the Purchase Agreement between Verizon and Yahoo.

141. The Proxy was issued because the Purchase Agreement requires, as a condition precedent, the affirmative vote of a majority of Yahoo's shareholders in support of the transaction due to the fact that the fundamental nature of Yahoo's business is changing – from that of an operating company to that of a mere holding company under the Investment Company Act of 1940. Thus, even though the assets being sold to Verizon do not constitute a majority of Yahoo's assets, the transaction, if approved, will effectuate a fundamental and substantial change in the nature of Yahoo's operations for which shareholder approval is required pursuant to SEC rules and regulations.

142. The Proxy is materially misleading and false. For example, it contains several affirmatively false statements. The Proxy falsely states that Yahoo's SEC filings "complied in all material aspects with the Securities Act, the Exchange Act or the Sarbanes Oxley Act, as the case may be, and the applicable rules and regulations promulgated thereunder," and that none of Yahoo's SEC filings contained any "untrue statement of material fact or omitted to state any material fact." *See, e.g.,* Purchase Agreement at § 2.07(a) (attached as Ex. A to the Proxy).

143. This statement was knowingly false because Yahoo's SEC filings failed to disclose the relevant data breaches, which Yahoo has now admitted it knew about since 2014.

144. The Proxy is also false and misleading because it affirmatively misrepresented that Yahoo was not aware of any undisclosed data breaches as of the date of the filing of the Proxy. The Proxy misrepresented that:

> To the Knowledge of [Yahoo], there have not been any incidents of, or third party claims alleging, (i) Security Breaches, unauthorized access or unauthorized use of any of [Yahoo]'s or the Business Subsidiaries' information technology systems or (ii) loss, theft, unauthorized access or acquisition, modification, disclosure, corruption, or other misuse of any Personal Data in [Yahoo]'s or the Business Subsidiaries' possession, or other confidential data owned by [Yahoo] or the Business Subsidiaries (or provided to [Yahoo] or the Business Subsidiaries by their customers) in [Yahoo]'s or the Business Subsidiaries' possession, in each case (i) and (ii) that could reasonably be expected to have a Business Material Adverse Effect. Neither [Yahoo] nor the Business Subsidiaries have notified in writing, or to the Knowledge of [Yahoo], been required by applicable Law or a Governmental Authority to notify in writing, any Person of any Security Breach. To the Knowledge of [Yahoo], neither [Yahoo] nor the Business Subsidiaries have received any notice of any claims, investigations (including investigations by a Governmental Authority), or alleged violations of Laws with respect to Personal Data possessed by [Yahoo] or the Business Subsidiaries, in each case that could reasonably be expected to have a Business Material Adverse Effect.

See Proxy, Ex. A, at § 2.16(p).

145. The Proxy is also false and misleading because it misrepresents that management had completed an assessment of the Company's internal controls and that those controls were effective. As Yahoo recently admitted in its 2016 Form 10-K, due to deficiencies in the Company's existing security incident response protocols related to the 2014 Security Incident, the Company's disclosure controls and procedures were not effective at December 31, 2016. As a result, the Company's internal controls were obviously also not effective as of the date of the filing of the Proxy.

146. The Proxy is also false and misleading regarding the security of consumers' personal data, since Yahoo represented that:

> To the Knowledge of [Yahoo], [Yahoo] and the Business Subsidiaries are, and in the past have made themselves, in compliance, in all material respects with: (i) all applicable Privacy Laws; (ii) all of [Yahoo]'s and the Business Subsidiaries' written public facing policies regarding privacy and data security; and (iii) any existing and currently effective written contractual commitment made by [Yahoo] or the Business Subsidiaries with respect to Personal Data; in each case (i), (ii) and (iii) except where the failure to be in compliance would not, individually or in the aggregate, reasonably be expected to have a Business Material Adverse Effect.

See Proxy, Ex. A, at § 2.16(l).

147. Because these statements were false, the Proxy was also false with respect to its misrepresentation that Yahoo was not aware of any event which would be considered to be a Material Adverse Event ("MAE") and thus give Verizon the right to cancel the contract. In fact, once the true facts concerning the data breaches were made public, Verizon determined that they did constitute a MAE.

A. The Proxy Fails to Disclose All Material Facts Concerning the Golden Parachute Payments to Yahoo's Executives

148. The Proxy fails to disclose many material facts regarding the Golden Parachute Payments to the Company's executives and the other change of control payments. The Proxy discloses that the following table presents the value of the benefits that each of Yahoo's named executive officers would receive in connection with the Purchase Agreement, assuming that the Purchase Agreement were consummated and each executive officer experienced a qualifying termination on August 25, 2016 (which is the assumed closing date of the Purchase Agreement solely for purposes of this transaction-related compensation disclosure). The amounts below are based on multiple assumptions that may or may not actually occur or be accurate, according to Yahoo, and as a result the Proxy states that the actual amounts, if any, to be received by a named executive officer may materially differ from the amounts set forth below.

Name	Cash ($)(1)	Equity ($)(2)	Benefits ($)(3)	Total ($)
Marissa A. Mayer	$3,015,000	$40,978,450	$ 25,167	$44,018,617
Ken Goldman	$1,215,000	$10,960,370	$ 50,740	$12,226,110
David Filo	$ 15,002	$ —	$ 50,740	$ 65,742
Lisa Utzschneider	$1,215,000	$19,225,962	$ 50,740	$20,491,702
Ronald S. Bell	$1,215,000	$11,124,494	$ 50,740	$12,390,234

(1) The values in this column represent the cash payments to which the executive officer would be entitled under either the Change-in-Control Plan or under the Severance Agreement, whichever is greater. Amounts for Ms. Mayer reflect benefits under the Severance Agreement and amounts for the other named executive officers reflect benefits under the Change-in-Control Plan. Ms. Mayer's cash benefits under the Severance Agreement are equal to the sum of (a) one year of base salary; (b) one year's target annual bonus (plus any unpaid bonus from

the prior year, which would not be applicable in the case of a hypothetical August 25, 2016 termination); and (c) payments equal to the premiums required to continue medical benefits under COBRA for twelve months after termination (for presentation purposes, the benefit described in this clause (c) is presented under "Benefits" above). The other named executive officers' cash benefits under the Change-in-Control Plan are equal to the sum of (i) 24 months of the named executive officer's annual base salary and (ii) reimbursement of outplacement services in the maximum amount of $15,000. For Ms. Mayer, these amounts are payable upon any qualifying termination under the Severance Agreement, whether before or after a change in control, provided that the Severance Agreement provides that Yahoo may modify it in any manner at the end of a calendar year upon 90 days' notice prior to the proposed effective date of such modification so long as Ms. Mayer's employment has not been terminated by Yahoo prior to such effective date. Ms. Mayer's payments under the Severance Agreement are neither single- nor double-trigger because they are not contingent on the occurrence of a change in control but are included in this table because the amounts payable to her under the Severance Agreement are greater than the amounts that would be payable to her under the Change-in-Control-Plan, which does provide for "double-trigger" benefits for her, as such term is described below. For the other named executive officers, the amounts in this column are "double-trigger" payments (that is, they are payable upon a qualifying termination that occurs within 12 months after a change in control). The cash amounts in this column are calculated as follows:

Name	**Base Salary**	**Bonus Payment**	**Outplacement Services**	**Value of All Cash Payments**
Marissa A. Mayer	$1,000,000	$2,000,000	$ 15,000	$ 3,015,000
Ken Goldman	$1,200,000	$ —	$ 15,000	$ 1,215,000
David Filo	$ 2	$ —	$ 15,000	$ 15,002
Lisa Utzschneider	$1,200,000	$ —	$ 15,000	$ 1,215,000
Ronald S. Bell	$1,200,000	$ —	$ 15,000	$ 1,215,000

(2) This column reports the intrinsic value of the portions of the executive officer's unvested Yahoo stock options and Yahoo RSU awards that would accelerate in the circumstances described above, which do not include any already vested portions of any such awards, as of the presumed closing date. This value is calculated by multiplying the number of shares subject to the accelerated portion of each award by $38.59 (which is the average closing market price of Yahoo common stock over the first five business days following the first public announcement of the transaction on July 25, 2016), less the applicable exercise price in the case of the unvested Yahoo stock options. Upon a qualifying termination described above in "*—Other Arrangements with Executive Officers*," unvested Yahoo stock options and unvested time-based Yahoo RSU awards would accelerate in full, and unvested performance-based Yahoo RSU awards would accelerate at target, subject to a cap in the case of the Yahoo RSU awards granted in March 2016. For time-based Yahoo RSU awards granted in March 2016, acceleration is capped at the number of shares otherwise scheduled to vest during the 24 months following the employment termination, and for performance-based Yahoo RSU awards granted in March 2016, acceleration is capped at the target number of shares for the performance year in which the termination occurs and the immediately following performance year, if any. The Yahoo RSU acceleration is a double-trigger benefit, as described above. Under the terms of the Stock Purchase Agreement, the Yahoo stock option acceleration is a "single-trigger" benefit

(meaning that it is triggered solely upon a change in control and does not depend on a termination of employment also occurring to be triggered).

Name	Value of Stock Option Acceleration	Value of RSU Acceleration	Value of All Equity Acceleration
Marissa A. Mayer	$ 15,017,529	$ 25,960,921	$ 40,978,450
Ken Goldman	$ —	$ 10,960,370	$ 10,960,370
David Filo	$ —	$ —	$ —
Lisa Utzschneider	$ —	$ 19,225,962	$ 19,225,962
Ronald S. Bell	$ —	$ 11,124,494	$ 11,124,494

(3) The values in this column represent the estimated premiums required to continue medical benefits under COBRA for 12 months (in the case of Ms. Mayer) or for 24 months (in the case of the other named executive officers) covering each executive officer and all of his or her eligible dependents receiving coverage as of the assumed closing date. For Ms. Mayer, this benefit would be payable in cash upon any qualifying termination under the Severance Agreement, whether before or after a change in control (as explained in note (1) above). For the other named executive officers, these are "double-trigger" benefits as described above and would be provided in the form of continued coverage under their respective employer's group health and dental plans, if practicable, or with equivalent health and dental benefits under an alternative arrangement.

149. These disclosures in the Proxy are misleading and incomplete. First, the amounts stated are not accurate because they were premised on Yahoo's stock price from August 2016, and Yahoo's stock price has increased substantially since then. Thus, the Proxy significantly underestimates the Golden Parachute and other payments to be received by the Company's executives officers, including Defendants Mayer, Filo, and Bell.

150. Second, the disclosures in the Proxy are misleading and incomplete because the Proxy does not disclose the executive officers' knowledge of and involvement in the data breaches, including their involvement in failing to timely disclose the breaches and their involvement in failing to disclose such matters in the Proxy itself. The Company's subsequent partial disclosures regarding these matters have not cured the omissions in the Proxy because the Company's recent disclosures have not disclosed all material facts regarding the executives' involvement in the data breaches and other matters.

151. The U.S. Senate committee investigating the Yahoo data breaches has stated that many material questions remain unanswered, even after the additional information provided by Yahoo's Independent Committee in the Form 10-K filed March 1, 2017.

152. Significantly, the Proxy asks Yahoo's shareholders to vote in favor of the Golden Parachute Payments. Plaintiff and the Class cannot do so without full information regarding the data breaches, including the role and involvement of the Company's senior executives in the breaches and the failure to timely disclose the breaches. Because the recent decisions by the Independent Committee concerning Bell and Mayer were adverse, and made in direct connection with a review of such Defendants' role in the data breaches, additional information regarding such executives' role and involvement in the data breaches is necessary to fully inform shareholders' vote as to whether to approve the Golden Parachute Payments and other compensation to such individuals.

B. The Proxy Fails to Disclose All Material Facts Concerning the Expected Operations and Plans of the Holding Company (Altaba) After the Transaction Closes

153. The Proxy contains only vague and undefined statements concerning what Yahoo, which will be renamed Altaba, will do after the transaction closes. The Proxy states:

> Although Yahoo has no current intention of selling, prior to the closing of the Sale Transaction, any of the assets that are not included in the Sale Transaction, Yahoo reserves the right to sell any such assets prior to the closing of the Sale Transaction. There is no assurance that the Fund's Initial Assets will consist of all of the assets described above. There is also no assurance as to the value of the consideration Yahoo might receive in the event of any such disposition.

154. While the Proxy states that Altaba intends to distribute "most" of the cash received from Verizon to Yahoo's shareholders after the transaction closes, absolutely no details about the amount of the distribution, its timing, or other facts are disclosed in the Proxy. Instead, the Proxy merely states that "The amount, method, and timing of these payment(s), if any, will be determined by the Board in its discretion."

155. Facts concerning Altaba's distribution of the cash received from Verizon and about Altaba's expected future operations and plans are very important because the fundamental nature of Yahoo will be changed if the transaction is approved. Yahoo will cease to exist as the Company has been known since its inception – as an operating company with a famous search engine, web portal, and Internet operations. Instead, it will become a mere holding company whose main assets will be cash, stock in Alibaba and Yahoo Japan, and patents.

156. The Proxy is false and misleading because it does not disclose what Yahoo intends to do with its Alibaba stake. Yahoo shareholders need to know this information in order to make a fully informed decision as to whether to approve the transaction and eliminate Yahoo as an operating company. The Alibaba stake is Yahoo's most valuable asset. Yahoo previously attempted to distribute Alibaba shares to Yahoo's shareholders, but abandoned that effort when it failed to obtain a favorable ruling from the IRS that the distribution would be tax-free.

157. Yahoo shareholders naturally want to know whether and when Altaba intends to try to distribute the Alibaba shares and other valuable assets of the holding company. The Proxy sheds no light on these crucial matters.

158. The Proxy necessarily does not contain any information regarding how Verizon and Yahoo determined that $350 million was a fair and appropriate reduction in the purchase consideration; what the expected liabilities are for Yahoo pre-closing and for Verizon post-closing relating to the data breaches; what information the Independent Committee reviewed prior to coming to its conclusions; what the negotiations were back and forth between Yahoo and Verizon concerning the Amended Purchase Agreement and its terms; and many other highly material terms.

159. Moreover, the Proxy contains forecasts regarding Yahoo's expected financial results for 2017 and 2018. Shareholders have no information at this point about whether the data breaches are expected to have any effect on those financial results and free cash flows.

160. In addition, when the Amended Purchase Agreement was announced, Yahoo disclosed certain limited User Engagement Trends, which purported to show the effect on Yahoo's customers' utilization of Yahoo's services in the aftermath of the December 14, 2016 disclosure of the 2013 Incident. Yahoo shareholders need significant additional and updated User Engagement data in order to be able to meaningfully analyze the effect of the data breaches on Yahoo's operations. Because the Proxy contains no information about these issues, it is materially misleading and incomplete.

161. Without full and fair disclosure of the material information set forth above, shareholders should not be asked to vote to approve the Amended Purchase Agreement.

162. In sum, and as described in further detail herein, by agreeing to the Amended Purchase Agreement, each of the defendants breached their fiduciary duties of loyalty, due care, independence, candor, good faith and fair dealing, and/or has aided and abetted such breaches. Rather than acting in the best interests of the Company's shareholders, defendants spent substantial effort tailoring the structural terms of the Amended Purchase Agreement to aggrandize their own personal interests and to meet the specific needs of Verizon, which efforts will eliminate the equity interest of Yahoo's public shareholders in Yahoo's operating business.

163. In essence, the Amended Purchase Agreement is the product of a flawed process that is designed to ensure the sale of Yahoo's operating assets to Verizon, on terms preferential to Verizon and defendants, and detrimental to plaintiff and Yahoo's shareholders. Plaintiff seeks to enjoin the Amended Purchase Agreement.

IX. CAUSES OF ACTION

FIRST CAUSE OF ACTION
Derivative Claim For Breach Of Fiduciary Duty
(Against The Individual Defendants)

164. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

165. The Individual Defendants owed the Company a fiduciary duty and obligation of good faith, fair dealing, loyalty, due care, reasonable inquiry, oversight and supervision. The Individual Defendants breached these fiduciary duties.

166. The Individual Defendants each knowingly, recklessly, or negligently failed to protect Yahoo's data, failed to investigate and remediate data breaches after they occurred, failed to investigate and remediate instances of improper insider stock sales in violation of California law, approved compensation packages and golden parachute payments despite such data breaches, and issued false statements that misrepresented and failed to disclose material information concerning the Company. These actions could not have been a good faith exercise of prudent business judgment to protect and promote the Company's corporate interests.

167. As a direct and proximate result of the Individual Defendants' failure to perform their fiduciary obligations, Yahoo has sustained significant damages which include, but are not limited to costs to remedy data breaches, costs to comply with heightened regulatory oversight, harm to the Company's reputation, goodwill and market capitalization, costs to defend and resolve any additional civil and/or regulatory actions, payment of unearned compensation, and loss in brand value. As a result of the misconduct alleged herein, the Defendants are liable to the Company.

SECOND CAUSE OF ACTION

Derivative Claim For Corporate Waste

(Against The Director Defendants)

168. Plaintiffs incorporate by reference and reallege each and every allegation contained above as though fully set forth herein.

169. The Director Defendants had a fiduciary duty to protect Yahoo's assets from loss or waste.

170. By failing to promptly disclose the data breaches and advise Yahoo's users of the data breaches, and by approving the compensation packages to other Directors and senior executives, and permitting insider sales while in possession of material, non-public information, and not seeking the immediate clawback of such compensation, the Director Defendants breached this fiduciary duty and have caused Yahoo to waste its corporate assets.

171. As a result of the Director Defendants' corporate waste, the Company has suffered substantial damages.

THIRD CAUSE OF ACTION

Derivative Claim For Violation Of Cal. Corp. Code §§ 25402 And 25403

(Against The Selling And Director Defendants)

172. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein.

173. During the Relevant Period, Defendants Bell, Mayer, Goldman and Filo (the "Selling Defendants"), by virtue of their position and relationship with Yahoo, including as officers and/or directors, had access, directly or indirectly, to material information about Yahoo that was not

generally available to the public, as described above, including the true nature and extent of past data breaches, and the failure to investigate and remediate such breaches.

174. The Selling Defendants sold their Yahoo common stock in California at a time when they knew such material, non-public information about Yahoo gained from their relationship which would significantly affect the market price of that security and which was not generally available to the public, and which they knew was not intended to be so available, and with no reason to believe that the person buying such securities was also in possession of that information, in violation of California Corporations Code § 25402.

175. The Director Defendants, who through their positions, possessed control and influence over the Selling Defendants and their sale of Yahoo stock, and had knowledge of such sales, and had knowledge of the same material, non-public information, are liable to the same extent the Selling Defendants are liable under California Corporations Code § 25403.

176. Yahoo has total assets in excess of one million dollars and has a class of equity security held of record by 500 or more persons. According to Yahoo's SEC filings, there were 956,487,217 shares of Yahoo common stock outstanding as of February 10, 2017, held by 8,762 shareholders of record.

177. The Selling and Director Defendants are liable for damages in an amount up to three times the difference between the sales price and the true market value, as well as for reasonable attorney's fees and costs under California Corporations Code § 25502.5.

FOURTH CAUSE OF ACTION
Direct Class Claim For Breach Of Fiduciary Duty
(Against The Individual Defendants)

178. Plaintiff repeats and realleges each allegation set forth above, except for the derivative causes of action.

179. The Individual Defendants have violated fiduciary duties of care, loyalty, candor, and independence owed under applicable law to the public shareholders of Yahoo and have acted to put their personal interests ahead of the interests of Yahoo's shareholders.

180. By the acts, transactions and courses of conduct alleged herein, defendants, individually and acting as a part of a common plan, are attempting to advance their interests at the expense of plaintiff and other members of the Class.

181. The Individual Defendants have violated and continue to violate their fiduciary duties by approving the Verizon Purchase Agreement and agreeing to pay substantial personal benefits to Yahoo's executives who caused the damage which forced Yahoo to reduce the purchase price by $350 million and assume 50% of the liability for the data breaches and 100% of the liability for the SEC investigation and the shareholder litigation relating to the data breaches. Notwithstanding such large damages which were caused directly by breaches of fiduciary duty committed by the Individual Defendants, the Board is allowing the Individual Defendants to retain their full change of control payments and golden parachutes.

182. As demonstrated by the allegations above, the Individual Defendants failed to exercise the care required, and breached their duties of loyalty, good faith, candor and independence owed to the shareholders of Yahoo because, among other reasons:

(a) They have failed to disclose all material facts to Plaintiff and the Class about the Purchase Agreement and data breaches in the Preliminary Proxy; and

(b) They ignored or did not protect against the numerous conflicts of interest resulting from their own interrelationships or connection with the Purchase Agreement.

102. Because the Individual Defendants dominate and control the business and corporate affairs of Yahoo, and are in possession of private corporate information concerning Yahoo's assets, business and future prospects, there exists an imbalance and disparity of knowledge and economic power between them and the public shareholders of Yahoo which makes it inherently unfair for them to pursue any proposed transaction wherein they will reap disproportionate benefits to the exclusion of maximizing stockholder value.

103. By reason of the foregoing acts, practices and course of conduct, the Individual Defendants have failed to exercise ordinary care and diligence in the exercise of their fiduciary obligations toward plaintiff and the other members of the Class.

104. As a result of the actions of defendants, plaintiff and the Class will suffer irreparable injury as a result of defendants' self-dealing and breach of the duty of candor.

105. Unless enjoined by this Court, the Individual Defendants will continue to breach their fiduciary duties owed to plaintiff and the Class and may consummate the Purchase Agreement without disclosure of all material facts to Yahoo's shareholders.

106. The Individual Defendants are engaging in self-dealing, are not acting in good faith toward plaintiff and the other members of the Class, and have breached and are breaching their fiduciary duties to the members of the Class.

107. Plaintiff and the members of the Class have no adequate remedy at law. Only through the exercise of this Court's equitable powers can plaintiff and the Class be fully protected from the immediate and irreparable injury which defendants' actions threaten to inflict.

FIFTH CAUSE OF ACTION
Direct Class Claim for Aiding and Abetting Breaches of Fiduciary Duty
(Against Defendant Verizon)

108. Plaintiff repeats and realleges every allegation set forth above, except for the derivative causes of action.

109. Defendant Verizon aided and abetted the Individual Defendants in breaching their fiduciary duties owed to the public shareholders of Yahoo, including plaintiff and the members of the Class.

110. The Individual Defendants owed to plaintiff and the members of the Class certain fiduciary duties as fully set out herein.

111. By committing the acts alleged herein, the Individual Defendants breached their fiduciary duties owed to plaintiff and the members of the Class.

112. Verizon colluded in or aided and abetted the Individual Defendants' breaches of fiduciary duties, and were active and knowing participants in the Individual Defendants' breaches of fiduciary duties owed to plaintiff and the members of the Class. Verizon knew about or recklessly

disregarded the Individual Defendants' breaches of fiduciary duty, which were and are continuing, as set forth in particularity herein.

113. Verizon utilized its knowledge of the Individual Defendants breaches of fiduciary duty to gain a bargaining advantage in the negotiations with Yahoo. Verizon gained such a bargaining advantage and procured to itself significant improper advantages and benefits.

114. Plaintiff and the members of the Class shall be irreparably injured as a direct and proximate result of the aforementioned acts.

X. PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment and preliminary and permanent relief, including injunctive relief, in their favor and on behalf of Yahoo and the Class, and against the Individual Defendants and Verizon, as follows:

A. Against the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties;

B. On the class claims, an injunction enjoining consummation of the Purchase Agreement until all material facts about the data breaches and the Individual Defendants' involvement in, and responsibility for, the data breaches are disclosed to Plaintiff and the Class;

C. Extraordinary equitable and/or injunctive relief as permitted by law, equity, and the statutory provisions sued hereunder;

D. Declaring that the Individual Defendants have breached their fiduciary duties to Yahoo and its stockholders;

E. Certifying the class claims;

D. Awarding to Plaintiff the costs, expenses, and disbursements in connection with this action, including reasonable attorneys' fees, experts' and consultants' fees and expenses, and, if applicable, pre-judgment and post-judgment interest; and

E. Awarding to Plaintiffs such other and further relief as the Court deems just and proper.

XI. JURY DEMAND

Plaintiff demands a trial by jury on all issues so triable.

Dated: March 7, 2017

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