February 4, 2008

Rating Information

Sector Rating	Market Weight
Target Price YE '08	
Long-Term Growth	26.23%

Trading Data

52-Wk Range	$18.58 - $34.08
Market Cap.	$25,459 MM
Shares Out.	1,336.4 MM
Dividend Yield	0.0%
Avg Daily Vol.	27,140,000
Float	NA

Source: FactSet

Fundamental Data

EV/EBITDA	16.4x
Enterprise Value	$24,681.6 MM
LT Debt to Total Cap.	0.0%
Book Value	$7.00

Source: FactSet

Price Performance Chart

Source: FactSet

Securities in this report priced as of:

February 01, 2008 16:00 ET

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Yahoo! Corp.
(YHOO-$28.38-Outperform)

MicroHoo!: Where are We Now & Where Do We Go From Here?

It's not often that management of a company sees its stock skyrocket ~50% in one day and have to ask themselves *"Is this the best day in company history or the worst?"* We believe Yahoo!'s valuation has being hampered by near-term investment concerns which weighed on investor realization of the long-term potential and value of the company. As we pointed out in our 4Q earnings note, we thought the near-term investor disappointment created an opportunity for any suitor that was remotely serious.

- **Implications to Traffic and Search Market Share.** Domestically, Yahoo! and MSN together command 11% in page views market share, more than double Google's 5% market share. In the international market, however, Yahoo! and MSN jointly account for 8% of total page views, still slightly lower than Google at 9%. On Search, the combination of Yahoo! and MSN would represent 33% of query market share in the domestic market and 17% in the international markets, still significantly behind Google at 58% in the U.S. and 70% internationally.

- **Implications to Advertising Market Share.** Yahoo! and MSN together add up to $5.3B in 2007 domestic ad revenues, assuming no synergies, which represents 27% of total market share. This stacks up against the 30% market share that Google has. In the international market, Yahoo! and MSN have a total of 13% market share of ad spend, still behind Google at 40%.

- **Valuation.** The stated acquisition price values Yahoo! at 6.0x 08 revenues, 18.0x 08 EV/EBITDA, 47.6x 08 Adj. EPS, and 40x 08 free cash flow. Internet company acquisitions over the past three years have been transacted at a median of 19x fwd EBITDA, close to Yahoo's acquisition multiple. However, given Yahoo!'s diverse collection of premium assets, it is our opinion that an acquisition multiple should be significantly higher than the historical acquisition comparables.

Sector View: We believe providers of online advertising are well positioned to gain from the shift of ad dollars to measurable media.

GAAP Estimates Post Option Expense †(All values are in USD)

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E
2006	0.11	0.11	0.11	0.19	0.52	54.6x
2007	0.10	0.11	0.11	0.15	0.47	60.4x
2008	0.28E	0.12E	0.13E	0.14E	0.67E	42.4x

† All numbers are after stock-based compensation expense, normalized consistent with BSC option expense policy.

PLEASE REFER TO PAGE 10 OF THIS REPORT FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

WAS FRIDAY THE BEST OR WORST DAY IN YAHOO!'s HISTORY?

It's not often that management of a company sees its stock skyrocket ~50% in one day and have to ask themselves *"Is this the best day in company history or the worst?"* However, we believe that exact question may be on many of the top leaders' minds this weekend. For reference, Yahoo!'s stock had declined 16% since Labor Day, before Friday's transformational announcement by Microsoft on its desire to acquire the company. Through the last several months, we have stated in our notes that we believed Yahoo!s valuation was being hampered by near-term investment concerns which weighed on investor realization of the long-term potential and value of the company. More recently, when Yahoo! reported Q4 earnings and made it clear that 2008 would be another investment year, many thought (including ourselves) that the stock would now languish through at least 1H 2008. However, as we pointed out in our earnings note, <u>we thought the near-term investor disappointment created an opportunity for any suitor that was remotely serious</u> to make their move.

We think the unsolicited offer by Microsoft can be considered hostile; in fact, we think that the move caught Yahoo! management by surprise. We highly doubt that management would have considered investing as much as it guided for in the 4Q earnings report, if they had thought an active suitor was waiting in the wings. The disappointing 2008 guidance took the stock down below $20, making a more modest offer even more attractive. We believe that if it appeared to Yahoo! management that Microsoft was clearly in the wings, the company would have still invested in 2008, but maybe not to the degree the company ultimately announced. Street 2008 EBITDA estimates had already dropped 20% by January 2008 to $2.0B from when Mr. Yang first took over, as many expected a step up in investment.

Top 10 Questions for Yahoo! Leadership. So the ball now appears to be in Yahoo!'s court and we think management and the board have to ask themselves several questions:

1) Should we sell the company?
2) If so, is Microsoft the right partner?
3) If not, how can we stop a deal?
4) Further, who would be a better partner?
5) Given the amount of investment we think Yahoo! needs, what's the right price?
6) Culturally, does Microsoft fit? Would employees leave en masse?
7) How much control would Yahoo! have in the online arm of Microsoft?
8) If we decide Microsoft is the right partner, can a deal pass the regulators?
9) If the deal can pass, would we lose further ground to Google during integration?
10) Ultimately, what's in the best LT interests of our shareholders?

Yahoo! Facing Many Challenges. In many ways, Yahoo! needs a partner and significant capital to compete for the future of the Internet. Not only does Yahoo! need to compete with the technological power of Google, but it is facing challenges from:

- social networks,
- geographically strong competitors (ie SOHU / SINA in China),
- display networks (DoubleClick, ValueClick, Aquantive)
- the splintering attention of the online consumer

Pros & Cons Analysis Should Aid Decision. We would guess that management and the board spent most of the weekend pondering the various Pros and Cons of having Microsoft as a partner (assuming an agreed upon price). The combined entity would clearly be stronger; in fact, we think there are several Pros as well as Cons:

Microsoft Deal Pros

- Brings tremendous resources (both engineering and financial) to help build for the future of the Internet (mobile, video, local /global)
- Adds Microsoft's partners as Allies to Yahoo!
- Strengthens Yahoo! to compete with Google
- Provides a meaningful reach for Search Advertisers (combined search share would make them both more relevant)
- Provides the largest reach for Brand Advertisers (advertisers could reach MSN, Yahoo!, and across the Internet in one buy)

- Provides the Best User Experience (taking the best properties and ideas to create the most useful / interesting products for consumers)

Microsoft Deal Cons

- Culture clash could cause a mass exodus of key employees (to potentially Google!)
- Independence would be lost – no longer in control
- Potentially selling at an artificially low price
- Integration time period could allow Google to widen its leads

Other Bidders / Allies in the Wings – The company is also likely reaching out to other companies / white knights (NewsCorp, AT&T, Comcast, and others). In fact, even a strategic deal with Google to outsource Yahoo! search to Google could thwart Microsoft's advances. We also point out that there could be other (non traditional media) white knights like eBay that could be formulating tightening their Yahoo! ties. While it appears unlikely that Time Warner may enter the process as a white knight for Yahoo!, we should have additional visibility starting this Wednesday, when Time Warner reports results. A catalyst for restructuring would include the July 1, 2008 deadline when Google can seek registration rights for its 5% stake in AOL.

Important Points on Process from here: We held a conference call for investors on Friday (pls contact your BS representative for replay information), and we felt these were the most salient points:

- This was an unsolicited first bid; final consideration could be higher.
- While there could be other bidders, in some recent M&A transactions, the original bidder has come back and bid more because of the strategic value.
- Regulatory approval process is expected to take a minimum of 8 months after the deal is definitive.
- Clearance preside will need to be decided between the DOJ and the FTC. While the FTC conducted the recent review of the Microsoft-aQuantive deal, the DOJ has already expressed an interest in reviewing this deal.
- If the FTC were to review the deal, that presents a slightly higher hurdle, as compared to a DOJ review.
- EU remains a question, and its decision in the Google-DoubleClick transaction may be pointer to how they may evaluate this deal – the Phase II review of the Google deal expires on April 2, 2008, when we may have the next data-point on the EU.
- March 14 is the deadline for nominating the slate for Yahoo! Board memberships, and all 10 slots, are open for nominations. June 12, 2008 is the anniversary of the board meeting. Given that Yahoo! is a Delaware-registered company, the shareholders can force the board elections 13 months after the last one. As a result, there will be a lot of pressure on the board to explore all options and hopefully, resolve the issue by then.

What Does This Mean For Google.

The combination of Yahoo! and Microsoft brings about a much more formidable competitor to Google as both companies combine their respective talents and strengths to gain scale in online advertising. Yahoo! brings to the table a deep understanding of display advertising and display networks along with a strong sales force and a more media centric view. Microsoft brings a deep engineering bench combined with a strong balance sheet. But to truly understand the impact to Google, one would have to look to the respective online businesses and geographies to ascertain whether Google would be negatively impacted.

- **Online Search.** In Search, the combination would have a 21% share of worldwide queries compared to Google's 67% share. However, both Yahoo! and Microsoft have lost query market share to Google over the past three years and we have no reason to believe the trend will reverse in the future or implicitly that user behavior would shift away from Google. Google has a strong brand that is synonymous with search and users believe that Google produces more relevant search results than the competition. Therefore, on the consumer side, unless Yahoo! and Microsoft can change perception, then Google will not necessarily be impacted in online search in terms of usage. On the buyer side, the combination would have to show advertisers and search engine marketers that they can deliver higher ROIs before budgets will be shifted away from Google. That is likely to be a longer-term endeavor particularly if Google continues to garner a greater share of query volume.

  On the search affiliate side, the story could be quite different. Yahoo! has lost a bevy of search affiliates to Google over the past few years. Yahoo! could have the chance to re-gain those affiliates when their contracts are up with Google if Yahoo!, with the backing of Microsoft, becomes more aggressive with revenue sharing arrangements. Yahoo! has already started to make headway on the affiliate side in both search and display (discussed next) with relationships with over 250 newspapers, Comcast, Viacom, eBay, and the access relationships with AT&T, Rogers, and others. Yahoo! could continue to negotiate from a position of greater strength with affiliates with the backing of Microsoft.

On the international side, Google has a significantly stronger foothold in all of Europe, Latin America, and the Middle East and Africa than both Yahoo! and Microsoft. Yahoo! has a stronger presence in Asia than Google and Microsoft. The combined Yahoo! and Microsoft could strengthen their positions in Asia and attempt to gain greater scale in the other geographies with advertisers and affiliates. But changing user behavior internationally will be a challenge for the combination as it would be in the domestic market.

So in summary, we believe that Google will be relatively unaffected in online search particularly in the near term. Longer term, however, the story could evolve differently given the rapid changes in technologies and user behavior. One only needs to look to the sudden and rapid rise of the social networks such as MySpace and Facebook as an example of the changes in user behavior on the Internet.

- **Display.** Here, both Yahoo! and Microsoft have a stronger edge than Google, which currently does little business in Display. That could change if the DoubleClick acquisition is approved by the European Commission and Google becomes more knowledgeable in this online advertising vertical. It is too early to call winners and losers here but at least in the near term we believe that the combination of Yahoo! and Microsoft will trump Google in this area because of experience and knowledge and leverage with advertisers and adnetworks.

- **Video.** With the popularity of YouTube, Google will continue to have an advantage in drawing online video advertising dollars. However, the combination of Yahoo! and Microsoft draws a significant number of video streams in front of a higher quality user base that is likely to be attractive to advertisers. Therefore, the combination could certainly have an advantage over Google in attracting video advertising dollars in the long term.

- **Radio, Print, TV.** Google has the lead here with a presence in radio, print, and television advertising, compared to zero presence from Yahoo! and Microsoft. We believe that Google will continue to have the edge here over the next few years because of its first mover advantage.

On the cost side, with a stronger combined competitor, Google will most certainly have to be more aggressive with operating expenses and capital expenditures to ward off the combined threat of Yahoo! and Microsoft. In turn, in spite of the cost synergies that we discussed, we believe the combined company will have to increase spending to match the increased spending we expect from Google. Therefore, we would expect significantly more investment spending in the areas of opex, capex, and acquisitions by all involve over the next few years.

A Look at Implications of the Transaction to Market Share

Below we take a look at market share of Yahoo! and MSN to see how the combination of the two stacks up against their largest competitor, Google.

First, we look at December 07 page views data from comScore, which is a relevant metric to assess the display business, in our view. In the domestic market, Yahoo! leads the market by commanding 7% of total U.S. page views. This combined with MSN's 4% yields 11% in combined market share, more than double Google's 5% market share. In the international market, however, Yahoo! and MSN jointly account for 8% of total international page views, still slightly lower than Google at 9%.

Page Views Market Share Analysis (Dec. 07)

	YAHOO	MSN	YAHOO+MSN	GOOGLE
Page Views				
Domestic PV Market Share	*7%*	*4%*	***11%***	*5%*
International PV Market Share	*5%*	*4%*	***8%***	*9%*
Worldwide PV Market Share	*5%*	*4%*	***9%***	*8%*

Source: comScore; Bear Stearns

Looking at December 07 monthly unique visitors data from comScore, Yahoo! commands 74% reach among total U.S. Internet users and 55% among international Internet users while MSN commands 65% in the U.S. and 66% internationally. While we are unsure how many users visit both Yahoo! and MSN, we are confident that the combined reach would surpass that of Google at 72% in both the U.S. and the international markets.

Unique Visitors Penetration Analysis (Dec. 07)

	YAHOO	MSN	GOOGLE
Unique Visitors			
Domestic UV Penetration	*74%*	*65%*	*72%*
International UV Penetration	*55%*	*66%*	*72%*
Worldwide UV Penetration	*59%*	*66%*	*72%*

Source: comScore; Bear Stearns

Turning to search, according to December 07 search data from comScore, the combination of Yahoo! and Google would represent 33% of query market share in the domestic market and 17% in the international markets, still significantly behind Google at 58% in the U.S. and 70% in the international markets.

Search Market Share Analysis (Dec. 07)

	YAHOO	MSN	YAHOO+MSN	GOOGLE
Search				
Domestic Search Market Share	*23%*	*10%*	***33%***	*58%*
International Search Market Share	*14%*	*2%*	***17%***	*70%*
Worldwide Search Market Share	*17%*	*4%*	***21%***	*67%*

Source: comScore; Bear Stearns

An even more relevant measure would be display ad views (impressions). We look at total U.S. ad views in 2H06 from comScore. Yahoo! is the leader with 18% of total display ad view market share while MSN has a 6% market share. The combination would yield approximately 24% market share which would command a clear lead in the domestic market. Fox Interactive Media holds 15% of market share, aided by its MySpace property while Time Warner would be the 3rd with 6%.

US Display Ad Views (MM)

	Jul-2007	Aug-2007	Sep-2007	Oct-2007	Nov-2007	Dec-2007	2H07	Market Share
Total Display Ad Views (MM)								
Total Internet : Total Audience	418,219.6	398,322.8	380,495.8	418,728.8	401,030.1	396,741.7	2,413,538.8	
Yahoo! Sites	74,703.4	72,120.8	66,938.3	72,676.6	75,589.3	75,307.9	437,336.3	*18%*
Microsoft Sites	23,841.2	23,524.0	23,119.3	27,098.8	26,997.0	26,285.5	150,865.9	*6%*
Yahoo + MSN	**98,544.6**	**95,644.8**	**90,057.7**	**99,775.4**	**102,586.3**	**101,593.4**	**588,202.2**	***24%***
Fox Interactive Media	57,432.1	58,286.2	62,542.1	63,798.7	65,555.0	61,011.7	368,625.8	*15%*
Time Warner Network	22,197.4	21,857.4	23,680.1	23,499.5	23,193.3	22,672.7	137,100.4	*6%*
Google Sites	2,302.9	2,137.6	3,203.3	3,490.3	4,046.5	3,986.4	19,167.0	*1%*

Source: comScore; Bear Stearns

Another important metric to look at is the total online ad revenue generated. In 2007, Yahoo! generated $3.2B in the U.S. online market and MSN online services generated $2.1B. Without any consideration of potential synergies, the two could add up to revenues of $5.3B, which represents about 27% of total market share. This stacks up against the 30% market share that Google has. In the international market, Yahoo! and MSN have a total of 13% market share, still behind Google at 40%.

($ in Millions)

	Total Online Ad Revenue	% Market Share
Total US 2007 Online Ad Spend	$20,000	
Yahoo	$3,174	16%
MSN (est.)	$2,134	11%
Total Yahoo + MSN	**$5,307**	**27%**
Google	$6,012	30%
Total International 2007 Online Ad Spend	$13,723	
Yahoo	$1,058	8%
MSN (est.)	$711	5%
Total Yahoo + MSN	**$1,769**	**13%**
Google	$5,461	40%

** IAB; Zenith; Bear Stearns*

Valuation

The stated acquisition price values Yahoo! at 6.0x 2008 revenues, 18.0x 2008 EV/EBITDA, 47.6x 2008 Adj. EPS, and 40x 2008 free cash flow. Internet company acquisitions over the past three years have been transacted at a median one year forward EBITDA multiple of 19x, thus, the acquisition multiple falls within close range of historical comparables. **However, given Yahoo!'s diverse collection of premium assets (Display, Search, BlueLithium, RightMedia, Display & Network relationships, Alibaba, Yahoo! Japan, GMarket), it is our opinion that an acquisition multiple should be significantly higher than the historical acquisition comparable in the Internet sector.**

Internet Acquisitions

Date	Acquirer	Target	Value ($m)	1 yr Forward Revenue Multiple	1 yr Forward EBITDA Multiple
Feb-2005	New York Times	About.com	$410	NA	20x
Feb-2005	Cendant	eBookers	$350	NA	17x
Mar-2005	InterActiveCorp	Ask Jeeves	$1,950	6x	17x
Apr-2005	Hellman & Friedman	DoubleClick	$515	2x	10x
Jun-2005	The E.W. Scripps Co.	Shopzilla	$525	NA	17x
Jun-2005	eBay	Shopping.com	$620	4x	19x
Jul-2005	News Corporation	Intermix Media	$580	4x	26x
Jul-2005	Sabre	Lastminute.com	$1,034	NA	13x
Aug-2005	ValueClick	FastClick	$214	NA	7x
Sep-2005	NewsCorp	IGN	$650	NA	30x
Dec-2005	ITV	Friends Reunited	$304	9x	20x
Dec-2005	Liberty Media	Provide Commerce Inc.	$417	2x	17x
Dec-2005	Experian	Pricegrabber	$485	NA	19x
Dec-2005	Liberty	Provide Commerce	$477	NA	25x
Mar-2006	NBC Universal	iVillage	$600	5x	21x
Dec-2006	Google	YouTube	$1,600	NA	NA
Dec-2006	Publicis	Digitas	$1,295	3x	16x
Apr-2007	Google	DoubleClick *	$3,100	8x	40x
Apr-2007	Yahoo	Right Media	$680	10x	NA
May-2007	WPP Group	24/7 Real Media	$649	2x	31x
May-2007	Microsoft	Acquantive	$6,000	10x	40x
Jan-2008		Audible	$300	2x	15x
Feb-2008		Yahoo!	$45,000	6x	18x
Average				**5x**	**21x**
Median				**4x**	**19x**
Min				**2x**	**7x**
Max				**10x**	**40x**

* Acquisition has not closed

Source: Company Reports; Bear Stearns & Co, Inc. Estimates

Our price target is under review. In our last note on Yahoo! post the 4Q07 earnings report, we valued Yahoo! at $24 per share, based upon a evaluation of Yahoo!'s future cash flows using a WACC of 10% and a 10x implied terminal multiple on EBITDA.

<u>Hence, the acquisition price is at a 29% premium to our price target and represents what we believe is the true premium that Microsoft is paying for Yahoo!'s shares</u>.

Yahoo DCF Valuation ('000s, Except Per Share Data)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Operating Income (EBIT)	$604	$852	$1,019	$1,202	$1,436	$1,701	$1,987	$2,293	$2,617
Less: Cash Taxes on Operating Income	(241)	(341)	(408)	(481)	(574)	(681)	(795)	(917)	(1,047)
Net Operating Profit Less Adjusted Taxes	**$362**	**$511**	**$611**	**$721**	**$862**	**$1,021**	**$1,192**	**$1,376**	**$1,570**
Depreciation & Amortization	708	601	654	703	750	797	843	888	930
Change in Working Capital	32	302	109	131	149	199	225	240	254
Capital Expenditures	(744)	(721)	(781)	(839)	(902)	(977)	(1,053)	(1,129)	(1,204)
Unlevered Free Cash Flow	**$358**	**$692**	**$593**	**$716**	**$859**	**$1,040**	**$1,207**	**$1,374**	**$1,549**

		DCF Assumptions	
Sum of the PV of Interim Unlevered FCF	$5,106	Risk Free Rate (R_f)	5.0%
PV of Terminal Value	19,621	Estimated Equity Risk Premium (R_m-R_f)	5.4%
Gross Asset Value	**$24,727**	Beta (β)	1.2
Add: Option/Warrant Proceeds	1,610	Cost of Equity (K_e)	11.5%
Add: Cash & Equivalents	3,776	Cost of Debt (K_d)	9.0%
Add: Yahoo Japan	3,400	Target Debt/Capital Ratio	33.0%
Add: Gmarket	50	Tax Rate	40.0%
Add: Alibaba	2,074	**Weighted Average Cost of Capital (WACC)**	**10%**
Less: Debt	---	**G (Perpetual Growth Rate)**	**5%**
Net Asset Value (NAV)	**$35,637**	**Terminal Multiple =(1+G)/(WACC-G)**	**22x**
Diluted Shares	1,462	Implied Terminal Year Multiple on EBITDA	9.7x
Intrinsic Value per Share	**$24**		
Acquisition Price	$31		
Upside	29%		

Source: Bear Stearns & Co, Inc.

Further, a sum-of-parts valuation of Yahoo!'s businesses and holdings values the shares at between $24 on the low end of our valuation multiples and at $26 on the high end. The acquisition premium thus falls to between 17% and 29%.

Yahoo - Sum of Parts Valuation ('000s, Except Per Share Data)									
	2009E	Low	High	Low		% of	High		% of
Yahoo Services	**EBITDA**	**Multiple**	**Multiple**	**Enterprise Value**	**Per Share**	**Total EV**	**Enterprise Value**	**Per Share**	**Total EV**
Display Advertising	$1,022.2	11x	13x	$11,243.7	$8.0	47.6%	$13,022.3	$9.2	48.4%
Online Search	$817.2	14x	16x	$11,440.9	$8.1	48.5%	$12,813.8	$9.1	47.6%
Listings	$49.0	5x	6x	$244.9	$0.2	1.0%	$288.0	$0.2	1.1%
Access	$41.0	2x	2x	$81.9	$0.1	0.3%	$80.3	$0.1	0.3%
Fees	$117.8	5x	6x	$588.9	$0.4	2.5%	$692.5	$0.5	2.6%
Total Enterprise Value				**$23,600.4**	**$16.8**	**100.0%**	**$26,896.9**	**$867.6**	**100.0%**
Add: Option/Warrant Proceeds				$298.9	$0.2		$298.9	$0.2	
Add: Cash & Equivalents				$3,775.6	$2.7		$3,775.6	$2.7	
Add: Yahoo Japan				$3,399.9	$2.4		$3,399.9	$2.4	
Add: Gmarket				$50.3	$0.0		$50.3	$0.0	
Add: Alibaba				$2,074.0	$1.5		$2,074.0	$1.5	
Less: Debt				$0.0	$0.0		$0.0	$0.0	
Equity Value				**$33,901.8**			**$37,198.4**		
Diluted Shares				1,408			1,408		
Fair Value per share				**$24**			**$26**		
Acquisition Price				$31			$31		
Upside/(Downside)				29%			17%		

Source: Bear Stearns & Co, Inc.

Lastly, the acquisition 2008 EV/EBITDA multiple is in-line with Google's 2008 EV/EBITDA MULTIPLE of 17.4x and in-line with the Internet coverage average 2008 EV/EBITDA multiple of 17.0x.

In Millions, except per share data, multiples, and ratios.

Company	**Google**	**Yahoo!**	**eBay**	**Amazon**	**IAC**	**Expedia**	**Liberty Interactive**	**CNET**	**GSI**	**VistaPrint**	**Bankrate**	**Baidu**	**Industry Average**
Ticker	GOOG	YHOO	EBAY	AMZN	IACI	EXPE	LINTA	CNET	GSIC	VPRT	RATE	BIDU	
Stock Rating	Out Perform	Out Perform	Out Perform	Peer Perform	Peer Perform	Peer Perform	Outperform	NR	Underperform	Outperform	Peer Perform	Peer Perform	
ENTERPRISE VALUE (In Millions)													
Price As Of: 2/1/08	$515.90	$31.00	$28.81	$65.29	$26.26	$23.45	$16.51	$8.42	$17.52	$39.02	$56.50	$269.59	
x Fully diluted shares	328.7	1,408.3	1,502.1	446.6	300.6	312.8	636.9	156.5	54.6	47.2	21.3	35.4	
= Equity Value	**$169,571**	**$43,658**	**$43,276**	**$29,161**	**$7,894**	**$7,334**	**$10,515**	**$1,317**	**$957**	**$1,841**	**$1,203**	**$9,543**	**$324,952**
+ Debt & Prefs ($mil)	---	---	---	325	1,000	1,000	7,082	66	180	24	---	---	**9,611**
- Cash	13,087	2,363	5,036	1,665	1,812	857	3,018	73	166	125	141	191	**28,462**
- Cash from options & warrants	3,264	299	4,577	60	168	342	598	19	56	59	55	14	**9,491**
+ Net Debt/(Cash)	(16,352)	(2,662)	(9,613)	(1,400)	(980)	(199)	3,466	(26)	(42)	(160)	(195)	(205)	**(28,342)**
= Enterprise Value (EV)	**$153,219**	**$40,996**	**$33,663**	**$27,761**	**$6,914**	**$7,135**	**$13,981**	**$1,292**	**$915**	**$1,681**	**$1,007**	**$9,338**	**$296,610**
- Value of Other Assets	---	7,622	---	---			2,181	---	---			---	**$9,802**
= Adjusted Enterprise Value	**$153,219**	**$33,374**	**$33,663**	**$27,761**	**$6,914**	**$7,135**	**$11,801**	**$1,292**	**$915**	**$1,681**	**$1,007**	**$9,338**	**$286,808**
EBITDA, (ex- Share Based compensation)													
2007E	$6,921	$1,927	$2,908	$1,084	$861	$790	$1,705	$82	$56	$52	$43	$102	
Margin (Net Revenues)	59%	38%	38%	7%	14%	30%	22%	20%	9%	20%	45%	44%	
2008E	**$8,790**	**$1,852**	**$3,178**	**$1,399**	**$977**	**$861**	**$1,824**	**$95**	**$75**	**$80**	**$65**	**$187**	
2009E	$10,802	$2,047	$3,515	$1,812	$1,045	$966	$1,919	$108	$106	$111	$78	$291	
LT Growth Rate - 5yr ('07-'12)	22%	9%	10%	28%	7%	11%	5%	13%	33%	40%	21%	53%	
EV / EBITDA Multiples													
2007E	22.1x	17.3x	11.6x	25.6x	8.0x	9.0x	6.9x	15.7x	16.3x	32.5x	23.4x	91.9x	21.4x
2008E	**17.4x**	**18.0x**	**10.6x**	**19.8x**	**7.1x**	**8.3x**	**6.5x**	**13.6x**	**12.2x**	**21.0x**	**15.5x**	**49.9x**	**17.0x**
2009E	14.2x	16.3x	9.6x	15.3x	6.6x	7.4x	6.1x	12.0x	8.6x	15.1x	12.9x	32.1x	13.9x
'07 Multiple-to-Growth Ratio	**1.0x**	**1.9x**	**1.1x**	**0.9x**	**1.1x**	**0.8x**	**1.5x**	**1.2x**	**0.5x**	**0.8x**	**1.1x**	**1.7x**	**1.2x**
'08 Multiple-to-Growth Ratio	0.8x	2.0x	1.0x	0.7x	1.0x	0.8x	1.4x	1.1x	0.4x	0.5x	0.7x	0.9x	1.0x

Source: Bear Stearns & Co, Inc. Estimates; Reuters;

Yahoo!'s Non-Core Assets – We Estimate a Value of ~$4.41/Share. In order to estimate the market valuation for Yahoo!'s core assets, we first quantify the valuation of Yahoo!'s non-core assets implied by the publicly traded stakes in affiliated companies in order to back out the non-core valuation from Yahoo!'s overall valuation.

- **Yahoo! Japan Largest Non-Core Asset – $2.41/Share.** The largest non-core asset is Yahoo! Japan. As of yesterday closing, Yahoo! Japan has a market cap of Japanese Yen 2,267 billion (US$ 21.2 billion). Yahoo!'s 33.4% stake translates into a value of $7.1 billion. We then take a lack of control discount for minority stake at 20% and a tax rate at 40% and arrive at a total value of $3.4 billion. Dividing this number by total Yahoo! shares outstanding, we get Yahoo! Japan value at $2.41 per YHOO share.

Yahoo! Inc. – Yahoo! Japan (4689 JP), In Billions Except Per Share Values

Yahoo! Japan (4689 JP)	
Market Cap (B Yen), 1/30/2008	2,267
Yen - 1/30/08	106.9
Value in U.S. Dollars $B	$21.2
Yahoo ownership stake	33.4%
Value of Yahoo's ownership stake $B	$7.1
Discount (lack of control)	20%
Value $B	$5.7
- Tax @ 40% $B	$2.3
Total Value $B	$3.4
Value per Yahoo share	**$2.41**

- **Alibaba Group Investments – $1.47/Share.** The second largest non-core asset is Alibaba. As of yesterday's closing prices, Alibaba.com (B2B unit) had a market cap of HK$101 billion (US$ 12.9 billion). Yahoo!'s 30% stake translates into a value of $3.9 billion. We then take a lack of control discount for minority stake at 20% and a tax rate at 40% and arrive at $1.32 per YHOO share. Since Yahoo! owns 40% stake on Alibaba group level, Yahoo! also maintains its ownership on other Alibaba assets outside of the publicly traded Alibaba.com (such as Taobao and AliPay). We carry those assets at their book value, assuming those assets comprise of 25% of the book value of Alibaba's total assets on Yahoo!'s book. As such, we estimate those assets contribute another $350 million. We then apply a 40% tax rate and arrive at a $0.15 per share valuation. Adding the per share valuations of Alibaba.com and Alibaba's non-B2B asset, we get Alibaba's total value at $1.47 per Yahoo! share.

Alibaba.com (1688.HK)	
Market Cap (B HKD), 1/30/2008	100.8
HK$ - 1/30/08	7.80
Value in U.S. Dollars $B	$12.9
Yahoo ownership stake	30%
Value of Yahoo's ownership stake $B	$3.9
Discount (lack of control)	20%
Value $B	$3.1
- Tax @ 40% $B	$1.2
Value of Alibaba B2B Unit $B	$1.9
Value per Yahoo share	**$1.32**
Other Alibaba Assets	
Book value of other assets $B	$0.4
- Tax @ 40% $B	$0.1
Value of Other B2B Assets $B	$0.2
Value per Yahoo share	**$0.15**
Total Alibaba Assets	
Grand Total Value $B	$2.1
Grand Total Value per Yahoo share	**$1.47**

- **10% Stake in Gmarket – $0.04/Share.** The third non-core asset is Korea's Gmarket. Gmarket has a market cap of US$1,047 million. Yahoo!'s 10% stake translates into a value of $104.7 million. We then take a lack of control discount for minority stake at 20% and a tax rate at 40% and arrive at a total value of $50 million. Dividing this number by total Yahoo! shares outstanding, we get Gmarket value at $0.04 per Yahoo! share.

Gmarket	
Market Cap ($M), 1/30/08	1,047.0
Yahoo's ownership	10%
Value of Yahoo's ownership stake ($M)	$104.7
Discount (lack of control)	20%
Value $M	$83.8
- Tax @ 40% $M	$33.5
Total Value $M	$50.3
Yahoo Shares	1,408
Value per Yahoo share	**$0.04**

In aggregate, we estimate the value of non-core assets and the NOLs at ~$4.41 per share.

Synergies Overview – From The Software Team's Perspective (J. Difucci)

Microsoft indicated on its call that it expected to generate at least $1 billion in cost synergies from a transaction. These synergies are expected to be derived from four primary areas. First, R&D synergies would be achieved be eliminating duplicate efforts to tackle the same problems. Second, those R&D resources that were duplicating efforts would be redeployed to tackle other opportunities. Third, the combined entity would be able to eliminate duplicative capital expenditures. Fourth, the company expects to be able to generate operating efficiencies by eliminating redundancies.

- **R&D Synergies**
  We would expect Microsoft to be able to redeploy a significant number of a combined entity's R&D staff to better utilize the combined entities resources. However, we are concerned that a combined entity may see a "brain drain" as employees seek opportunities outside of a combined Microsoft-Yahoo!, especially given what appears to be very different cultures between the two companies.

- **Redeployment of R&D Resources**
  This "synergy" implies that the combination of MSFT and YHOO will result in the redeployment of resources associated with expense to generate new revenue that will at least offset that expense. We believe this assumption is inappropriate at this time, given the history of similar assumptions with Software acquisitions. While we recognize the difference between this union and the merger of two Software assets, we believe that assuming the combination results in incremental revenue (even through new or improved products) raises the risk associated with the operational success of the combination.

- **Capital Expenditure Synergies**
  Yahoo! spent over $600 million, or 30.7% of operating cash flow, in 2007 on capital expenditures while Microsoft spent $2.5 billion, or 11.2% of operating cash flow, in calendar 2007. We believe that rationalization of capital assets such as data centers could provide meaningful reductions in capital expenditure needs for a combined entity relative to two stand-alone organizations.

- **Operating Efficiency Synergies**
  We would expect that headcount reductions in G&A and Sales & Marketing would be the primary area of focus for achieving operating efficiencies because we believe that Microsoft is interested in trying to maintain as much of the combined entities R&D resources as possible.

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Robert Peck

Companies Analyzed

* Yahoo! Corp. (YHOO) - $28.38 (as of February 01, 2008 16:00 ET) - Outperform

* Microsoft Corp. (MSFT) - $30.45 (as of February 01, 2008 16:00 ET) - Peer Perform

* Google (GOOG) - $515.90 (as of February 01, 2008 16:00 ET) - Outperform
Price Target ('08): $650.00
Risk(s) to Price Target - Existing and emerging competition in the online advertising industry; our YouTube, Radio, and Print expectations prove too optimistic
Valuation Methodology - DCF with a WACC of 10%.

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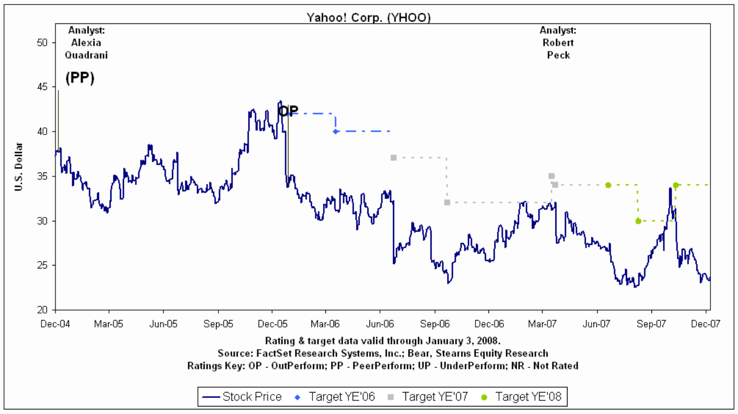

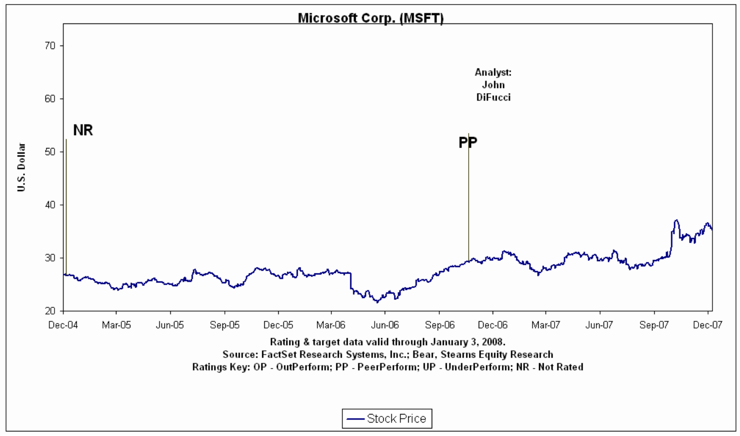

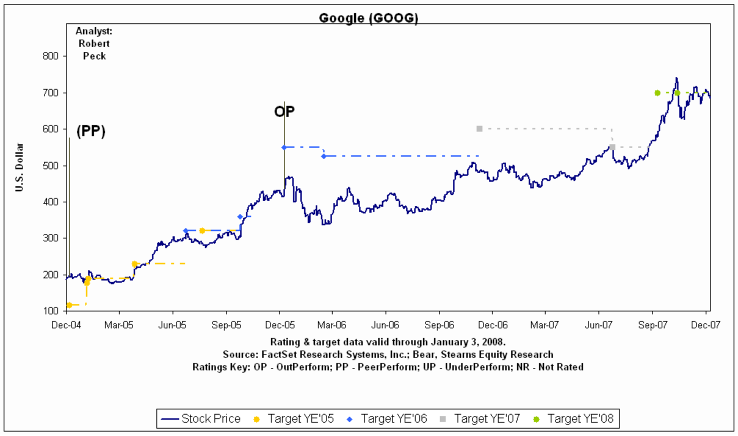

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