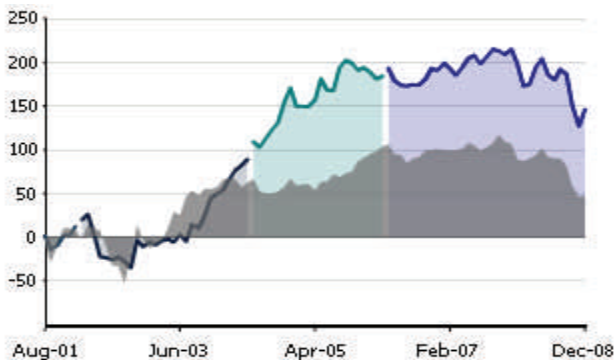




Carol Bartz Changes the Thesis for Yahoo!

We think the selection of Carol Bartz as the new CEO of Yahoo changes the outlook for the firm and is a positive game changer for shareholder returns in 2009. We think that the dilutive aspects of the new CEO's somewhat avaricious and outsized compensation package will be more than off-set by operating improvements and net share gains for YHOO investors. Bartz has a superb skill fit for the myriad of problems that Yahoo faces, real or imagined. She has both the operating ability and the high profile personality "brand" that is needed to restore the luster to Yahoo's intrinsic assets. We think she is likely to make quick progress in changing Wall St.'s perception of the valuation and growth characteristics of the firm, potentially triggering new and hastened bids by strategic suitors. We rank Carol Bartz as one of the software industry's top quintile CEOs and think she will make rapid and positive changes that will surprise subdued expectations for YHOO's performance in 2009. The enormous size and tranche structure of her option grants suggest to us that she will move decisively toward a sale of the Company.



As the accompanying graph shows clearly, Carol Bartz is not an average CEO. Our system measures an executive's track record (dark blue line) in terms of consistent ability to generate positive total returns, revenue growth and operating income net of the equal weighted peer industry's average (gray area). Bartz is a top quintile software executive on all of those metrics over the last two decades of her career. To accomplish that, she's applied a rigorous and relentless management style that will be a good elixir for Yahoo's ills. Bartz is a blunt, cut-to-the-chase, leader whose confidence and reputation was built over a long technology career, first

with Sun in the 1980's and then as the CEO of Autodesk. At Autodesk she truly transformed the firm into an industry defining entity whose strong organic growth rates were matched by well considered tactical acquisitions. At YHOO we expect her near term focus will be on improving morale, some quick tuck-in acquisitions, and mostly revamping the firm's prominence in the internet advertising space.

Yahoo shareholders are paying dearly to have Carol Bartz lead their firm. The sums seem excessive for such an already wealthy person but we think the relative compensation alignment makes the absolute dollars worth it given the dire straights Yahoo shareholders are currently in. The CEO is being paid a salary of \$1 million with a target bonus of 200% of salary and a maximum of 400%. She is guaranteed a 2009 option grant (expected in February) worth \$8 million and Bartz is receiving a restricted stock "make-up grant" that is designed to compensate her for the forfeiture of incentives she had as Autodesk's Executive Chairman. The RSU grant is worth \$10 million but will be only 25% cash and the balance in YHOO equity. It is also subject to claw-back provisions during the 2009 quarterly vesting period. She will also be receiving 5 million equity "inducement options" at a strike price equal to the closing YHOO price on January 30, 2009 but the term of the options is only seven years so there's an urgency to execute. More particularly, the inducement options have significant performance vesting level thresholds which we like. For the initial tranche of 1/3rd of Bartz's inducement options to vest, YHOO's stock price must trade for twenty consecutive days in excess of 150% of the strike price. For each of the subsequent tranches the stock must again trade for twenty consecutive days according to the following schedule; 1/6th of the grant will vest at 175%, 1/6th at 200%, 1/12th at 225%, 1/12th at 250%, and the final 1/6th will vest at 300%. All options that vest must also be held until either the January 1, 2013 end of term, or a Change-in-Control event.

End