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NORTHERN DISTRICT OF CALIFORNIA

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12 UNITED STATES DISTRICT COURT
13 NORTHERN DISTRICT OF CALIFORNIA

14 VINCE BONATO, Individually and on Behalf of
15 of All Others Similarly Situated,

16 Plaintiff,

17 vs.

18 YAHOO! INC., CAROL A. BARTZ and
19 JERRY YANG,

20 Defendants.

CV 11

CLASS ACTION

COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

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INTRODUCTION

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2 1. This is a securities class action on behalf of all persons who purchased or otherwise
3 acquired the common stock of Yahoo! Inc. (“Yahoo” or the “Company”) between April 19, 2011
4 and May 13, 2011, inclusive (the “Class Period”), against Yahoo and certain of its officers and/or
5 directors for violations of the Securities Exchange Act of 1934 (the “1934 Act”).

6 2. Yahoo operates as a digital media company that delivers personalized digital content
7 and experiences across devices and worldwide. The Company’s communications and communities
8 offerings provide a range of communication and social services to users and small businesses across
9 various devices and through its broadband Internet access partners. Its search and marketplace
10 offerings provide answers to users’ information needs by delivering meaningful search, local, and
11 listings experiences on the search results page and across Yahoo.

12 3. During the Class Period, defendants issued materially false and misleading statements
13 regarding the Company’s business and financial results. Specifically, defendants failed to disclose
14 that an important corporate asset in China had been transferred at much less than market value. As a
15 result of defendants’ false statements, Yahoo’s stock traded at artificially inflated prices during the
16 Class Period, reaching a high of \$18.65 per share on May 6, 2011.

17 4. On May 10, 2011, Yahoo shareholders learned for the first time that the Company’s
18 \$1 billion investment in a strategic partnership with Alibaba Group Holdings Limited (“Alibaba”),
19 China’s largest e-commerce company, likely had been severely impaired by the misappropriation of
20 Alibaba’s most valuable asset, Alipay, an e-commerce payment system, from Alibaba to another
21 private company controlled by Alibaba’s Chairman, Jack Ma.

22 5. On May 15, 2011, Yahoo issued a press release entitled “Joint Statement from
23 Alibaba Group and Yahoo! Inc. Regarding Alipay,” which stated in part:

24 Yahoo! Inc. and Alibaba Group issued the following statement regarding Alipay:

25 “Alibaba Group, and its major stockholders Yahoo! Inc. and Softbank
26 Corporation, are engaged in and committed to productive negotiations to resolve the
27 outstanding issues related to Alipay in a manner that serves the interests of all
28 shareholders as soon as possible.”

1 6. On this news, Yahoo's stock collapsed \$0.74 per share to close at \$15.81 per share on
2 May 16, 2011 – a decline of 15% from its Class Period high of \$18.65 per share.

3 7. According to news reports, Alibaba received only \$46 million for Alipay's assets,
4 which securities analysts valued at \$5 billion.

5 8. The true facts, which were known by the defendants but concealed from the investing
6 public during the Class Period, were as follows:

7 (a) Yahoo management had been informed on March 31, 2011, at the latest, that
8 Alipay's structure had been shifted from Alibaba, reducing the value of Yahoo's investment in
9 Alibaba by billions of dollars; and

10 (b) Chinese regulations regarding foreign ownership had been anticipated to
11 change as far back as 2009, which would require Yahoo or Alibaba to divest themselves of Alipay,
12 but Yahoo had failed to develop a strategy to recover the value it had in Alibaba.

13 9. As a result of defendants' false statements, Yahoo's stock traded at artificially
14 inflated levels during the Class Period. However, after the above revelations seeped into the market,
15 the Company's shares were hammered by massive sales, sending them down over 15% from their
16 Class Period high.

17 **JURISDICTION AND VENUE**

18 10. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the 1934
19 Act and SEC Rule 10b-5. Jurisdiction is conferred by §27 of the 1934 Act.

20 11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.
21 §1331 and §27 of the 1934 Act.

22 12. Venue is proper in this District pursuant to 28 U.S.C. §1391(b), because defendants
23 maintain an office in this District and many of the acts and practices complained of herein occurred
24 in substantial part in this District.

25 13. In connection with the acts and conduct alleged in this complaint, defendants, directly
26 or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited
27 to, the mails and interstate wire and telephone communications.

1 **PARTIES**

2 14. Plaintiff Vince Bonato purchased the common stock of Yahoo during the Class
3 Period as set forth in the certification attached hereto and was damaged as the result of defendants'
4 wrongdoing as alleged in this complaint.

5 15. Defendant Yahoo is a digital media company that delivers personalized digital
6 content and experiences across devices and worldwide. Yahoo is headquartered in Sunnyvale,
7 California.

8 16. Defendant Carol A. Bartz (“Bartz”) is, and at all relevant times was, Chief Executive
9 Officer (“CEO”) and a director of Yahoo.

10 17. Defendant Jerry Yang (“Yang”) founded Yahoo and at all relevant times has been
11 Chief Yahoo and a director of the Company.

12 18. The defendants referenced above in ¶¶16-17 are referred to herein as the “Individual
13 Defendants.”

14 19. The Individual Defendants, because of their positions with the Company, possessed
15 the power and authority to control the contents of Yahoo’s quarterly reports, press releases and
16 presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*,
17 the market. They were provided with copies of the Company’s reports and press releases alleged
18 herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to
19 prevent their issuance or cause them to be corrected. Because of their positions with the Company,
20 and their access to material non-public information available to them but not to the public, the
21 Individual Defendants knew that the adverse facts specified herein had not been disclosed to and
22 were being concealed from the public and that the positive representations being made were then
23 materially false and misleading. The Individual Defendants are liable for the false statements
24 pleaded herein.

25 **FRAUDULENT SCHEME AND COURSE OF BUSINESS**

26 20. Defendants are liable for: (i) making false statements; or (ii) failing to disclose
27 adverse facts known to them about Yahoo. Defendants’ fraudulent scheme and course of business
28 that operated as a fraud or deceit on purchasers of Yahoo common stock was a success, as it: (i)

1 deceived the investing public regarding Yahoo's prospects and business; (ii) artificially inflated the
2 price of Yahoo common stock; and (iii) caused plaintiff and other members of the Class to purchase
3 Yahoo common stock at inflated prices.

4 **BACKGROUND**

5 21. Yahoo, based in Sunnyvale, California, is a global digital media company. Despite its
6 global brand, Yahoo's business has languished for the past several years, as the Company has largely
7 failed to keep up with Google and struggled to grow in highly regulated and politicized fast-growing
8 markets like China.

9 22. To overcome this situation, in 2005, Yahoo invested \$1 billion for a 40% interest in
10 Alibaba, China's largest e-commerce company, and one seat on Alibaba's four-person board of
11 directors. As a part of their strategic partnership, Yahoo also turned over operation of Yahoo China
12 to Alibaba. In a shareholder report discussing the Yahoo-Alibaba strategic partnership, and
13 heralding the transaction as a great opportunity for Yahoo to expand its business in China, Yahoo
14 stated:

15 Through this transaction, the Company has combined its leading search
16 capabilities with Alibaba's leading online marketplace and online payment system
17 and Alibaba's strong local presence, expertise and vision in the China market. These
18 factors contributed to a purchase price in excess of the Company's share of the fair
19 value of Alibaba's net tangible and intangible assets acquired resulting in goodwill.

20 23. As the remainder of the decade unfolded, Alibaba grew rapidly. By 2011, Yahoo's
21 40% stake in Alibaba had grown significantly in importance to Yahoo and, in fact, had become,
22 according to many industry experts, Yahoo's most valuable corporate asset, accounting for as much
23 as two-third of Yahoo's entire \$21 billion market capitalization.

24 24. For example, as famed hedge fund manager David Einhorn's Greenlight Capital
25 wrote about Yahoo in April 2011, "We would not be surprised if [Yahoo's] 40% stake in Alibaba
26 Group alone was ultimately worth [Yahoo's] entire current market value." Greenlight Capital
27 continued:

28 We believe that Yahoo's most valuable asset is its 40% stake in Alibaba Group's
still-private holdings, which are separate and distinct from its ownership in the
publicly-traded Alibaba.com, which we are essentially getting for free.

1 25. Until recently, one of Alibaba’s most profitable “still-private holdings” was Alipay,
2 an e-commerce payment system similar to eBay Inc.’s PayPal. As China’s economy grew rapidly
3 during the late 2000s, so did Alipay’s profits. According to U.S. securities analysts, including Brett
4 Hariss of Bagelli & Co., Alipay is worth more than \$5 billion. But most importantly for Yahoo and
5 its shareholders, Yahoo, as Alibaba’s largest shareholder, had a direct connection to the profits
6 stemming from Alipay’s fast-growing and lucrative online payment system.
7

8 26. Doing business in China can be complex and difficult for U.S. companies. Yahoo’s
9 experience in China has been no different. But, unlike other large U.S. publicly traded companies,
10 Yahoo’s single most valuable corporate asset is an investment tied up in a foreign corporation
11 located in China, more that 4,000 miles away from Yahoo’s corporate headquarters located in
12 Sunnyvale, California.
13

14 27. Yahoo’s counterparts in China had been consulting with Yahoo for months and
15 months on anticipated changes to Chinese regulations regarding foreign ownership. Yahoo failed to
16 address this issue and ultimately in 2010, Alibaba transferred ownership in Alipay to Alibaba CEO
17 Ma for \$46 million. This was made known to Yahoo on March 31, 2011, at the latest. However, in
18 an effort to make Yahoo attractive to hedge funds and other investors, defendants concealed this
19 information.
20

21 **DEFENDANTS’ FALSE AND MISLEADING STATEMENTS**
22 **ISSUED DURING THE CLASS PERIOD**

23 28. On April 19, 2011, Yahoo issued a press release announcing its first quarter 2011
24 financial results. The Company reported earnings of \$223 million, or \$0.17 diluted earnings per
25 share, and revenue of \$1,064 million. The release stated in part:

26 “We are solidly executing toward our plan for returning Yahoo! to
27 sustainable revenue and profit growth,” said Carol Bartz, CEO of Yahoo!. “During
28 the quarter, we beat the midpoint of revenue guidance while continuing to deliver on
the bottom line. We continued to extend our lead as the world’s premier digital
media company with users to Yahoo! branded properties increasing 15% year over
year and minutes spent increasing 17%.”

1 29. These were positive results and statements (with never a word about the Alipay
2 fiasco), and Yahoo's stock reacted favorably, increasing to \$16.87 per share.

3 30. Later, on May 2, 2011, Greenlight Capital's investment was revealed, causing
4 Yahoo's stock to increase to \$18.14 per share.

5 31. On May 10, 2011, Yahoo shareholders learned for the first time that the Company's
6 \$1 billion investment in its strategic partnership with Alibaba likely had been severely impaired by
7 the misappropriation of Alibaba's most valuable asset, Alipay, from Alibaba to another private
8 company controlled by Alibaba's Chairman, Jack Ma.

9 32. On this news, Yahoo's stock fell by 7%, to close at \$17.20 per share.

10 33. On May 12, 2011, Yahoo issued a press release entitled "Yahoo! Inc. Releases
11 Statement Regarding Alipay," which stated in part:

12 Yahoo! Inc. issued the following statement in response to recent media reports
13 regarding the timing of the restructuring of Alipay:

14 On March 31, 2011, Yahoo! and Softbank were notified by Alibaba Group of
15 two transactions that occurred without the knowledge or approval of the Alibaba
16 Group board of directors or shareholders. The first was the transfer of ownership of
17 Alipay in August 2010. The second was the deconsolidation of Alipay effective in
18 the first quarter of 2011.

19 Yahoo! disclosed this restructuring in its 10-Q after discussions with Alibaba
20 Group and obtaining a better understanding of this complex situation.

21 Yahoo! continues to work closely with Alibaba and Softbank to protect
22 economic value for all interested parties. We believe ongoing negotiations among all
23 of the parties provide the best opportunity to achieve an outcome in the best interest
24 of all stakeholders

25 34. According to news reports, Alibaba received only \$46 million for Alipay's assets,
26 which securities analysts valued at \$5 billion. Additionally, defendants reportedly were aware of
27 Jack Ma's misappropriation of Alipay, failing to prevent the usurpation of Yahoo's valuable
28 financial interest in Alipay, and then concealing the entire episode from Yahoo shareholders for six
months.

 35. On May 15, 2011, Yahoo issued a press release entitled "Joint Statement from
Alibaba Group and Yahoo! Inc. Regarding Alipay," which stated in part:

 Yahoo! Inc. and Alibaba Group issued the following statement regarding Alipay:

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“Alibaba Group, and its major stockholders Yahoo! Inc. and Softbank Corporation, are engaged in and committed to productive negotiations to resolve the outstanding issues related to Alipay in a manner that serves the interests of all shareholders as soon as possible.”

36. On this news, Yahoo’s stock collapsed \$0.74 per share to close at \$15.81 per share on May 16, 2011 – a decline of 15% from its Class Period high of \$18.65 per share.

37. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Yahoo management had been informed on March 31, 2011, at the latest, that Alipay’s structure had been shifted from Alibaba, reducing the value of Yahoo’s investment in Alibaba by billions of dollars; and

(b) Chinese regulations regarding foreign ownership had been anticipated to change as far back as 2009, which would require Yahoo or Alibaba to divest themselves of Alipay, but Yahoo had failed to develop a strategy to recover the value it had in Alibaba.

38. As a result of defendants’ false statements, Yahoo stock traded at artificially inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company’s shares were hammered by massive sales, sending them down 15% from their Class Period high.

LOSS CAUSATION

39. During the Class Period, as detailed herein, the defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Yahoo common stock and operated as a fraud or deceit on Class Period purchasers of Yahoo common stock by misrepresenting the Company’s China business and Alibaba investment. Later, when defendants’ prior misrepresentations and fraudulent conduct became apparent to the market, the price of Yahoo common stock fell, as the prior artificial inflation came out of the price over time. As a result of their purchases of Yahoo common stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

1 **NO SAFE HARBOR**

2 40. Yahoo's verbal "Safe Harbor" warnings accompanying its oral forward-looking
3 statements ("FLS") issued during the Class Period were ineffective to shield those statements from
4 liability.

5 41. The defendants are also liable for any false or misleading FLS pleaded because, at the
6 time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was
7 authorized and/or approved by an executive officer of Yahoo who knew that the FLS was false.
8 None of the historic or present tense statements made by defendants were assumptions underlying or
9 relating to any plan, projection or statement of future economic performance, as they were not stated
10 to be such assumptions underlying or relating to any projection or statement of future economic
11 performance when made, nor were any of the projections or forecasts made by defendants expressly
12 related to or stated to be dependent on those historic or present tense statements when made.

13 **CLASS ACTION ALLEGATIONS**

14 42. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
15 Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons or entities who acquired
16 shares of Yahoo common stock during the Class Period and who were damaged thereby (the
17 "Class"). Excluded from the Class are defendants, the officers and directors of the Company, at all
18 relevant times, members of their immediate families and their legal representatives, heirs, successors
19 or assigns and any entity in which defendants have or had a controlling interest.

20 43. The members of the Class are so numerous that joinder of all members is
21 impracticable. Yahoo stock was actively traded on the NASDAQ. While the exact number of Class
22 members is unknown to plaintiff at this time and can only be ascertained through appropriate
23 discovery, plaintiff believes that there are thousands of members in the proposed Class. Record
24 owners and other members of the Class may be identified from records maintained by Yahoo or its
25 transfer agent and may be notified of the pendency of this action by mail, using the form of notice
26 similar to that customarily used in securities class actions. Yahoo has over 1.3 billion shares of stock
27 outstanding.

1 44. Plaintiff's claims are typical of the claims of the members of the Class as all members
2 of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is
3 complained of herein.

4 45. Plaintiff will fairly and adequately protect the interests of the members of the Class
5 and has retained counsel competent and experienced in class and securities litigation.

6 46. Common questions of law and fact exist as to all members of the Class and
7 predominate over any questions solely affecting individual members of the Class. Among the
8 questions of law and fact common to the Class are:

- 9 (a) whether the 1934 Act was violated by defendants;
- 10 (b) whether statements made by defendants omitted and/or misrepresented
- 11 material facts about the business, operations and management of Yahoo;
- 12 (c) whether the price of Yahoo common stock was artificially inflated; and
- 13 (d) the extent of damage sustained by Class members and the appropriate measure
- 14 of damages.

15 47. Plaintiff's claims are typical of those of the Class because plaintiff and the Class
16 sustained damages from defendants' wrongful conduct.

17 48. Plaintiff will adequately protect the interests of the Class and has retained counsel
18 who are experienced in class action securities litigation. Plaintiff has no interests which conflict
19 with those of the Class.

20 49. A class action is superior to other available methods for the fair and efficient
21 adjudication of this controversy.

COUNT I

**For Violation of §10(b) of the 1934 Act and Rule 10b-5
Against All Defendants**

24 50. Plaintiff incorporates ¶¶1-49 by reference.

25 51. During the Class Period, defendants disseminated or approved the false statements
26 specified above, which they knew or deliberately disregarded were misleading in that they contained
27

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1 misrepresentations and failed to disclose material facts necessary in order to make the statements
2 made, in light of the circumstances under which they were made, not misleading.

3 52. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

4 (a) employed devices, schemes and artifices to defraud;

5 (b) made untrue statements of material facts or omitted to state material facts
6 necessary in order to make the statements made, in light of the circumstances under which they were
7 made, not misleading; or

8 (c) engaged in acts, practices and a course of business that operated as a fraud or
9 deceit upon plaintiff and others similarly situated in connection with their purchases of Yahoo
10 common stock during the Class Period.

11 53. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
12 the market, they paid artificially inflated prices for Yahoo common stock. Plaintiff and the Class
13 would not have purchased Yahoo common stock at the prices they paid, or at all, if they had been
14 aware that the market price had been artificially and falsely inflated by defendants' misleading
15 statements.

16 **COUNT II**

17 **For Violation of §20(a) of the 1934 Act** 18 **Against All Defendants**

19 54. Plaintiff incorporates ¶¶1-53 by reference.

20 55. Defendants acted as controlling persons of Yahoo within the meaning of §20(a) of the
21 1934 Act. By reason of their positions with the Company, and their ownership of Yahoo stock, the
22 Individual Defendants had the power and authority to cause Yahoo to engage in the wrongful
23 conduct complained of herein. Yahoo controlled the Company, the Individual Defendants and all of
24 its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

25 **PRAYER FOR RELIEF**

26 WHEREFORE, plaintiff prays for judgment as follows:

27 A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

28 B. Awarding plaintiff and the members of the Class damages, including interest;

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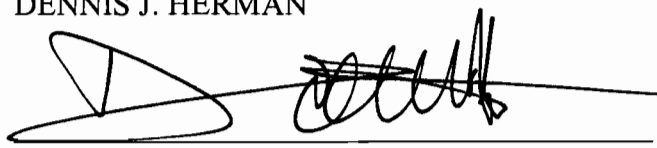
- C. Awarding plaintiff reasonable costs and attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: June 6, 2011

ROBBINS GELLER RUDMAN
& DOWD LLP
DENNIS J. HERMAN



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215/561-3000 (fax)

Attorneys for Plaintiff

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CERTIFICATION OF VINCE BONATO

1. I, Vince Bonato, have reviewed the Complaint and have authorized the filing of same;
2. I did not purchase the Yahoo! Inc. at the direction of plaintiff's counsel or in order to participate in any private action arising under this title of the federal securities laws;
3. I am willing to serve as class representative and provide testimony at deposition and trial if necessary;
4. During the class period, my transactions in Yahoo! Inc. consisted of the following:

<u>Date</u>	<u>Purchase(s) or Sales(s)</u>	<u>Amount</u>	<u>Price</u>
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SEE EXHIBIT A

5. During the previous three years, I have not been a lead plaintiff in any securities fraud class action.
6. I will not accept any payment for serving as a class representative beyond my pro rata share of any recovery, except as ordered or approved by the Court with respect to an award for reasonable costs and expenses (including lost wages).

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 2^d day of JUNE, 2011, at Sewell, NJ.
(City/state)

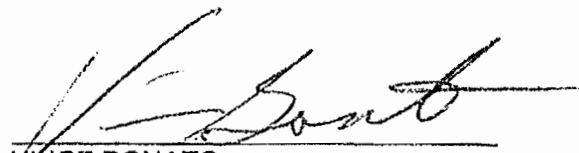

VINCE BONATO

EXHIBIT A

<u>Date</u>	<u>Purchase(s) or Sales(s)</u>	<u>Amount</u>	<u>Price</u>
5-3-11	BOGERT	200 SHS	17.4020
		TOTAL	3,581.40