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14  
15 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
16 COUNTY OF SANTA CLARA

17 IN RE YAHOO! INC.  
SHAREHOLDER LITIGATION

18  
19 THIS DOCUMENT RELATES TO:  
20 ALL ACTIONS

Lead Case No.: 17-CV-307054

VERIFIED CONSOLIDATED  
SHAREHOLDER CLASS ACTION AND  
DERIVATIVE COMPLAINT FOR  
BREACH OF FIDUCIARY DUTIES,  
INSIDER TRADING, UNJUST  
ENRICHMENT, AND CORPORATE  
WASTE

**[CONDITIONALLY LODGED UNDER  
SEAL, CRC, RULE 2.550(b)(3)]**

Judge: Honorable Brian C. Walsh  
Department: D1

DEMAND FOR JURY TRIAL

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**17CV307054**  
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1 Plaintiffs Patricia Spain, the LR Trust, Harold Litwin, and Plumbers and Pipefitters  
2 National Pension Fund, by and through their undersigned attorneys, hereby submit this verified  
3 Consolidated Shareholder Class Action and Derivative Complaint against certain directors and  
4 officers of nominal defendant Yahoo! Inc. (“Yahoo” or the “Company”) in connection with their  
5 breaches of fiduciary duties. In support of these claims, Plaintiffs allege the following (1) upon  
6 personal knowledge with respect to the matters pertaining to themselves; and (2) upon information  
7 and belief with respect to all other matters, based upon the investigations undertaken by counsel  
8 which included, *inter alia*, (a) documents that were required to be produced in response to a  
9 demand for corporate books and records pursuant to Section 220 of the Delaware General  
10 Corporations Law (including documents obtained through other discovery methods that  
11 Defendants wrongfully concealed from the Section 220 production), and in response to discovery  
12 pertaining to duty of disclosure claims pursued before this Court and partially restated here; (b)  
13 investigations conducted by the United States Securities and Exchange Commission (“SEC”), the  
14 Federal Trade Commission (“FTC”), the Department of Justice (“DOJ”), and other governmental  
15 agencies concerning the facts alleged herein; (c) the Company’s public filings with the SEC, (d)  
16 news articles, conference call transcripts, analysts’ reports, and press releases; and (e) other  
17 publicly available information pertaining to Yahoo and/or the topics addressed herein. Plaintiffs  
18 believe that substantial additional evidentiary support will exist for the allegations set forth below  
19 after a reasonable opportunity for discovery.

20 As this Court knows, in connection with Plaintiffs’ motion for an injunction based on false  
21 disclosures, Defendants asserted, while submitting minimal if any admissible evidence, that  
22 Plaintiffs’ extensive record about false statements regarding Defendants’ actions was nevertheless  
23 “disputed.” For purposes of this pleading, however, Defendants’ empty denials cannot be credited.  
24 For purposes of this pleading, the following facts must be accepted as true:

## 25 I. NATURE AND SUMMARY OF THE ACTION

26 1. This shareholder derivative and class action proves the maxim that the cover up is  
27 often worse than the crime. The crime covered up here was an unprecedented international personal  
28 data hacking incident that continued for years and which Yahoo’s directors and officers have long

1 known was conducted by the very same country now accused of using similar cyber-intrusions to  
2 influence the U.S. election. Defendants' cover-up of the data breach's source, scope and  
3 implications for Yahoo's users, is staggering. It is critical that Yahoo's shareholders hold  
4 Defendants accountable for the harm their misconduct caused to the Company and its shareholders.

5         2.       Headquartered in Sunnyvale, California, Yahoo was one of the world's leading  
6 providers of email and internet services. As part of its core email business, Yahoo stored extensive  
7 personal information provided by its hundreds of millions of users.

8         3.       During the period alleged herein, Yahoo's directors and officers breached their  
9 fiduciary duties to the Company as well as to Yahoo's shareholders, users and customers by  
10 knowingly, recklessly, or negligently failing to protect Yahoo's user data and personal information,  
11 failing to investigate and remediate what has been called the single largest website hack in history,  
12 issuing false and misleading statements that misrepresented the nature of the hacking incident and  
13 concealed the contemporaneous knowledge of the incident within the Company, and approving  
14 compensation packages and golden-parachute payments to key officers, despite their culpability and  
15 participation in the resulting cover-up.

16         4.       As detailed below, because providing email and web services is a replaceable  
17 commodity, the heart of Yahoo's ability to survive and compete rested on customers' willingness  
18 to place their trust in Yahoo. The Board recognized the importance of maintaining the security of  
19 customer information. Yahoo has long publicly reported that one of the principal risks in operating  
20 an internet conglomerate is that of cybersecurity intrusions.

21         5.       Accordingly, Yahoo's board of directors (the "Board") has for many years actively  
22 and closely monitored the Company's efforts to insure the protection of its user data. The Board  
23 regularly received reports from Yahoo's internal cybersecurity unit, the "Paranoids," headed by  
24 Yahoo's Chief Information Security Officer ("CISO").

25         6.       Moreover, as Yahoo highlighted in its securities filings, almost every state in the  
26 country has passed statutes setting comparable standards of care concerning the protection of user  
27 data and personal information. These statutes universally make it illegal for any company to delay  
28 informing customers of an identified hack of customer data and personal information. A company's

1 decision to knowingly, deliberately, or willfully conceal an outside hack of customer information  
2 typically provides for treble or punitive damages.

3 7. Given the importance of protecting user data, the Board knew, and has in its prior  
4 response to hacking incidents demonstrated, the critical importance of informing users immediately  
5 after learning that outside parties have compromised Yahoo's networks and gained access to  
6 customer information, so that they have the opportunity to lessen the impact of the hacking by  
7 changing their passwords and taking other remedial measures.

8 8. Despite the importance of data security, the Company has a long history of  
9 deliberately underspending on data security infrastructure and rejecting recommendations that the  
10 security budget be enlarged. This left Yahoo particularly vulnerable. In fact, prior to the hacking  
11 incidents at issue in this complaint, Yahoo suffered other outside intrusions that compromised its  
12 customer data. The Board was promptly informed about those hacks, how the outside parties broke  
13 through Yahoo's cybersecurity measures, what Yahoo's internal cybersecurity department did to fix  
14 the problem, and most importantly, exactly how Yahoo informed the affected customers about the  
15 theft of their information.

16 9. The Board's response to hacking incidents took a very different turn following a  
17 September 2014 intrusion by state-sponsored hackers that represented the single largest website  
18 hack in history (the "Siberia Intrusion"). [REDACTED]

19 [REDACTED]  
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16 [REDACTED]  
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19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED] In essence, the Board and  
22 management chose to pursue profits at the expense of legal compliance. This is the epitome of  
23 fiduciary bad faith.

24 14. From there, Yahoo’s management and the Board engaged in a years-long cover up  
25 that remains largely hidden from public disclosure, even today. Plaintiffs and their counsel  
26 uncovered the truth solely through their diligence, starting with a targeted “books and records”  
27 demand under Delaware Code § 220 and followed by expedited discovery in this action, overcoming  
28 Defendants’ determined effort to perpetuate their cover up even if it meant misrepresenting facts or



1 asserting a broad and unsubstantiated claim of privilege.

2 15. The cover up continues to this day because the Board and management have gone to  
3 great lengths to keep it that way. The Board has consistently issued false or misleading public filings  
4 in an attempt to downplay the scope of knowledge within the Company of the Siberia Intrusion and  
5 accompanying data exfiltration.

6 [REDACTED]  
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[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] The full Board has continued — time and again — to engage in a massive cover up of these damaging facts. The role of the Board in failing to respond to, and its role in actively concealing, the Siberia Intrusion to this day renders demand futile.

19. In response to the Siberia Intrusion, dozens of lawsuits, many seeking treble and/or punitive damages, have been filed by the Company's customers. Verizon renegotiated the terms of a pending transaction with Yahoo for its core business, leading to a price reduction of \$350 million as well as a requirement that Yahoo remain responsible for 50 percent of any damages paid in the pending consumer class actions and 100 percent of any damages paid in response to any government actions seeking to hold Yahoo liable for deliberately concealing the Siberia Intrusion.

20. As a result of the Individual Defendants' breaches of fiduciary duty, Verizon was allowed to extract greater concessions in exchange for full releases to the Individual Defendants and in exchange for its complicity in helping Yahoo conceal the truth.

21. As explained herein, the Defendants' conduct has caused significant harm to Yahoo and its stockholders.

## II. JURISDICTION AND VENUE

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

23. 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

24. Plaintiff Patricia Spain (“Plaintiff” and “Spain”) is a current shareholder of Yahoo. Ms. Spain purchased Yahoo stock on April 4, 2012, and has continuously owned Yahoo stock at all times relevant hereto.<sup>1</sup>

25. Plaintiff LR Trust is a current shareholder of Yahoo. LR Trust has continuously owned Yahoo stock at all times relevant hereto, including since at least December 2012.

26. Plaintiff Harold Litwin is a current shareholder of Yahoo. Mr. Litwin purchased Yahoo stock on September 12, 2011, and has continuously owned Yahoo stock at all times relevant

<sup>1</sup> Yahoo's merger with Verizon Communications, Inc. closed in June 2017, after which Yahoo was renamed Altaba, Inc. as of June 16, 2017. For purposes of clarity herein, Yahoo will continue to be referred to as Yahoo rather than Altaba.

1 hereto.

2 27. Plaintiff Plumbers and Pipefitters National Pension Fund is a current shareholder  
3 of Yahoo. Plumbers and Pipefitters National Pension Fund has continuously owned YAHOO!  
4 Inc. common stock at all relevant times, including since January 11, 2013.

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

9 29. Defendant Verizon Communications Inc. (“Verizon”) is a corporation and is a  
10 broadband telecommunications company and the largest U.S. wireless communications service  
11 provider. Verizon is headquartered in New York, NY at 1095 Avenue of the Americas. On July  
12 23, 2016, Verizon announced an agreement to purchase certain assets of Yahoo in a transaction  
13 that requires the approval of Yahoo’s shareholders.

14 30. Defendant Marissa Mayer (“Mayer”) was the CEO and President of Yahoo at all  
15 relevant times until June 2017, when she resigned from the Company upon the completion of  
16 Yahoo’s merger with Verizon. Mayer served as a member of the Board from July 2012 until June  
17 2017.

18 31. Defendant David Filo (“Filo”) is the Co-Founder of Yahoo. Filo has served as a  
19 member of the Board since June 2014. Filo is a substantial shareholder of Yahoo who owns  
20 70,711,390, or 7.4%, of Yahoo’s outstanding shares and thus is able to exert significant control  
21 and influence over Yahoo.

22 32. Defendant Ronald S. Bell (“Bell”) was, until March 1, 2017, Yahoo’s General  
23 Counsel. According to Yahoo’s Proxy Statement, Bell became Yahoo’s General Counsel in  
24 August 2012 and Secretary in July 2012 and served as a Vice President of Yahoo from 2001 until  
25 March 2017. Bell served as Yahoo’s interim General Counsel in July 2012; Yahoo’s Deputy  
26 General Counsel, Americas Region from March 2010 to July 2012; Yahoo’s Deputy General  
27 Counsel, North America Region from January 2008 to March 2010; Yahoo’s Deputy General  
28 Counsel, Transactions and Business Counseling from June 2001 to January 2008; and in various

1 other positions in the Yahoo legal department from July 1999 to June 2001. Bell also served on  
2 the board of directors of Yahoo Japan Corporation, a Japanese Internet company. After an  
3 investigation by a committee of Yahoo's Board into the issues referenced in this complaint  
4 concerning Yahoo's 2013 and 2014 data breaches and the failure of Yahoo to disclose such  
5 breaches at the time they occurred and in connection with the announcement of the Purchase  
6 Agreement with Verizon, Bell was fired or asked to resign effective March 1, 2017. Prior to  
7 joining Yahoo, Bell served as senior corporate counsel at Apple Computer, Inc. and as an associate  
8 at the law firm of Sonnenschein Nath & Rosenthal.

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

12 34. Defendant Maynard Webb, Jr. ("Webb") has been the Chairman Emeritus of the  
13 Board, and has been a member of the Board since February 2012. Webb served as interim  
14 Chairman of the Board from April 2013 to August 2013, and as Chairman of the Board from  
15 August 2013 to January 2017. Webb is also a member of the Compensation and Leadership  
16 Development Committee of the Board.

17 35. Defendant Tor Braham ("Braham") has been a member of the Board since April  
18 2016. Braham is also a member of the Audit and Finance Committee of the Board.

19 36. Defendant Catherine Friedman ("Friedman") has been a member of the Board since  
20 March 2016. Friedman is also the Chair of the Nominating and Corporate Governance Committee,  
21 and a member of the Compensation and Leadership Development Committee of the Board.

22 37. Defendant Eddy Hartenstein ("Hartenstein") has been a member of the Board since  
23 April 2016. Hartenstein is also a member of the Compensation and Leadership Development  
24 Committee of the Board.

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

1           39. Defendant Richard Hill (“Hill”) has been a member of the Board since April 2016.  
2 Hill is also a member of the Nominating and Corporate Governance Committee of the Board.

3           40. Defendant Thomas McInerney (“McInerney”) has been a member of the Board  
4 since April 2012. McInerney is also a member of the Audit and Finance Committee of the Board  
5 and has been a member of the AFC since joining the Board in April 2012.

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

15           42. Defendant H. Lee Scott, Jr. (“Scott”) was a member of Yahoo’s Board from June  
16 2014 until June 30, 2016. Scott signed several of the SEC filings which failed to disclose the 2014  
17 data breach, including Yahoo’s 2015 Annual Report.

18           43. Defendant Jane E. Shaw (“Shaw”) has been a member of the Board since June  
19 2014. Shaw is also the Chair of the Compensation and Leadership Development Committee, and  
20 a member of the Nominating and Corporate Governance Committee of the Board.

21           44. Defendant Jeffrey Smith (“Smith”) has been a member of the Board since April  
22 2016. Smith is also a member of the Compensation and Leadership Development Committee of  
23 the Board.

24           45. Collectively, Defendants Mayer, Filo, Brandt, Webb, Braham, Friedman,  
25 Hartenstein, Hill, McInerney, Shaw, Scott, James, Bell, Goldman, and Smith are referred to herein  
26 as the “Individual Defendants.” All such defendants except Bell and Goldman are also referred to  
27 as the “Director Defendants.”  
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#### IV. SUBSTANTIVE ALLEGATIONS

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##### A. YAHOO COLLECTS MASSIVE PERSONAL INFORMATION FROM USERS AND PROMISES TO SAFEGUARD SUCH INFORMATION

46. 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, “Yahoo is focused on informing, connecting, and entertaining [its] users with [its] 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.”<sup>2</sup>

47. 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 of financial products and services that we offer.*

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<sup>2</sup> 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](http://files.shareholder.com/downloads/YHOO/2958064783x0x893458/96E76DB6-C10F-4514-AAB0-24BFC488B422/yahoo_ar15_annual_report.pdf) (last visited Mar. 3, 2017).

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

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

7 48. As detailed below, Yahoo's Board has long-recognized that a failure by the  
8 Company to sufficiently protect its customers' information could be devastating to its business,  
9 and that the trust that customers placed in Yahoo could disappear if the Company failed to timely  
10 disclose and contain a theft of user data.

11 **B. YAHOO'S BOARD WAS AWARE OF THE DUTY TO NOTIFY ITS CUSTOMERS**  
12 **AND LAW ENFORCEMENT UPON BECOMING AWARE OF A DATA BREACH**

13 49. The Board at all times understood that a data security breach could erode customer  
14 trust in Yahoo. According to the Company's Form 10-K, filed on February 29, 2016, the Company  
15 recognizes that "[i]f our security measures are breached, our products and services may be  
16 perceived as not being secure, users and customers may curtail or stop using our products and  
17 services, and we may incur significant legal and financial exposure."

18 50. In order to earn and maintain the trust of its hundreds of millions of customers,  
19 Yahoo guarantees its users that it will take certain specific steps to protect their private and  
20 personal information. Specifically, Yahoo promises its users on its website and in its Privacy  
21 Policy that Yahoo will (i) "take[] your privacy seriously;" (ii) "limit access to personal information  
22 about you to employees who we believe reasonably need to come into contact with that information  
23 to provide products or services to you in order to do their jobs;" and (iii) "have physical, electronic,  
24 and procedural safeguards that comply with federal regulations to protect personal information  
25 about you."

26 51. Yahoo's Board and senior executives at all times recognized that securing the  
27 personal information of users and customers is critical to the Company's financial well-being. In  
28 its Form 10-K, filed on February 29, 2016, and signed by all then-current members of the Board,  
the Company repeatedly acknowledges the potential for harm resulting from data breaches: (i)  
"Security breaches expose us to risk of loss of [users' and customers' personal and proprietary]



1 information, litigation, remediation costs, increased costs for security measures, loss of revenue,  
2 damage to our reputation, and potential liability;” (ii) “Security breaches or unauthorized access  
3 have resulted in and may in the future result in a combination of significant legal and financial  
4 exposure, increased remediation and other costs, damage to our reputation, and a loss of confidence  
5 in the security of our products, services and networks, that could have an adverse effect on our  
6 business;” and (iii) “If an actual or perceived breach of our security occurs, the market perception  
7 of the effectiveness of our security measures could be harmed and we could lose users and  
8 customers.”

9         52.       Given the gravity of harm to users and customers resulting from security breaches,  
10 forty-seven states, the District of Columbia, Puerto Rico, Guam, and the Virgin Islands have all  
11 enacted Unfair, Deceptive or Abusive Acts and Practice (“UDAAP”) and similar consumer  
12 protection laws that impose affirmative obligations on companies to timely inform customers in  
13 the event of a security breach in order to provide those customers with an opportunity to mitigate  
14 any harm resulting from the intrusion. This is especially true where, as here, the company has  
15 made affirmative promises to do so in agreements with consumers. Because Yahoo operates in  
16 every single one of these states and territories, the Board is well aware of the obligations imposed  
17 by these UDAAP and similar consumer protection laws, as well as the adverse consequences the  
18 Company would face if it failed to comply with them.

19         53.       Indeed, the Company’s Form 10-K, signed by a majority of the Board, states that  
20 “[m]any states have passed laws requiring notification to users where there is a security breach for  
21 personal data, such as California’s Information Practices Act.” State consumer protection, data  
22 security, and reporting laws impose damages on companies for failing to notify users of a security  
23 breach. Statutory damages for violations of these state law provisions are significant – at least  
24 \$1,000 per violation. If a court determines that the failure to notify was willful and deliberate,  
25 many of these statutes permit a court to award plaintiffs punitive or treble damages.

26         54.       Since 2013, every one of the Company’s quarterly filings and annual filings  
27 contains nearly the exact same language. Given the Company’s failure to disclose the Siberia  
28 Intrusion (as discussed below), and the inclusion of the aforementioned language in the Company’s

1 public filings, the following public filings are misleading: (a) Quarterly Report on Form 10-Q  
2 announcing the Company's financial and operating results for the quarter ended March 31, 2014;  
3 (b) Quarterly Report on Form 10-Q announcing the Company's financial and operating results for  
4 the quarter ended June 30, 2014; (c) Quarterly Report on Form 10-Q announcing the Company's  
5 financial and operating results for the quarter ended September 30, 2014; (d) Annual Report on  
6 Form 10-K announcing the Company's financial and operating results for the quarter and year  
7 ended December 31, 2014, which was signed by defendants Mayer, Goldman, Webb, Filo, James,  
8 McInerney, Scott, and Shaw; (e) Quarterly Report on Form 10-Q announcing the Company's  
9 financial and operating results for the quarter ended March 31, 2015 (signed by Mayer and  
10 Goldman); (f) Quarterly Report on Form 10-Q announcing the Company's financial and operating  
11 results for the quarter ended June 30, 2015 (signed by Mayer and Goldman); (g) Quarterly Report  
12 on Form 10-Q announcing the Company's financial and operating results for the quarter ended  
13 September 30, 2015 (signed by Mayer and Goldman); (h) Annual Report on Form 10-K  
14 announcing the Company's financial and operating results for the quarter and year ended  
15 December 31, 2015, signed by defendants Mayer, Goldman, Webb, Filo, McInerney, Scott, James  
16 and Shaw; (i) Quarterly Report on Form 10-Q announcing the Company's financial and operating  
17 results for the quarter ended March 31, 2016; and (j) Quarterly Report on Form 10-Q announcing  
18 the Company's financial and operating results for the quarter ended June 30, 2016.

19 55. Consequently, as the Board well understood, failure to take affirmative steps to  
20 inform users or customers of a security breach, and particularly, active concealment of a security  
21 breach, will very likely result in significant legal liability, erosion of user trust, and resulting harm  
22 to the Company's good will and reputation.

23 [REDACTED]  
24 [REDACTED]  
25 [REDACTED]  
26 [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 59. The AFC's Charter states that it is responsible for briefing the Board on important  
5 matters: "The Committee shall regularly report to the Board on Committee findings,  
6 recommendations, or other matters the Committee deems appropriate or the Board requests. In  
7 connection therewith, the Committee should review with the Board any issues that arise with  
8 respect to . . . the Company's compliance with legal or regulatory requirements."

9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 61. Although the Board understood the importance of data security, [REDACTED]  
18 [REDACTED]  
19 [REDACTED]. This is so despite the Company facing numerous hacking incidents in  
20 the years leading up to the Siberia Intrusion.

21 62. According to a September 28, 2016 article from The New York Times, "Yahoo's  
22 computer systems and customer email accounts were penetrated by Chinese military hackers" in  
23 2010.<sup>3</sup> Although the 2010 data breach also occurred at Google, Inc. ("Google") and a number of  
24 other technology companies, the responses from those companies to the data breach were  
25 substantially different from Yahoo's response. For example, Yahoo never publicly admitted that it  
26 had been hacked. In contrast, Google's response was public and swift. In fact, Google's co-founder  
27 publicly announced that he regarded the attack on Google's systems as "a personal affront" and

28 <sup>3</sup> 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 Mar. 4, 2017).

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

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

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11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

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5 [REDACTED]  
6 **D. THE COMPANY EXPERIENCES THE LARGEST HACK OF A SINGLE**  
7 **WEBSITE IN HISTORY – THE SIBERIA INTRUSION**

8 70. On September 8, 2014, Russian hackers infiltrated Yahoo’s internal database as  
9 part of a concerted effort to gain access to sensitive personal account information of Yahoo users.

10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED] Ultimately,  
14 the Russian hackers were successful in stealing Yahoo user information associated with at least  
15 500 million accounts. This catastrophic hacking incident, internally labelled as the “Siberia  
16 Intrusion,” represents the largest data breach for a single website in history.

17 [REDACTED]  
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25 [REDACTED]  
26 [REDACTED] [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

A horizontal bar chart with 28 rows, each labeled with a number from 1 to 28 on the left. Each row contains one or more black bars of varying lengths, representing percentages. The bars are distributed across the rows as follows:

- Row 1: Two bars, one from 0% to ~35% and another from ~38% to 100%.
- Row 2: One bar from 0% to 100%.
- Row 3: One bar from 0% to 100%.
- Row 4: One bar from 0% to 100%.
- Row 5: One bar from 0% to 100%.
- Row 6: One bar from 0% to ~55%.
- Row 7: Two bars, one from ~10% to ~15% and another from ~18% to 100%.
- Row 8: One bar from 0% to ~75%.
- Row 9: Two bars, one from ~10% to ~15% and another from ~18% to 100%.
- Row 10: One bar from 0% to 100%.
- Row 11: Two bars, one from 0% to ~45% and another from ~48% to 100%.
- Row 12: One bar from 0% to ~75%.
- Row 13: Two bars, one from 0% to ~5% and another from ~10% to 100%.
- Row 14: One bar from ~10% to ~90%.
- Row 15: Two bars, one from ~10% to ~15% and another from ~18% to 100%.
- Row 16: Two bars, one from 0% to ~65% and another from ~68% to 100%.
- Row 17: One bar from 0% to ~85%.
- Row 18: Ten small bars of varying lengths, starting from ~10% and ending at ~15%, ~20%, ~25%, ~30%, ~35%, ~40%, ~45%, ~50%, ~55%, and ~60%.
- Row 19: One bar from 0% to 100%.
- Row 20: One bar from 0% to 100%.
- Row 21: One bar from 0% to 100%.
- Row 22: One bar from 0% to ~75%.
- Row 23: Two bars, one from ~10% to ~15% and another from ~18% to 100%.
- Row 24: One bar from 0% to 100%.
- Row 25: One bar from 0% to 100%.
- Row 26: One bar from 0% to 100%.
- Row 27: One bar from 0% to ~55%.
- Row 28: Two bars, one from ~10% to ~15% and another from ~18% to 100%.

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As noted above, [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

100. According to the AFC’s charter, “[t]he 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[.]”

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1 Thus, all information presented to the AFC is presumed to have subsequently been conveyed to the  
2 entire Board.

3 101. Yahoo's Corporate Governance Guidelines further provide that the Board is  
4 "responsible for overseeing major risks facing the Company as well as the Company's program to  
5 prevent and detect violations of law, regulation, and Company policies and procedures." Consistent  
6 with these responsibilities, [REDACTED]

7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
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<sup>5</sup> In its Form 10-K, filed on March 1, 2017, the Company admits that “significant additional security measures were implemented in response to” “the 2014 compromise of user accounts, as well as incidents by the same attacker involving cookie forging in 2015 and 2016.” [REDACTED]

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[REDACTED]

[REDACTED]

112. Despite knowledge of the Siberia Intrusion and how massive and serious it was, the Board remained passive and did not notify Yahoo users or stockholders of the breach or steps they could take to lessen its impact. As discussed in the next section, the Board knew it had an obligation to disclose the existence of a security breach to affected Yahoo users, but chose not to do so for improper reasons.

[REDACTED]

[REDACTED]

113. As stated above, under consumer fraud and data reporting statutes, a court is permitted to award treble or punitive damages in the event of a willful or knowing violation.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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4 [REDACTED]

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7 [REDACTED]

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9 [REDACTED]

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11 [REDACTED] [REDACTED]

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13 [REDACTED]

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15 [REDACTED]

16 [REDACTED] [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED] [REDACTED]

21 [REDACTED] [REDACTED]

22 [REDACTED]

23 [REDACTED]

24 [REDACTED]

25 [REDACTED]

26 [REDACTED]

27 [REDACTED]

28 [REDACTED]

1 119. [REDACTED]  
2 [REDACTED]  
3 [REDACTED]

4 In fact, recent class actions  
5 filed by users against Yahoo seek recovery of treble and/or punitive damages. Thus, the Board's  
6 actions in concealing the Siberia Intrusion have resulted in significantly greater harm to the  
7 Company than the hack itself.

8 120. Yahoo management and the Board chose to intentionally suppress the Siberia  
9 Intrusion in pursuit of profits (or a sale of the Company) over compliance with the law. As discussed  
10 in the next section, the Board and management both had a strong motive to conceal the Siberia  
11 Intrusion.

#### 12 **H. YAHOO FACES INTENSE PRESSURE TO SELL THE COMPANY'S 13 OPERATING BUSINESS**

14 121. The Board and management had a strong incentive to suppress the Siberia Intrusion  
15 to effectuate a sale of the Company and avoid further scrutiny from Yahoo stockholders. As noted  
16 in a July 2016 New York Times article, under Mayer's leadership, Yahoo's core operating business  
17 had become a "flailing brand." Yahoo therefore faced intense pressure to sell the operating business.

18 122. Mayer, in particular, faced enormous pressure to sell Yahoo's operating business  
19 because, despite being lavishly compensated, she had utterly failed to improve that business's  
20 fortunes.

21 123. When Mayer joined Yahoo as Chief Executive Officer in July 2012, the Company  
22 gave Mayer a \$30 million signing bonus and \$14 million to make whole the Google bonuses she  
23 was foregoing at the time. With her high pay came soaring expectations to turn around the  
24 struggling company.

25 124. But Mayer failed at virtually every turn. Less than a year into her stint as CEO,  
26 Mayer came under repeated attack for failing to turn around Yahoo's business. As early as March  
27 2013, the market had concluded that Mayer was not equipped to run or oversee Yahoo's  
28 position. For instance, a March 1, 2013 Forbes article blamed "the lack of strategy, innovation and  
growth at Yahoo" squarely on "leadership."

1           125. Mayer’s tenure was plagued with high-profile executive departures. Most notably,  
2 she oversaw the disastrous hire of former Google employee Henrique De Castro, who received \$108  
3 million for 15 months of work.

4           126. Mayer also caused the Company to spend billions of dollars on underperforming  
5 acquisitions. For instance, in 2014, Yahoo agreed to pay \$1.1 billion to purchase Tumblr to  
6 revitalize the Company by co-opting a web property with strong visitor traffic but little  
7 revenue. This extravagant bet never panned out, and Tumblr never became a viable social media  
8 competitor. Since the acquisition, Yahoo has written down half of Tumblr’s acquisition price.

9           127. By 2015, repeated criticism turned into calls for Mayer’s resignation. On October  
10 21, 2015, The Street published an opinion piece entitled, “Why Yahoo CEO Marissa Mayer Must  
11 Go.” The Street stated its conclusion bluntly: “After 40 months of ineffectual leadership, it’s time  
12 for Yahoo . . . CEO Marissa Mayer to go.”

13           128. Struggling to achieve any return on investment, public stockholders began to  
14 pressure Mayer and the Board to sell Yahoo’s core business. Following a proxy contest waged by  
15 Starboard in order to push a sale of Yahoo’s core assets, the Board was forced to place five new  
16 directors on the Board — Smith, Brandt, Braham, Friedman, and Hartenstein. These directors had  
17 one goal: ensure the sale of Yahoo’s core business. This created a strong incentive to continue  
18 concealing the Siberia Intrusion. In February 2016, the Board and management finally succumbed  
19 to internal and external pressure. In a February 2, 2016 press release, Mayer announced the  
20 Company would initiate a bidding process for its core business.

21           129. Finally, on July 25, 2016, Yahoo announced that Verizon had emerged victorious  
22 from the bidding process and would purchase Yahoo’s core operating business for \$4.8 billion.  
23 Yahoo billed the asset sale as a significant victory for the Company. In a press release, Mayer stated,  
24 “The sale of our operating business, which effectively separates our Asian asset equity stakes, is an  
25 important step in our plan to unlock shareholder value for Yahoo. This transaction also sets up a  
26 great opportunity for Yahoo to build further distribution and accelerate our work in mobile, video,  
27 native advertising and social.”  
28

1 **I. THE YAHOO BOARD CONCEALS THE SIBERIA INTRUSION IN**  
2 **CONNECTION WITH THE VERIZON TRANSACTION**

3 130. After concealing the Siberia Intrusion from Yahoo users and stockholders in 2014,  
4 2015, and 2016, the Board and management continued to withhold this information to achieve the  
5 goal of selling the Company. Specifically, in July 2016, facing intense pressure from stockholders,  
6 and desperate to consummate the Verizon Transaction, the Board and Mayer made affirmative  
7 misrepresentations to Verizon that were known by them to be false at the time they were made.

8 131. As detailed in the Proxy, the Board was actively involved in overseeing the Verizon  
9 Transaction, including overseeing negotiations between Yahoo and Verizon. Among other things,  
10 the Board oversaw the extensive drafting and “mark-up” process for the relevant transaction  
11 agreements, and ultimately approved the agreements, including a Stock Purchase Agreement  
12 (“SPA”).

13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 133. The relevant provision in the SPA is Article II, Clause (p), which provides as follows:

20 (p) To the Knowledge of Seller, there have not been any incidents  
21 of, or third party claims alleging, (i) Security Breaches,  
22 unauthorized access or unauthorized use of any of Seller’s or the  
23 Business Subsidiaries’ information technology systems or (ii) loss,  
24 theft, unauthorized access or acquisition, modification, disclosure,  
25 corruption, or other misuse of any Personal Data in Seller’s or the  
26 Business Subsidiaries’ possession, or other confidential data owned  
27 by Seller or the Business Subsidiaries (or provided to Seller or the  
28 Business Subsidiaries by their customers) in Seller’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 Seller nor the Business Subsidiaries have notified in writing,  
or to the Knowledge of Seller, been required by applicable Law or a  
Governmental Authority to notify in writing, any Person of any  
Security Breach.

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 135. Moreover, the transaction agreements (specifically, the Reorganization Agreement)  
5 provided that Verizon would assume all liability arising from the core business Yahoo was selling  
6 to it, including liabilities “arising from or related to any period prior to” closing of the Verizon  
7 Transaction.

8 136. [REDACTED]  
9 [REDACTED]  
10 [REDACTED] [REDACTED]  
11 [REDACTED]

12 [REDACTED] This bad-faith attempt to conceal the Siberia Intrusion  
13 put Yahoo in the precarious position of having to renegotiate the Verizon Transaction while being  
14 in breach of the SPA.

15 **J. VERIZON PUBLICLY RAISES CONCERNS ABOUT A POTENTIAL HACK OF**  
16 **YAHOO’S SYSTEMS AND THE BOARD STALLS TO CONSIDER HOW TO**  
17 **PROTECT THEMSELVES**

18 137. In late July 2016, Verizon discovered evidence on what is called the “dark web” –  
19 an encrypted network of servers often used by hackers — that Yahoo’s security may have been  
20 breached and user data stolen. Shortly thereafter, Verizon privately raised with Company  
21 management concerns that Yahoo user data had been compromised.

22 138. By early August 2016, rumors had begun to swirl in the marketplace that Yahoo had  
23 been the subject of a massive email breach. The Company was thus forced to finally disclose the  
24 truth to its users, as it should have done in February 2015 at the latest.

25 139. Even at this point, however, the Company delayed disclosing the Siberia Intrusion  
26 until September 22, 2016 in order to minimize the impact of the adverse news on the Company’s  
27 third quarter results. As Benning & Scattergood analysts noted in an October 18, 2016 report,  
28 “Rumors of the email breach surfaced in early August, but the Company did not confirm it until the  
end of September, which likely mitigated any impact on 3Q16 results.”

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18 157. On September 22, 2016, Yahoo issued a press release providing important  
19 information to users regarding the theft of certain user account information from the Company's  
20 network in 2014, which was filed as an exhibit to the Company's Form 8-K (the "September 22,  
21 2016 Press Release").

22 158. The September 22, 2016 Press Release states, in part:

23 *A recent investigation by Yahoo! Inc. (NASDAQ: YHOO) has confirmed* that a  
24 copy of certain user account information was stolen from the [C]ompany's  
25 network in late 2014 by what it believes is a state-sponsored actor. The account  
26 information *may have* included names, email addresses, telephone numbers, dates  
of birth, hashed passwords (the vast majority with bcrypt) and, in some cases,  
encrypted and unencrypted security questions and answers.<sup>12</sup>

27 <sup>12</sup> When the Final Proxy was issued on April 24, 2017, the Company decided not to incorporate the  
28 September 22, 2016 Form 8-K by reference. Instead, the Proxy disclosed the exact same language  
as the Form 8-K, but omitted the bolded and italicized language found in this paragraph. This is  
because the Company knew that, at a minimum, the statements made were misleading. Despite

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these statements being misleading, the Company has failed to issue a correction to the September 22, 2016 Form 8-K. This is because the Board continues to conceal the truth relating to the Company's investigation into the Siberia Intrusion.

<sup>13</sup> The Board did not disclose this fact until November 2016. The Board deliberately withheld this information from the public in order to avoid inundating the public with numerous reports of hacking incidents all at once, which would have put them on notice that the Company had utterly failed to protect Yahoo's user information and accounts. The failure to disclose this material fact was done in bad faith as a way to conceal the full extent of the damage.

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The Company admitted Bell’s conflict when it asked him to “resign” in February 2017, causing Bell to lose out on tens of millions of dollars of compensation (the Preliminary Proxy stated that Bell

[REDACTED]



1 stood to receive an estimated \$12,390,234 in golden parachute payments; because of his  
2 firing/resignation, Bell will not receive any of such payments). Because Yahoo has now  
3 acknowledged that Bell had contemporaneous knowledge of the 2014 data breach and failed to  
4 disclose the breach to users or law enforcement, as required by applicable law, Bell had an obvious  
5 conflict of interest in taking part in the investigation because he had a vested interest to cover up his  
6 knowledge and that of others with whom he was working at the time.

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10 175. Following the initial forensic examination, however, the Company discovered a  
11 second hacking incident from 2013. On December 14, 2016, the Company disclosed that it believed  
12 an authorized third party stole data associated with more than one billion user accounts in August  
13 2013. For the affected accounts, the Company disclosed that the hackers stole names, email  
14 addresses, telephone numbers, dates of birth, hashed passwords and, in some cases, encrypted and  
15 unencrypted security questions and answers.

16 176. While this significant hacking incident exposed the Company to additional liability,  
17 Verizon had already explained to the Company that the Siberia Intrusion alone constituted a breach  
18 of the Purchase Agreement. Therefore, while the Board is ultimately responsible for the damages  
19 flowing from this incident, due to their prolonged failure to improve the Company's data security  
20 infrastructure, it represents a separate and distinct injury that does not constitute an intervening cause  
21 of the damages flowing from the renegotiation with Verizon.

22 **N. THE BOARD ISSUES A FALSE ANNUAL REPORT DISCLOSING THE**  
23 **ERRONEOUS FINDINGS OF THE SHAM INVESTIGATION**

24 177. On March 1, 2017, the Board issued its annual report for the year ending December  
25 31, 2016 (the "2016 Form 10-K"). The 2016 Form 10-K disclosed the Independent Committee's  
26 findings and conclusions of its investigation into "the scope of knowledge within the Company in  
27 2014 of access to Yahoo's network by the state-sponsored actor responsible for the theft and related  
28 incidents, the Company's internal and external reporting processes and remediation efforts related  
to the 2014 Security Incident and related incidents."

1           178. As an initial matter, the Independent Committee acted in bad faith by restricting its  
2 investigation into the scope of knowledge within the Company of access to Yahoo's network by the  
3 Russian hackers solely to *2014*. [REDACTED]

10           179. As discussed below, the Independent Committee's primary conclusions are  
11 materially false, based on an artificially narrow record, and were made in bad faith.<sup>15</sup>

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<sup>18</sup> Defining “Severance” as “the involuntary termination of an Eligible Employee’s employment by the Company or any subsidiary thereof, *other than for Cause*, death or Disability.” *See also id.* at §§ 2.3, 2.5 (requiring incurrence of Severance before entitlement to annual salary for 24 months,

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12 **P. VERIZON USES YAHOO'S OFFICERS AND DIRECTORS' BREACHES OF**  
13 **FIDUCIARY DUTY TO GAIN AN ADVANTAGE IN THE BARGAINING**  
14 **NEGOTIATIONS**

15 205. During the Independent Committee's investigation, Verizon and Yahoo held  
16 numerous meetings to discuss the data breaches. Throughout these discussions, Verizon stated that  
17 the Siberia Intrusion alone constituted a Material Adverse Event ("MAE") under the Purchase  
18 Agreement. This provided Verizon a legal right under the Stock Purchase Agreement to back out  
19 of the deal.

20 206. Although the disclosures in the 2016 Annual Report were materially false and  
21 misleading, the findings of the investigation provided Verizon enough leverage to extract substantial  
22 concessions from Yahoo.

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

reimbursement for outplacement services, continued group health and dental plan, and accelerated  
stock options, RSU awards, and any other equity-based awards previously granted by Yahoo).

1           208. Verizon also had full access to all of Yahoo’s books, records, and information, since  
2 the Purchase Agreement explicitly obligated Yahoo to provide Verizon full access to all such  
3 information from the date of the execution of the Purchase Agreement on July 23, 2016 to the closing  
4 of the transaction. Section 4.03 of the Purchase Agreement states: “From the date hereof until the  
5 Closing (or until the earlier termination of this Agreement in accordance with Section 6.01), upon  
6 reasonable notice, Seller shall, as promptly as reasonably practicable: (i) afford Purchaser and its  
7 Representatives reasonable access to the personnel, properties and Books and Records of the  
8 Business.” Verizon thus had full access to Yahoo’s ongoing information and data regarding  
9 Yahoo’s investigation into the data breaches. Indeed, as demonstrated below, it could not have  
10 agreed to amend the Purchase Agreement and pick a specific number for the reduction in the  
11 purchase price (\$350 million) without performing a full, complete, and extensive analysis of the  
12 data breach, the liabilities expected to be incurred from such breach, and all related matters prior to  
13 agreeing to amend the Purchase Agreement.

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

27           210. Moreover, upon information and belief, Verizon was fully advised of and approved  
28 the decisions regarding Mayer’s forfeiture of her 2016 bonus and the firing of Bell. The Purchase

1 Agreement itself contains customary and broad-ranging restrictions on what action Yahoo can take  
2 with respect to its operations pending completion of the transaction. Thus, pursuant to Section 4.01  
3 of the Purchase Agreement, Yahoo has been restrained since July 23, 2016 from taking a broad  
4 range of actions without the prior consent of Verizon. While firing an employee is not necessarily  
5 one of those actions, hiring a replacement employee whose salary exceeds \$225,000 per year is  
6 specifically prohibited. Because Bell earned more than \$225,000 per year (his salary was \$600,000  
7 in 2015), Yahoo could not hire a replacement for Bell without Verizon's consent. Thus, it is likely  
8 that Yahoo had to fully inform Verizon about the decision to fire Bell and obtain Verizon's consent  
9 to such action before taking it.

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

20 212. The SPA Amendment, among other things, (i) reduced the consideration to be paid  
21 by Verizon to Yahoo in connection with the Sale by \$350,000,000 to \$4,475,800,000, (ii) provided  
22 that certain data security incidents to which Yahoo has been subject will be disregarded for purposes  
23 of determining whether certain closing conditions have been satisfied and in determining whether a  
24 "Business Material Adverse Effect" has occurred, and (iii) provided that the date after which each  
25 of Yahoo and Verizon may terminate the Amended Stock Purchase Agreement if the Closing (as  
26 defined in the Amended Stock Purchase Agreement) has not occurred has been extended to July 24,  
27 2017.

28 213. The RA Amendment provides, among other things, that Yahoo and Verizon will each

1 be responsible for 50 percent of certain post-closing cash liabilities related to certain data security  
2 incidents and other data breaches incurred by the Company.

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

7         215. Upon completion of the sale, Verizon will also receive for its benefit and that of its  
8 current and certain of its future affiliates, a non-exclusive, worldwide, perpetual, royalty-free license  
9 to certain intellectual property not core to the operating business held by Excalibur IP, LLC, a  
10 wholly-owned subsidiary of the Company (“Excalibur”), that is not being transferred to Yahoo  
11 Holdings with the operating business.

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

18         217. Having received what it wanted, Verizon gave Yahoo’s executives officers what they  
19 wanted: (1) a full release from Verizon for their conduct; and (2) a guarantee that they would receive  
20 their full golden parachute payments and other change of control payments which were called for in  
21 the original Purchase Agreement. None of those payments were reduced in any way in the Amended  
22 Purchase Agreement, notwithstanding the finding by Yahoo’s Independent Committee that “certain  
23 senior executives of Yahoo did not properly comprehend or investigate, and therefore failed to act  
24 sufficiently upon, the full extent of knowledge known internally by the Company’s information  
25 security team” relating to the data breaches. Because of their liability for the damages caused to  
26 Yahoo and its shareholders by the data breaches, Yahoo’s executives should not be entitled to  
27 receive their golden parachutes and other change of control agreements, or if the payments are made,  
28 should be forced to disgorge such payments.

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

6           219. As reported in a study conducted by the President’s Identity Theft Task Force in  
7 April 2007, headed by the Attorney General of the United States and the Chairman of the Federal  
8 Trade Commission, massive data breaches, such as the one announced by Yahoo, are costly to users  
9 both financially and emotionally:

10                   In addition to the losses that result when identity thieves fraudulently  
11                   open accounts or misuse existing accounts, ... individual victims  
12                   often suffer indirect financial costs, including the costs incurred in  
13                   both civil litigation initiated by creditors and in overcoming the many  
14                   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.

15                   *In addition to out-of-pocket expenses that can reach thousands of*  
16                   *dollars for the victims of new account identity theft, and the emotional*  
17                   *toll identity theft can take, some victims have to spend what can be a*  
18                   *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.

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

25                   *We are even more disturbed that user information was first*  
26                   *compromised in 2014, yet the company only announced the breach*  
27                   *last week.* That means millions of Americans’ data may have been  
28                   *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.

**Q. CRIMINAL INDICTMENTS IMPLICATE YAHOO IN RUSSIA’S ATTEMPTS TO INFLUENCE POLITICIANS AND FOREIGN ELECTIONS**

221. On March 15, 2017, the U.S. Department of Justice announced a forty-seven count criminal indictment against four individuals related to the 2014 Data Breach, including indictments of two Russian spies and two criminal hackers, marking the first U.S. criminal cyber charges ever against Russian government officials and the largest hacking case brought by the United States. The indictment was filed in the District Court of the Northern District of California. *See U.S. v. Dokuchaev et al.*, 17-CR-103 (N.D. Cal) (filed on Feb. 28, 2017) (the “Criminal Indictment”).

222. The indictment grew out of a nearly two-year investigation by the San Francisco office of the FBI with the aid of international law enforcement. Two agents of Russia’s Federal Security Service, known as the F.S.B., were charged — Dmitry Aleksandrovich Dokuchaev, 33, a Russian national and resident, and his supervisor Igor Anatolyevich Sushchin, 43, a Russian national and resident. The other two defendants who were charged are Alexsey Alexseyevich Belan, 29, a Russian national and resident; and Karim Baratov, 22, a Canadian and Kazakh national and a resident of Canada.

223. The Criminal Indictment confirms precisely what the Company knew since at least December 2014 – *i.e.*, that state-sponsored actors from Russia had hacked into Yahoo’s network, stolen substantial amounts of Yahoo user information, and used that stolen information to gain unauthorized access to Yahoo user accounts.

224. According to the Criminal Indictment, in 2014, the Criminal Defendants gained unauthorized access to user information for 500 million Yahoo user accounts – *i.e.*, the Siberian Intrusion. Specifically, the Criminal Defendants stole user information held in the Company’s User Database (“UDB”), including account users’ names; recovery email accounts and phone numbers; password verification questions and answers; and certain cryptographic security information associated with the account, *i.e.*, the account’s “nonce.” The UDB is accessible by using the account management tool (“AMT”), a cryptographic key that deciphers the encrypted information in the UDB.

225. Not only did the Criminal Defendants gain access to a wide array of Yahoo user

1 information in the UDB, they also used their access to the AMT to maintain persistent unauthorized  
2 access to compromised accounts. By combining the UDB and access to the AMT, the Criminal  
3 Defendants were able to gain access to and search within Yahoo user accounts. Moreover, the  
4 Indictment alleges that the Criminal Defendants' conduct "was part of a larger intrusion into  
5 Yahoo's computer network, which continued to and including at least September 2016. As part  
6 of this intrusion, malicious files and software tools were downloaded onto Yahoo's computer  
7 network, and used to gain and maintain further unauthorized access to Yahoo's network." (emphasis  
8 added). These facts undermine Yahoo's frequent statements, as part of the Defendants' attempted  
9 cover-up, that Yahoo had successfully eradicated the hackers from Yahoo's networks by early 2015  
10 and that Defendants were allegedly unaware of the data exfiltration.

11         226. The Company admits that the information security team, senior executives, and legal  
12 staff, who reported directly to the Board and/or sat on the Board, knew that the Criminal Defendants  
13 had accessed to the Company's AMT as early as late 2014. In its most recent 2016 Form 10-K, the  
14 Company admits that "[i]n late 2014, senior executives and relevant legal staff were aware that a  
15 state-sponsored actor had accessed certain user accounts by exploiting the Company's account  
16 management tool."

17         227. Moreover, Yahoo has admitted that the information security team understood that  
18 the attacker had exfiltrated copies of the Company's user database backup files containing the  
19 personal data of Yahoo users.

20         228. The Criminal Indictment also alleges that the Criminal Defendants accessed Yahoo  
21 user account information and contents by both internally and externally minting authentication  
22 cookies. By minting cookies, the Criminal Defendants were able to make it appear to Yahoo's  
23 servers as if they had previously obtained valid access to the Yahoo's network or the associated  
24 Yahoo account, obviating the need to enter a username and password to gain access to the network  
25 or specific accounts.

26         229. With respect to the external minting of cookies, the Criminal Defendants used the  
27 "nonce" associated with individual Yahoo user accounts stored in the UDB, which was stolen in  
28 2014. As the Criminal Indictment makes clear, however, the Criminal Defendants could have been



deterred from doing so if Yahoo had notified users and had them change their passwords. This is because whenever a Yahoo user changed his or her password, the nonce associated with the account changed as well. Because the Company failed to notify users of the Siberia Intrusion, Yahoo users did not change their passwords, and thus the Criminal Defendants were able to utilize the nonce associated with user accounts for a period of two years.

230. The compromised accounts may have affected more than just email. Breaking into a Yahoo account would give the hackers access to users' activity on Flickr, Tumblr, fantasy sports and other Yahoo applications. See Ellen Nakashima, "Justice Department Charges Russian Spies and Criminal Hackers in Yahoo Intrusion," THE WASHINGTON POST, Mar. 15, 2017. In the 2014 hack, the FSB — Russia's Federal Security Service, and a successor to the KGB — sought the information for intelligence purposes, targeting journalists, dissidents and U.S. government officials, but allowed the criminal hackers to use the email cache for the officials' and the hackers' financial gain, through spamming and other operations.

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

231. 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**

<i><b>SALE DATE</b></i>	<i><b>SHARES SOLD</b></i>	<i><b>PRICE PER SHARE</b></i>	<i><b>TOTAL SALE VALUE</b></i>
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

1	3/17/2014	26,000	\$39.1000	\$1,016,600.00
	3/28/2014	1,590	\$35.9000	\$57,081.00
2	4/28/2014	1,590	\$33.9900	\$54,044.10
3	5/28/2014	1,590	\$34.7800	\$55,300.20
	6/28/2014	1,590	\$34.2500	\$54,457.50
4	7/28/2014	1,590	\$35.9000	\$57,081.00
5	8/28/2014	1,590	\$38.3100	\$60,912.90
6	9/28/2014	1,590	\$40.6600	\$64,649.40
	10/28/2014	1,590	\$45.8700	\$72,933.30
7	11/28/2014	1,590	\$51.7400	\$82,266.60
8	12/28/2014	1,590	\$50.8600	\$80,867.40
9	1/28/2015	1,220	\$46.4600	\$56,681.20
	2/25/2015	2,254	\$44.4300	\$100,145.22
10	2/27/2015	1,879	\$44.2800	\$83,202.12
	2/27/2015	3,865	\$44.2800	\$171,142.20
11	2/28/2015	1,590	\$44.2800	\$70,405.20
12	3/6/2015	6,870	\$43.4400	\$298,432.80
13	3/6/2015	1,830	\$43.4400	\$79,495.20
	3/27/2015	423	\$45.1000	\$19,077.30
14	3/28/2015	1,590	\$45.1000	\$71,709.00
15	4/6/2015	375	\$43.6700	\$16,376.25
	4/27/2015	423	\$44.3600	\$18,764.28
16	4/28/2015	1,590	\$44.3400	\$70,500.60
17	5/6/2015	375	\$41.6600	\$15,622.50
	5/27/2015	425	\$43.3800	\$18,436.50
18	5/28/2015	1,591	\$43.0700	\$68,524.37
19	6/6/2015	376	\$42.8100	\$16,096.56
	6/27/2015	424	\$40.0600	\$16,985.44
20	6/28/2015	1,591	\$40.0600	\$63,735.46
21	7/6/2015	376	\$38.6100	\$14,517.36
	7/27/2015	424	\$37.8350	\$16,042.04
22	7/28/2015	1,591	\$37.7200	\$60,012.52
23	8/6/2015	376	\$36.4600	\$13,708.96
	8/27/2015	425	\$33.6900	\$14,318.25
24	8/28/2015	1,591	\$33.1400	\$52,725.74
25	9/6/2015	376	\$31.5800	\$11,874.08
	9/27/2015	424	\$29.1300	\$12,351.12
26	9/28/2015	1,591	\$27.6000	\$43,911.60
27	10/6/2015	376	\$30.9550	\$11,639.08
	10/27/2015	424	\$34.3000	\$14,543.20
28	10/28/2015	1,591	\$35.1850	\$55,979.34

1	11/6/2015	375	\$34.2000	\$12,825.00
	11/27/2015	425	\$32.9400	\$13,999.50
2	11/28/2015	1,591	\$32.9400	\$52,407.54
3	12/6/2015	376	\$34.9100	\$13,126.16
	12/27/2015	424	\$34.1100	\$14,462.64
4	12/28/2015	1,591	\$33.6000	\$53,457.60
5	1/6/2016	315	\$32.1600	\$10,130.40
	1/27/2016	356	\$29.6900	\$10,569.64
6	1/28/2016	1,167	\$28.7500	\$33,551.25
7	2/6/2016	266	\$27.9700	\$7,440.02
	2/27/2016	1,880	\$31.3700	\$58,975.60
8	2/27/2016	306	\$31.3700	\$9,599.22
9	2/28/2016	1,146	\$31.3700	\$35,950.02
10	3/6/2016	271	\$33.8600	\$9,176.06
	3/7/2016	1,925	\$33.9600	\$65,373.00
11	3/7/2016	513	\$33.9600	\$17,421.48
	3/7/2016	454	\$33.9600	\$15,417.84
12	3/27/2016	306	\$34.8600	\$10,667.16
13	3/28/2016	1,146	\$35.2300	\$40,373.58
	4/6/2016	271	\$36.6600	\$9,934.86
14	4/7/2016	1,153	\$36.1700	\$41,704.01
15	4/27/2016	306	\$36.9500	\$11,306.70
	4/28/2016	1,146	\$36.5900	\$41,932.14
16	5/6/2016	271	\$37.2300	\$10,089.33
17	5/7/2016	1,203	\$37.2300	\$44,787.69
	5/27/2016	425	\$37.8200	\$16,073.50
18	5/28/2016	1,591	\$37.8200	\$60,171.62
19	6/6/2016	376	\$37.0700	\$13,938.32
20	6/7/2016	1,601	\$36.7300	\$58,804.73
	6/27/2016	424	\$35.2200	\$14,933.28
21	6/28/2016	1,591	\$36.0400	\$57,339.64
22	7/6/2016	376	\$37.5100	\$14,103.76
	7/7/2016	1,601	\$37.5200	\$60,069.52
23	7/27/2016	424	\$38.6600	\$16,391.84
24	7/28/2016	1,591	\$38.5200	\$61,285.32
	8/6/2016	376	\$38.9900	\$14,660.24
25	8/7/2016	1,601	\$38.9900	\$62,422.99
26	8/27/2016	425	\$42.2700	\$17,964.75
	8/28/2016	1,591	\$42.2700	\$67,251.57
27	9/6/2016	376	\$44.7100	\$16,810.96
28	9/7/2016	1,601	\$44.3500	\$71,004.35
	9/27/2016	424	\$43.3700	\$18,388.88

1	9/28/2016	1,591	\$43.6900	\$69,510.79
2	10/6/2016	376	\$43.6800	\$16,423.68
3	10/7/2016	1,601	\$43.2200	\$69,195.22
4	10/27/2016	424	\$41.8700	\$17,752.88
5	10/28/2016	1,591	\$41.7800	\$66,471.98
6	11/6/2016	376	\$40.2800	\$15,145.28
7	11/7/2016	1,601	\$41.0500	\$65,721.05
8	11/27/2016	425	\$40.8700	\$17,369.75
9	11/28/2016	1,591	\$41.4500	\$65,946.95
10	12/6/2016	376	\$39.9700	\$15,028.72
11	12/7/2016	1,601	\$40.5200	\$64,872.52
12	12/27/2016	424	\$38.9200	\$16,502.08
13	12/28/2016	1,591	\$38.7300	\$61,619.43
14	1/6/2017	316	\$41.2300	\$13,028.68
15	1/7/2017	1,275	\$41.2300	\$52,568.25
16	1/27/2017	306	\$44.4200	\$13,592.52
17	1/28/2017	1,146	\$44.4200	\$50,905.32
18	2/6/2017	271	\$44.4200	\$12,037.82
19	2/7/2017	1,153	\$44.3700	\$51,158.61
20	2/27/2017	306	\$45.7100	\$13,987.26
21	2/28/2017	1,146	\$45.6600	\$52,326.36
22	<b>TOTAL NUMBER OF SHARES</b>	<b>208,701</b>	<b>TOTAL VALUE OF SHARES</b>	<b>\$8,166,024.61</b>

**MARISSA A. MAYER**

<i><b>SALE DATE</b></i>	<i><b>SHARES SOLD</b></i>	<i><b>PRICE PER SHARE</b></i>	<i><b>TOTAL SALE VALUE</b></i>
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

1	4/30/2014	36,000	18.8700	\$679,320.00
	4/30/2014	36,000	35.8599	\$1,290,956.40
2	5/15/2014	36,000	18.8700	\$679,320.00
3	5/15/2014	36,000	33.7879	\$1,216,364.40
	5/17/2014	8,256	33.4100	\$275,832.96
4	5/28/2014	4,241	34.7800	\$147,501.98
5	5/30/2014	36,000	18.8700	\$679,320.00
	5/30/2014	36,000	34.5592	\$1,244,131.20
6	6/10/2014	36,000	18.8700	\$679,320.00
7	6/10/2014	36,000	36.0406	\$1,297,461.60
	6/17/2014	8,256	34.4300	\$284,254.08
8	6/26/2014	36,000	18.8700	\$679,320.00
9	6/26/2014	36,000	33.5978	\$1,209,520.80
	6/28/2014	4,241	34.2500	\$145,254.25
10	7/10/2014	36,000	18.8700	\$679,320.00
11	7/10/2014	36,000	34.8575	\$1,254,870.00
	7/17/2014	8,256	33.2100	\$274,181.76
12	7/23/2014	36,000	18.8700	\$679,320.00
13	7/23/2014	36,000	33.8102	\$1,217,167.20
	7/26/2014	66,050	36.1200	\$2,385,726.00
14	7/26/2014	99,075	36.1200	\$3,578,589.00
15	7/28/2014	7,241	35.9000	\$259,951.90
16	8/5/2014	9,229	18.8700	\$174,151.23
	8/5/2014	26,771	18.8700	\$505,168.77
17	8/5/2014	36,000	36.1036	\$1,299,729.60
18	8/17/2014	8,256	36.4700	\$301,096.32
	8/18/2014	36,000	18.8700	\$679,320.00
19	8/18/2014	36,000	37.5086	\$1,350,309.60
20	8/28/2014	4,241	38.3100	\$162,472.71
	9/5/2014	36,000	18.8700	\$679,320.00
21	9/5/2014	36,000	39.3710	\$1,417,356.00
22	9/15/2014	36,000	18.8700	\$679,320.00
	9/15/2014	36,000	42.4386	\$1,527,789.60
23	9/17/2014	8,256	42.5900	\$351,623.04
24	9/28/2014	4,241	40.6600	\$172,439.06
	10/2/2014	36,000	18.8700	\$679,320.00
25	10/2/2014	36,000	39.9960	\$1,439,856.00
26	10/16/2014	36,000	18.8700	\$679,320.00
	10/16/2014	36,000	37.7738	\$1,359,856.80
27	10/17/2014	8,255	38.4500	\$317,404.75
28	10/28/2014	4,241	45.8700	\$194,534.67
	10/31/2014	36,000	18.8700	\$679,320.00

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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

1	8/6/2015	2,003	36.4600	\$73,029.38
	8/27/2015	2,261	33.6900	\$76,173.09
2	8/28/2015	4,242	33.1400	\$140,579.88
3	9/6/2015	2,003	31.5800	\$63,254.74
	9/27/2015	2,261	29.1300	\$65,862.93
4	9/28/2015	4,242	27.6000	\$117,079.20
5	10/6/2015	2,002	30.9550	\$61,971.91
	10/27/2015	2,261	34.3000	\$77,552.30
6	10/28/2015	4,242	35.1850	\$149,254.77
7	11/6/2015	2,002	34.2000	\$68,468.40
	11/27/2015	2,261	32.9400	\$74,477.34
8	11/28/2015	4,242	32.9400	\$139,731.48
9	12/6/2015	2,003	34.9100	\$69,924.73
	12/27/2015	2,261	34.1100	\$77,122.71
10	12/28/2015	4,242	33.6000	\$142,531.20
11	1/6/2016	1,665	32.1600	\$53,546.40
	1/27/2016	1,628	29.6900	\$48,335.32
12	1/28/2016	3,055	28.7500	\$87,831.25
13	2/6/2016	1,442	27.9700	\$40,332.74
	2/27/2016	1,629	31.3700	\$51,101.73
14	2/28/2016	3,055	31.3700	\$95,835.35
15	3/6/2016	1,939	33.8600	\$65,654.54
	3/7/2016	7,126	33.9600	\$241,998.96
16	3/7/2016	3,798	33.9600	\$128,980.08
17	3/7/2016	3,364	33.9600	\$114,241.44
	3/27/2016	2,261	34.8600	\$78,818.46
18	4/6/2016	2,003	36.6600	\$73,429.98
19	4/7/2016	2,561	36.1700	\$92,631.37
20	4/27/2016	2,261	36.9500	\$83,543.95
	5/6/2016	2,002	37.2300	\$74,534.46
21	5/7/2016	2,561	37.2300	\$95,346.03
22	5/27/2016	2,261	37.8200	\$85,511.02
	6/6/2016	2,003	37.0300	\$74,171.09
23	6/7/2016	2,561	36.7300	\$94,065.53
24	6/27/2016	2,261	35.2200	\$79,632.42
	7/6/2016	2,003	37.5100	\$75,132.53
25	7/7/2016	2,561	37.5200	\$96,088.72
26	7/26/2016	99,077	38.7600	\$3,840,224.52
	7/27/2016	2,261	33.6600	\$76,105.26
27	8/6/2016	2,002	38.9900	\$78,057.98
28	8/7/2016	2,561	38.9900	\$99,853.39
	8/27/2016	2,261	42.2700	\$95,572.47

1	9/6/2016	2,003	44.7100	\$89,554.13
2	9/7/2016	2,561	44.3500	\$113,580.35
3	9/27/2016	2,261	43.3700	\$98,059.57
4	10/6/2016	2,003	43.6800	\$87,491.04
5	10/7/2016	2,561	43.2200	\$110,686.42
6	10/27/2016	2,261	41.8700	\$94,668.07
7	11/6/2016	2,002	40.2800	\$80,640.56
8	11/7/2016	2,561	41.0500	\$105,129.05
9	11/27/2016	2,261	40.8700	\$92,407.07
10	12/6/2016	2,003	39.9700	\$80,059.91
11	12/7/2016	2,561	40.5200	\$103,771.72
12	12/27/2016	2,261	38.9200	\$87,998.12
13	1/6/2017	1,609	41.2300	\$66,339.07
14	1/7/2017	1,836	41.2300	\$75,698.28
15	1/27/2017	1,628	44.4200	\$72,315.76
16	2/6/2017	1,442	44.4200	\$64,053.64
17	2/7/2017	1,845	44.3700	\$81,862.65
18	2/27/2017	2,073	45.7100	\$94,756.83
19	<b>TOTAL NUMBER OF SHARES</b>	<b>3,412,862</b>	<b>TOTAL VALUE OF SHARES</b>	<b>\$109,432,984.38</b>

**DAVID FILO**

<b><i>SALE DATE</i></b>	<b><i>SHARES SOLD</i></b>	<b><i>PRICE PER SHARE</i></b>	<b><i>TOTAL SALE VALUE</i></b>
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
<b>TOTAL NUMBER OF SHARES</b>	<b>395,000</b>	<b>TOTAL VALUE OF SHARES</b>	<b>17,125,700.00</b>

**KENNETH A. GOLDMAN**

<b><i>SALE DATE</i></b>	<b><i>SHARES SOLD</i></b>	<b><i>PRICE PER SHARE</i></b>	<b><i>TOTAL SALE VALUE</i></b>
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



1	6/13/2014	3,000	36.9400	\$110,820.00
	6/25/2014	3,926	33.2500	\$130,539.50
2	6/27/2014	1,060	34.2500	\$36,305.00
3	7/25/2014	3,927	36.1200	\$141,843.24
	7/28/2014	1,060	35.9000	\$38,054.00
4	8/25/2014	3,926	37.7100	\$148,049.46
	8/28/2014	1,060	38.3100	\$40,608.60
5	9/25/2014	3,927	38.9500	\$152,956.65
6	9/26/2014	1,060	40.6600	\$43,099.60
	10/24/2014	3,927	43.5000	\$170,824.50
7	10/28/2014	1,060	45.8700	\$48,622.20
8	11/25/2014	3,626	51.7200	\$187,536.72
	11/28/2014	1,060	51.7400	\$54,844.40
9	12/24/2014	3,927	50.6500	\$198,902.55
10	12/26/2014	1,060	50.8600	\$53,911.60
	1/23/2015	2,896	48.9500	\$141,759.20
11	1/28/2015	763	46.4600	\$35,448.98
12	2/25/2015	2,828	44.4300	\$125,648.04
	2/27/2015	5,477	44.2800	\$242,521.56
13	3/25/2015	3,926	44.2000	\$173,529.20
	3/27/2015	1,483	45.1000	\$66,883.30
14	4/6/2015	375	43.6700	\$16,376.25
15	4/24/2015	3,927	44.5200	\$174,830.04
	4/27/2015	423	44.3600	\$18,764.28
16	4/28/2015	1,060	44.3400	\$47,000.40
17	5/6/2015	375	41.6600	\$15,622.50
	5/22/2015	3,927	43.4850	\$170,765.60
18	5/27/2015	425	43.3800	\$18,436.50
19	5/28/2015	1,061	43.0700	\$45,697.27
	6/5/2015	376	42.8100	\$16,096.56
20	6/25/2015	3,927	41.0650	\$161,262.26
21	6/26/2015	1,485	40.0600	\$59,489.10
	7/6/2015	376	38.6100	\$14,517.36
22	7/24/2015	3,928	38.8500	\$152,602.80
23	7/27/2015	424	37.8350	\$16,042.04
	7/28/2015	1,061	37.7200	\$40,020.92
24	8/6/2015	376	36.4600	\$13,708.96
	8/25/2015	3,927	31.7400	\$124,642.98
25	8/27/2015	425	33.6900	\$14,318.25
26	8/28/2015	1,061	33.1400	\$35,161.54
	9/4/2015	376	31.5800	\$11,874.08
27	9/25/2015	4,352	29.1300	\$126,773.76
28	9/28/2015	1,061	27.6000	\$29,283.60
	10/6/2015	376	30.9550	\$11,639.08

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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

1	9/7/2016	1,601	44.3500	\$71,004.35
	9/23/2016	3,928	42.8000	\$168,118.40
2	9/27/2016	424	43.3700	\$18,388.88
3	9/28/2016	1,061	43.6900	\$46,355.09
	10/6/2016	376	43.6800	\$16,423.68
4	10/7/2016	1,601	43.2200	\$69,195.22
	10/25/2016	3,928	42.5500	\$167,136.40
5	10/27/2016	424	41.8700	\$17,752.88
6	10/28/2016	1,061	41.7800	\$44,328.58
	11/4/2016	376	40.2800	\$15,145.28
7	11/7/2016	1,601	41.0500	\$65,721.05
8	11/25/2016	425	40.8700	\$17,369.75
	11/28/2016	1,061	41.4500	\$43,978.45
9	12/6/2016	376	39.9700	\$15,028.72
10	12/7/2016	1,601	40.5200	\$64,872.52
	12/27/2016	424	38.9200	\$16,502.08
11	12/28/2016	1,061	38.7300	\$41,092.53
12	12/29/2016	2,000	38.6400	\$77,280.00
	1/6/2017	1,591	41.2300	\$65,596.93
13	1/27/2016	1,070	44.4200	\$47,529.40
14	2/6/2017	271	44.4200	\$12,037.82
	2/7/2017	1,153	44.3700	\$51,158.61
15	2/27/2017	306	45.7100	\$13,987.26
	2/28/2017	765	45.6600	\$34,929.90
16	<b>TOTAL NUMBER</b>	<b>315,205</b>	<b>TOTAL VALUE</b>	<b>\$11,659,893.83</b>
17	<b>OF SHARES</b>		<b>OF SHARES</b>	

**VI. THE BOARD APPROVES A FALSE PROXY TO EFFECTUATE THE SALE OF YAHOO'S CORE ASSETS WITHOUT DISCLOSING THE TRUTH ABOUT THE BOARD'S AND MANAGEMENT'S KNOWLEDGE OF THE SIBERIA INTRUSION**

232. On April 24, 2017, Yahoo filed with the SEC the Definitive Proxy Statement, which was reviewed and approved by the entire Board and signed by Defendants Mayer and Brandt. The Proxy incorporates by reference the false 2016 Form 10-K.

233. 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

1 Yahoo's operations for which shareholder approval is required pursuant to SEC rules and  
2 regulations.

3 234. However, a stockholder is incapable of voting in an informed manner unless the  
4 Proxy discloses all material facts relating to the proposed vote. Here, the Proxy was materially false  
5 and misleading, and thus the stockholders did not have a chance to cast their vote with all material  
6 facts presented to them.

7 235. Because the Proxy Statement incorporated by reference the statements made in the  
8 Company's 2016 Form 10-K, the Proxy Statement contained numerous false and misleading  
9 statements of material fact relating to the Siberia Intrusion. Despite the Board approving three  
10 consecutive Proxy Statements containing the same false and misleading statements of material fact,  
11 and filing those proxy statements with the SEC, the Board continued to lie in each successive Proxy  
12 Statement.

13 236. The Proxy Statements include at least four false or misleading statements of material  
14 fact. **First**, the Proxy Statements falsely stated that the Siberia Intrusion was not thoroughly  
15 investigated and analyzed at the time. This is belied by the true facts. As alleged herein, [REDACTED]

16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED].

22 237. **Second**, the Proxy Statements materially misstated the extent of certain senior  
23 executives' knowledge of the Siberia Intrusion. As an initial matter, [REDACTED]

24 [REDACTED]  
25 [REDACTED]  
26 [REDACTED] [REDACTED]  
27 [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]  
28 [REDACTED] [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 238. *Third*, the Proxy Statements contained false statements relating to the Board's and  
9 AFC's knowledge of the Siberia Intrusion. While the Board approved issuance of a Proxy Statement  
10 that alluded to the Board and AFC not having sufficient knowledge, [REDACTED]  
11 [REDACTED]

12 [REDACTED] Thus, the Proxy Statements are materially misleading at a minimum.

13 239. *Fourth*, the Proxy Statements made the affirmative misrepresentation that there was  
14 no evidence of intentional suppression of the Siberia Intrusion. But the factual record clearly shows  
15 that this statement is once again false. [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]  
22 [REDACTED]

23 240. Besides the false statements described above, the Proxies also falsely stated that  
24 Yahoo's SEC filings "complied in all material aspects with the Securities Act, the Exchange Act or  
25 the Sarbanes Oxley Act, as the case may be, and the applicable rules and regulations promulgated  
26 thereunder," and that none of Yahoo's SEC filings contained any "untrue statement of material fact  
27 or omitted to state any material fact." *See, e.g.*, Purchase Agreement at § 2.07(a) (attached as Ex.  
28 A to the Proxy).

241. This statement was knowingly false because Yahoo's SEC filings failed to disclose the relevant data breaches, which Yahoo admittedly knew about since 2014.

242. In sum,

\_\_\_\_\_ a continuing wrong that implicates the Board in a fraud committed on Yahoo, its users, and its stockholders.

## VII. CLASS ACTION ALLEGATIONS

243. Plaintiffs bring 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.

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

245. 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.

246. 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 plaintiffs and the other members of the Class in connection with the Verizon Purchase Agreement;
- (b) 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 defendants unjustly enriched themselves and other insiders or affiliates of Yahoo;
- (d) whether the Individual Defendants have breached any of their other fiduciary duties to plaintiffs 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; and

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

3 247. Plaintiffs' claims are typical of the claims of the other members of the Class and  
4 Plaintiffs do not have any interests adverse to the Class.

5 248. Plaintiffs are adequate representatives of the Class, have retained competent  
6 counsel experienced in litigation of this nature, and will fairly and adequately protect the interests  
7 of the Class.

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

11 250. Plaintiffs anticipate that there will be no difficulty in the management of this  
12 litigation. A class action is superior to other available methods for the fair and efficient  
13 adjudication of this controversy.

14 251. Defendants have acted on grounds generally applicable to the Class with respect to  
15 the matters complained of herein, thereby making appropriate the relief sought herein with respect  
16 to the Class as a whole.

#### 17 **VIII. DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

18 252. Plaintiffs also bring this action derivatively in the right and for the benefit of Yahoo  
19 to redress injuries suffered, and to be suffered, by Yahoo and its stockholders as a direct result of  
20 the breaches of fiduciary duty by the Individual Defendants.

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

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

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

27 256. Plaintiffs have not made any demand on Yahoo to institute this action because such  
28 a demand would be a futile, wasteful, and useless act for the reasons set forth below.

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

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

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

16          259.     Despite causing Yahoo well over \$382 million in damages to-date (\$350 million in  
17    the reduced purchase price and \$32 million in data breach investigation and remediation costs, as  
18    disclosed in Yahoo's 2016 Annual Report filed March 1, 2017 and its Form 10-Q filed May 9,  
19    2017), Mayer and Filo have not been required to forfeit any of the change of control and "golden  
20    parachute" payments they received upon completion of the Verizon Purchase Agreement. Because  
21    their wrongdoing caused the damages to Yahoo, Mayer and Filo should not be allowed to retain  
22    the full amount, or any, of their change of control and golden parachute payments. These improper  
23    financial benefits to Mayer and Filo make them interested in the subject matter of this action. As  
24    a result, demand is futile as to them.

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



1 independent directors.

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

5 **B. Demand Is Futile as to McInerney Because He Is Interested and Breached His Duty of**  
6 **Candor and Loyalty**

7 262. Demand is futile as to McInerney because, at the time the Complaint was filed, he  
8 had been extended an extremely lucrative offer to act as CEO of the successor company, Altaba.  
9 Pursuant to this offer, Defendant McInerney was provided with a base annual salary of \$2 million,  
10 an annual target bonus of up to another \$2 million, and long-term deferred compensation that could  
11 be worth up to \$24 million. As such, his reliance on a promise of future employment rendered  
12 him dependent and interested for the purpose of considering a demand.

13 263. Moreover, McInerney is interested and lacks independence because he breached  
14 his duties of candor and loyalty. [REDACTED]

15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED] However, neither McInerney nor Yahoo ever disclosed  
19 this material fact, and were only forced to file a Supplemental Proxy disclosing the information in  
20 response to Plaintiff Spain's motion for preliminary injunction. [REDACTED]

21 [REDACTED]  
22 [REDACTED] McInerney breached his duties of loyalty  
23 and candor to Yahoo.

24 **C. Demand Is Futile Because the Board Knowingly Failed to Notify Yahoo Users in 2014**  
25 **and 2015**

26 264. Demand on the Board is futile because, consistent with the Company's reporting  
27 mechanisms outlined in the Corporate Governance Guidelines and the Audit and Finance  
28 Committee chart, a majority of the Board failed to comply with the law by notifying affected users  
of the Siberia Intrusion, [REDACTED]

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1 [REDACTED]  
2 [REDACTED]  
3 266. As evidenced by statements in the Company's public filings, previous course of  
4 conduct relating to similar security breaches, and internal company policies and procedures, the  
5 Board knew that the Company had a legal obligation to comply with these state laws, including  
6 their requirement to notify users of suspected security breaches. Notwithstanding its knowledge  
7 of the Siberia Intrusion, the Board and the Audit and Finance Committee failed to disclose the  
8 Intrusion to its users for nearly two years, in violation of applicable law. This willful delay in  
9 notifying users of security breaches has significantly increased the Company's legal liability under  
10 UDAAP and similar consumer protection laws, and has eroded the Company's good will. As a  
11 result, demand is futile because a majority of the Board faces a substantial likelihood of liability.

12 267. In fact, [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]  
21 [REDACTED]  
22 [REDACTED]

23 268. Moreover, the entire Board is interested because Yahoo is currently subject to  
24 ongoing investigations by the SEC, DOJ, and state attorney generals. The Company's 2016 Form  
25 10-K states: "The Company is cooperating with federal, state, and foreign governmental officials  
26 and agencies seeking information and/or documents about the Security Incidents and related  
27 matters, including the U.S. Securities and Exchange Commission ("SEC"), the U.S. Federal Trade  
28 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

1 members can objectively consider a demand to sue themselves since suing themselves could  
2 subject them to potential criminal liability in the DOJ investigation, and substantial civil damages  
3 in the SEC, foreign, and state attorney general investigations. The pendency of an active DOJ  
4 investigation makes this case particularly unique, given the directors' potential for criminal  
5 liability.

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

10 270. As such, the Board failed to act in the face of a known duty to act. Such conduct  
11 constitutes bad faith, thus excusing demand.

12 **D. Demand is Futile as to the Audit Committee Defendants**

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

21 **E. Demand is Futile as to the Entire Board** [REDACTED]  
22 [REDACTED]  
23 [REDACTED]  
24 [REDACTED]  
25 [REDACTED]  
26 [REDACTED]  
27 [REDACTED]  
28 [REDACTED]

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■ [REDACTED]

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■ [REDACTED]

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[REDACTED]

[REDACTED]

■ [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

274. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

275. The entire Board is also incapable of assessing a demand because they have publicly put their support behind the findings and conclusions of an investigation carried out in bad faith. As a result, the Director Defendants suffer from a fatal disabling conflict because any

1 objective assessment of a demand would require them to admit that the Independent Committee's  
2 investigation was conducted in bad faith, and thus expose them to liability. For these reasons, the  
3 entire Board is incapable of assessing demand.

4 **F. Demand is Futile as to the Board for Approving Change of Control Payments While**

5 [REDACTED]  
6 276. Moreover, the Board itself approved the change of control payments and golden  
7 parachutes to management, including to Mayer, Bell and Filo, notwithstanding their knowledge  
8 that [REDACTED]

9 [REDACTED]  
10 As such, the entire Board breached its duty of loyalty to Yahoo by subjugating Yahoo's best  
11 interests to those of Mayer, Filo, and Bell. Quite simply, the Board knowingly approved payments  
12 of millions of dollars to Mayer notwithstanding knowledge of the massive damage caused to  
13 Yahoo. This is the epitome of disloyal conduct by a fiduciary and also constitutes bad faith, thus  
14 excusing demand.

15 **G. Demand is Futile As to the Entire Board Because All Directors Reviewed and**  
16 **Approved Multiple False and Misleading Statements That Continued to Conceal the**  
17 **True Facts Regarding the Siberia Intrusion**

18 277. As alleged herein, [REDACTED]  
19 [REDACTED]  
20 [REDACTED].

21 278. [REDACTED]  
22 [REDACTED]  
23 [REDACTED]

24 [REDACTED] Despite being presented with such information, all Director Defendants  
25 approved the filing of materially false and misleading Proxy Statements on September 9, 2016,  
26 March 13, 2017, April 10, 2017, and April 24, 2017. All Director Defendants thus breached their  
27 duties of candor and loyalty. Because breaches of the duties of candor and loyalty cannot be  
28 indemnified under Delaware law, all Director Defendants face a substantial likelihood of liability

1 for their wrongful conduct.

2 279. As alleged herein, the Board has issued numerous false and misleading public  
3 statements regarding the Siberia Intrusion. The Board faces a substantial likelihood of liability for  
4 breaching its duty of candor with respect to the following public filings: (1) the September 2016  
5 Press Release; (2) the 2016 Form 10-K; and (3) the Proxy Statement. [REDACTED]

6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED] Specifically, in determining whether the Director Defendants did in fact have  
14 contemporaneous knowledge, the Director Defendants would have to make material  
15 determinations of fact that substantially overlap with the facts that form the basis of their own  
16 liability for breaching their duty of candor. As such, the Director Defendants cannot assess  
17 demand as to any claims relating to the Siberia Intrusion.

18 280. For these reasons, demand is excused as to all Director Defendants.

19 **H. Demand is Futile As to the Entire Board With Respect to the Aiding and Abetting**  
20 **Claim Against Verizon**

21 281. Demand is also futile as to the entire Board with respect to the aiding and abetting  
22 claim alleged against Verizon. Given the Board's inability to assess demand as to the underlying  
23 claims against themselves (for the reasons stated above), the Board cannot assess the aiding and  
24 abetting claim against Verizon – a claim that requires a showing that the Board breached its  
25 fiduciary duty. As such, Demand is excused as to all Director Defendants.

1 **IX. CAUSES OF ACTION**

2 **FIRST CAUSE OF ACTION**  
3 **DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTY**  
4 **(AGAINST THE INDIVIDUAL DEFENDANTS)**

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

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

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

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

24 **SECOND CAUSE OF ACTION**  
25 **DERIVATIVE CLAIM FOR CORPORATE WASTE**  
26 **(AGAINST THE DIRECTOR DEFENDANTS)**

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

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



288. 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.

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

**THIRD CAUSE OF ACTION  
DIRECT CLASS CLAIM FOR BREACH OF FIDUCIARY DUTY  
(AGAINST THE INDIVIDUAL DEFENDANTS)**

290. Plaintiffs incorporate by reference and reallege each and every allegation contained above, as though fully set forth herein, except for the derivative causes of action.

291. 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.

292. 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 and have advanced their interests at the expense of plaintiffs and other members of the Class.

293. 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 agree to a reduction of 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. Moreover, Yahoo has stated that it intends to distribute most of the proceeds from the Verizon asset sale to shareholders. Defendant McInerney reiterated this in a Form 8-K filed on June 21, 2017, in which he stated that Altaba intends to “return substantially all of our cash to shareholders,” including the

1 cash received from Verizon. Thus, the Individual Defendants' breaches of fiduciary duty in  
2 negotiating a \$350 million reduction to the asset sale has directly harmed Yahoo's shareholders  
3 who are entitled to receive the majority of the relevant proceeds from the asset sale.

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

- 7 (a) They have failed to disclose all material facts to Plaintiffs and the Class  
8 about the Purchase Agreement and data breaches in the Proxy;
- 9 (b) They ignored or did not protect against the numerous conflicts of interest  
10 resulting from their own interrelationships or connection with the Purchase  
11 Agreement; and
- 12 (c) They have caused direct pecuniary harm to the Class.

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

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

22 297. As a result of the actions of Defendants, plaintiffs and the Class have been injured  
23 as a result of Defendants' self-dealing and breach of the duty of candor.

24 298. The Individual Defendants have engaged in self-dealing, have not acted in good  
25 faith toward plaintiffs and the other members of the Class, and have breached and are breaching  
26 their fiduciary duties to the members of the Class.

27 299. Plaintiffs and the members of the Class have been damaged.

**FOURTH CAUSE OF ACTION  
DIRECT CLASS CLAIM FOR AIDING AND ABETTING BREACHES  
OF FIDUCIARY DUTY  
(AGAINST DEFENDANT VERIZON)**

300. Plaintiffs repeat and reallege every allegation set forth above, except for the derivative causes of action.

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

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

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

304. Verizon colluded in or aided and abetted the Individual Defendants' breaches of fiduciary duties, and actively and knowingly participated in the Individual Defendants' breaches of fiduciary duties owed to plaintiffs 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.

305. 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.

306. Plaintiffs and the members of the Class have been and will be damaged by Verizon's conduct because Yahoo has said it will distribute the majority of the money obtained from Verizon as part of the asset sale to Plaintiffs and the Class, and such amount was reduced by \$350 million as a result of Defendants' wrongdoing. Moreover, the amount of money available for distribution to Plaintiff and the Class will be additionally significantly reduced as a direct result of Defendants' wrongdoing because Yahoo was saddled with tens and possibly hundreds of millions of dollars in additional liability as a result of the re-negotiation of the asset sale with Verizon. These liabilities will directly reduce the amount of money distributed to Yahoo's shareholders.

**FIFTH CAUSE OF ACTION  
DERIVATIVE CLAIM FOR AIDING AND ABETTING BREACHES  
OF FIDUCIARY DUTY  
(AGAINST DEFENDANT VERIZON)**

307. Plaintiffs repeat and reallege every allegation set forth above, except for the derivative causes of action.

308. Defendant Verizon aided and abetted the Individual Defendants in breaching their fiduciary duties owed to Yahoo.

309. The Individual Defendants owed to Yahoo certain fiduciary duties as fully set out herein.

310. By committing the acts alleged herein, the Individual Defendants breached their fiduciary duties owed to Yahoo.

311. Verizon colluded in or aided and abetted the Individual Defendants' breaches of fiduciary duties, and actively and knowingly participated in the Individual Defendants' breaches of fiduciary duties owed to Yahoo. Verizon knew about or recklessly disregarded the Individual Defendants' breaches of fiduciary duty, which were and are continuing, as set forth in particularity herein.

312. 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.

313. Yahoo was injured as a direct and proximate result of the aforementioned acts.

**SIXTH CAUSE OF ACTION  
DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTY FOR INSIDER SELLING  
AND MISAPPROPRIATION OF INFORMATION  
(AGAINST THE SELLING DEFENDANTS)**

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

315. During the Relevant Period, Defendants Bell, Mayer 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.

316. The information described above was proprietary non-public information concerning the 2013 and 2014 Data Breaches. It was a proprietary asset belonging to the Company, which the Insider Selling Defendants used for their own benefit when they sold Yahoo common stock.

317. The insider Selling Defendants' sales of Yahoo common stock while in possession and control of this material adverse non-public information was a breach of their fiduciary duties of loyalty and good faith.

318. Since the use of the Company's proprietary information for their own gain constitutes a breach of the insider Selling Defendants' fiduciary duties, the Company is entitled to the imposition of a constructive trust on any profits the insider Selling Defendants obtained thereby.

## **X. PRAYER FOR RELIEF**

**WHEREFORE**, Plaintiffs demand 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, damages according to proof;

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 Plaintiffs the costs, expenses, and disbursements in connection with this action, including reasonable attorneys' fees, experts' and consultants' fees and expenses, and, if

1 applicable, pre-judgment and post-judgment interest; and

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

4 **XI. JURY DEMAND**

5 Plaintiffs demand a trial by jury on all issues so triable.

6 Dated: August 3, 2017

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*Additional Attorneys for the Plumbers & Pipefitters*  
*National Pension Fund*



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**VERIFICATION**

I, Patricia Spain, verify that I am a shareholder of Yahoo Inc. and that I have continuously owned Yahoo stock since April 4, 2012. I have reviewed the allegations in this Consolidated Shareholder Class Action and Derivative Complaint for Breach of Fiduciary Duties (the "Complaint"). As to those allegations of which I have personal knowledge, I believe them to be true; as to those allegations of which I lack personal knowledge, I rely upon my counsel and counsel's investigation, and believe them to be true. Having received a copy of the Complaint and reviewed it with counsel, I authorize its filing.

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

Dated: July 30, 2017.

  
Patricia Spain

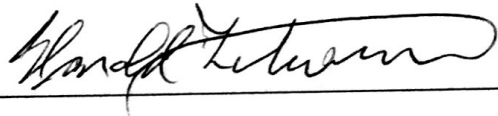
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**VERIFICATION**

I, Harold Litwin, verify that I am a shareholder of Yahoo Inc. and have continuously held YAHOO! Inc. common stock since September 12, 2011. I have reviewed the allegations in this Consolidated Shareholder Class Action and Derivative Complaint for Breach of Fiduciary Duties (the "Complaint"). As to those allegations of which I have personal knowledge, I believe them to be true; as to those allegations of which I lack personal knowledge, I rely upon my counsel and counsel's investigation, and believe them to be true. Having received a copy of the Complaint and reviewed it with counsel, I authorize its filing.

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


Dated: July 27, 2017.



Harold Litwin

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

  
Barry Rosenfeld, Trustee of LR Trust

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