

August 1, 2007

Rating Information

Sector Rating	Market Weight
Target Price YE '08	\$34.00
Long-Term Growth	24.73%

Trading Data

52-Wk Range	\$22.65 - \$33.61
Market Cap.	\$31,567 MM
Shares Out.	1,343.8 MM
Dividend Yield	0.0%
Avg Daily Vol.	25,270,000
Float	NA
Source: FactSet	

Fundamental Data

EV/EBITDA	20.1x
Enterprise Value	\$30,792.3 MM
LT Debt to Total Cap.	7.7%
Book Value	\$6.70
Source: FactSet	

Price Performance Chart



Source: FactSet

Securities in this report priced as of:

July 31, 2007 16:00 ET

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Yahoo! Corp. (YHOO-\$23.25-Outperform)

Yahoo!'s 100 Day Review: What Should Yahoo! Do Regarding Social Networks?

- On July 17th, 2007, a new review of Yahoo!'s strategic direction was announced by new CEO Jerry Yang. In his self declared **"100 day review"**, Mr. Yang stated that nothing was a "sacred cow" and that the company would be reviewing all past decisions, current plans, and future strategic direction. One of the topics we feel the company **must be reviewing closely is Social Networking**.
- The growth of the social networks (**now accounting for 60% of worldwide Internet users**) has not gone unnoticed by advertisers. In fact, we believe that there currently is an Ad Dollar Splintering (ADS) that is occurring in the industry where advertising dollars that historically had gone to the traditional portal is splintering off to the social networks. eMarketer projects that social networking **ad dollars could grow from \$1.2 billion in 2007 to \$3.6 billion in 2011**.
- Our opinion is that Yahoo! needs to step up its initiatives in this area (through acquisition or partnership) relatively shortly, or risk being marginalized in some of their businesses.** Further, while valuations could look daunting at first blush, we believe the rapid growth and engagement of these sites provide strong monetization opportunities. We also attempt in our report to value social networking sites by using Facebook as an example to give investors a roadmap for valuation in the space. Our rough analysis indicates Facebook could be worth as much as ~\$5-\$6B.
- What follows in this report is an analysis & overview of the Social Networking industry including: how big is the industry, how fast is it growing, what are the advertising dollar opportunities, who are the major players, and what are the companies worth. We believe Yahoo! has already performed similar analyses to form their strategic directions - **we hope investors find the information incremental to their Yahoo! investment mosaic.**

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

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

	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Year	P/E
2006	0.11	0.11	0.11	0.19	0.52	44.7x
2007	0.10	0.11	0.08E	0.12E	0.42E	55.4x
2008					0.55E	42.3x

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

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PLEASE REFER TO PAGE 20 OF THIS REPORT FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

NOTE: We will be holding a conference call today at 10:30am ET to discuss this note in more detail. In addition, a full length version of this report will be available in the coming days. – please contact your Bear Stearns representative for information regarding the call or report.

We would like to acknowledge the important contribution to this report by Amy Freedman.

EXECUTIVE SUMMARY – YAHOO!’s 100 DAY REVIEW

On July 17th, 2007 a new review of Yahoo!’s strategic direction was announced by new CEO Jerry Yang. In his self declared “100 day review”, Mr. Yang stated that nothing was a “sacred cow” and that the company would be reviewing all past decisions, current plans, and future strategic directions. We think that there are no shortage of topics that the company will be analyzing, and we hope to address many of them over the coming weeks. However, one of the topics we feel the company must be reviewing closely is Social Networking. Yahoo! has looked at this closely in the past, and in our opinion needs to decide what steps (if any) need to be made for Yahoo! to solidify its future with the impact coming from this “emerging” phenomenon. We put “emerging” in quotes because social networking is nothing really new – Friendster was started back in 2002, and Yahoo! already has its own social network in Yahoo! 360. However, industry data shows that Yahoo! 360 has been losing ground to more popular networks, and to compound the problem that social networks are growing much faster than the “traditional portals” like Yahoo!.

The growth of the social networks (now accounting for 60% of worldwide Internet users) has not gone unnoticed by advertisers. In fact, we believe that there currently is an Ad Dollar Splintering (ADS) that is occurring in the industry where advertising dollars that historically had gone to the traditional portal are splintering off to the social networks. We believe that the impact is relatively modest right now, but is already impacting Yahoo!’s branded advertising growth. Further, we think the ad dollars are only going to accelerate to social networks as advertisers seek to follow the eye balls (i.e. page views) that are going that way. In fact, eMarketer projects that social networking ad dollars could grow from \$1.2 billion in 2007 to \$3.6 billion in 2011.

We acknowledge that there are many issues that advertisers still have with social networks such as: brand control, association with affiliated content, and ease of distribution. However, major advertisers like Circuit City, Coca Cola, and Mastercard are already using the new medium and 40% plan advertise on social networks in the next year. We believe the risk Yahoo! runs by not looking closely at this phenomenon is: Will social networks become the new “portal”? **Our opinion is that Yahoo! needs to step up its initiatives in this area (through acquisition or partnership) relatively shortly, or risk being marginalized in some of their businesses. Further, while valuations could look daunting at first blush, we believe the rapid growth and engagement of these sites provide strong monetization opportunities (please see valuation discussion in the report).**

What follows in this report is an analysis & overview of the Social Networking industry including: how big is the industry, how fast is it growing, what are the advertising dollar opportunities, who are the major players, and what they are worth. We believe Yahoo! has already performed similar analyses to form their strategic directions – we hope investors find the information incremental to their Yahoo! investment mosaic.

A HIGH LEVEL VIEW

While still being viewed by many as the alternative medium on the Internet, social networking has been rising tremendously over the past three years and arguably has become the new mainstream information distribution and consumption medium for Netizens. The striking truth is that in today’s America, close to 65% of the total Internet population are users of social networking sites, according to comScore measures. Top sites such as MySpace have built a considerable user base, the size of which equals about 40% of total domestic Internet users. Even more profound is that this isn’t just a domestic phenomenon, as social networking sites’ visitors account for 60% of the global Internet audience. Looking at such remarkable statistics, it is hard to dismiss social networking as a flash in the pan.

However, one of the biggest skepticisms on the space has been the difficulties associated with monetization on those sites. We take a close look at the specific advertising formats, placements and verticals on social networking sites in this report to explain the apparent dichotomy of pricing of ads on social networking sites vs. those on traditional portal sites. Industry insiders usually blame the lack of monetization potential of social networking sites to their demographics, which is skewed towards youngsters. A quantitative look at user composition, however, reveals that social networking demo has aged significantly over the past two years, and nowadays the largest age group on social networking sites is between age 35 and 54 (approximately 40% of total users). This finding is significant in our view as the mix shift of the user base represents an audience with increasing purchasing power and hence is more likely to be targeted by advertisers.

Further, we think the significance of social networking goes beyond just the space itself, as it has complex implications for the entire Internet space. It is debatable whether social networking sites will become the new portal. They have already been heading in that direction, in our view, as is manifested in MySpace's Impact channel and YouTube's YouChoose channel for the 2008 political campaign. At the very minimum, we think the rise of social networking sites has multiplied the availability of page view inventory on the web. As such, advertisers who once were limited in their advertising options to the web portals like Yahoo!, AOL, and MSN now have a plethora of options available to them. We think the high availability of inventory could be one of the larger causes of the CPM pricing pressure that we are witnessing across the major portals, as advertisers are now more willing to allocate their online advertising dollars across multiple sites.

To further grow its traction, we think there are several areas that social networking sites can work on (many have already been working on those areas). One is to become more niche focused to present a more targeted and focused demo for advertisers. Also, having a strong international presence is the key to sustainable growth in our view (many top sites have already greatly shifted their user mix towards international markets). Lastly, we think mobile also adds an interesting dimension to social networking and could likely become the next leg of growth as 3G develops globally.

WHY SHOULD YAHOO! LOOK AT SOCIAL NETWORKING?

We believe that Yahoo! has been clearly watching the social networking space closely and looking at various acquisition/partnership opportunities because of these trends. We think the social networking topic will remain a top item on Yahoo!'s plate for the foreseeable future especially as CEO Jerry Yang looks to refine Yahoo!'s strategic positioning over the next 100 days, and rightly so.

We believe there are a few reasons why social networking is a priority for Yahoo! as:

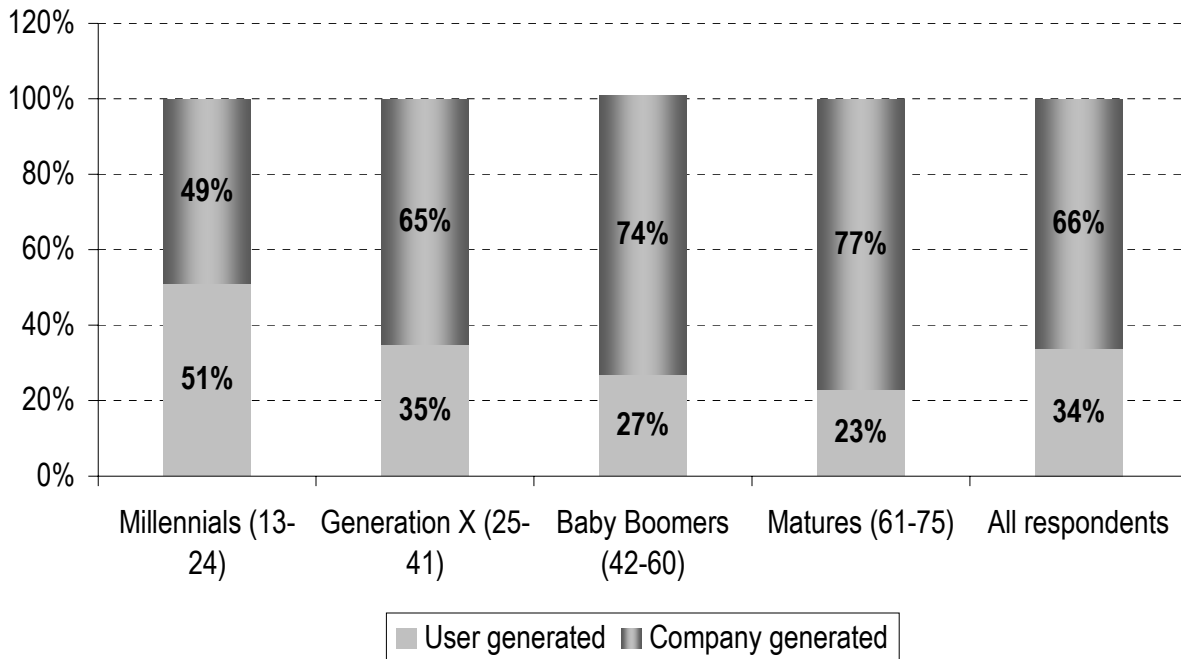
- 1) Social networking could potentially facilitate the shift of the portal paradigm on the Internet
- 2) Social networking sites could have Ad Dollar Splintering (ADS) effect
- 3) Social networking sites' massive user information could be extremely valuable to behavioral targeting (Yahoo!'s SmartAds).

1) SOCIAL NETWORKING – THE NEW PORTAL

We think the big question for the industry is whether social networking sites, with their large user community, will become the next generation "portals." As a matter of fact, we think the social networking sites are already heading in that direction as those sites take on the new role of disseminating public information (not just personal profiles) to the world.

The exhibit below shows the percent of time spent online at user-generated sites vs. traditional sites. As social networks begin to offer portal features such as current events, email, and messaging services, users are beginning to shift away from typical portals such as Yahoo! and AOL and more towards social networking and video content sharing sites such as Facebook and YouTube. Majority of younger users are spending more time on user-generated sites while older users spend more of their time on traditional sites, such as Yahoo! or MSN.

Exhibit 1 Percent of Time Spent Online at User-Generated Sites vs. Traditional Sites according to US Internet Users, February-March 2007



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

The most recent example of the evolution of the social networks is their addition of "special channel" / portal-like features that are very timely and targeted. None is a better topic than the 2008 Presidential election, like MySpace's launch of the Impact channel which gives users the opportunity to register to vote, view profiles of candidates, and allows users to make donations to the candidate of their choice. The site also plans to hold monthly presidential polls throughout the remainder of 2007. As of July 2007, majority of the 2008 presidential contenders had profiles on MySpace.

Exhibit 2 MySpace Impact Channel

Users can view candidate's pages and learn more about their platforms.

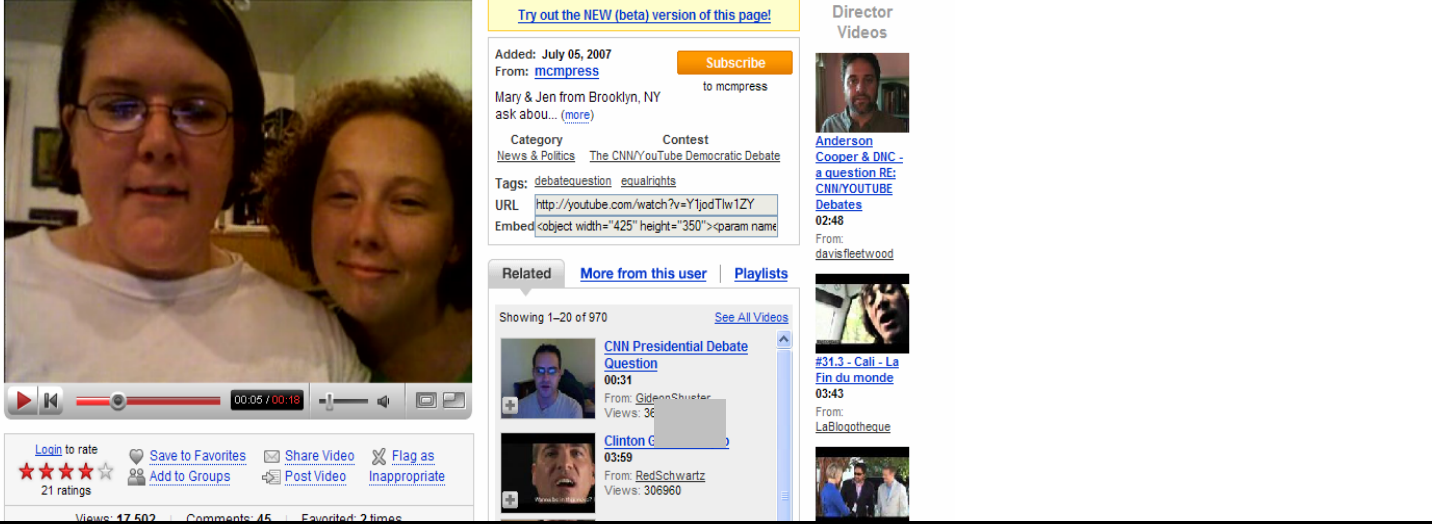
Source: MySpace.com

Facebook and YouTube have also taken part in the presidential campaign. Many candidates have profiles on Facebook, and the site also allows users to pick candidates and their causes to be displayed on their profile. YouTube has their "YouChoose '08" campaign that allows users to get to know candidates through their videos. They also teamed up with CNN for the CNN YouTube

debates, which was recently aired on July 23, 2007. This was an epic change to the traditional debating format, as users were able to ask questions via video clips, in which the candidates answered live on CNN. They then had an opportunity to discuss the Q&A through community forums available on the website. This humanized / personalized otherwise more esoteric topics such as lesbianism and gay marriage.

Exhibit 3 CNN/YouTube Debate Question

Marriage Question from Brooklyn



Try out the NEW (beta) version of this page!

Added: July 05, 2007
From: [mcmpress](#) [Subscribe](#)
to mcmpress

Mary & Jen from Brooklyn, NY
ask about... [\(more\)](#)

Category: News & Politics
Contest: The CNN/YouTube Democratic Debate

Tags: [debatequestion](#) [equalrights](#)

URL: <http://youtube.com/watch?v=Y1jodTlw1ZY>
Embed: `<object width="425" height="350"><param name="`

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21 ratings

Views: 17,502 Comments: 45 Favorited: 2 times

Source: YouTube.com

In a recent 2007 study titled “Youth Media DNA”, D-CODE researchers attempted to address publishers’ concerns regarding the decline in newspaper readership. They stated that the ability of social networks to provide news and information is on the rise. They also found that users’ main source of this information came from discussions with friends rather than the media. The study concluded that it would be in the newspapers’ best interest to distribute their information into social networks, parallel to that of discussion and debate.

An example of this is MySpace’s April 2007 launch of MySpace News. The site’s new feature provides news stories from RSS feeds that users submit. Other users are then given the opportunity to vote on the best articles.

2) THE AD DOLLAR SPLINTERING (ADS) EFFECT

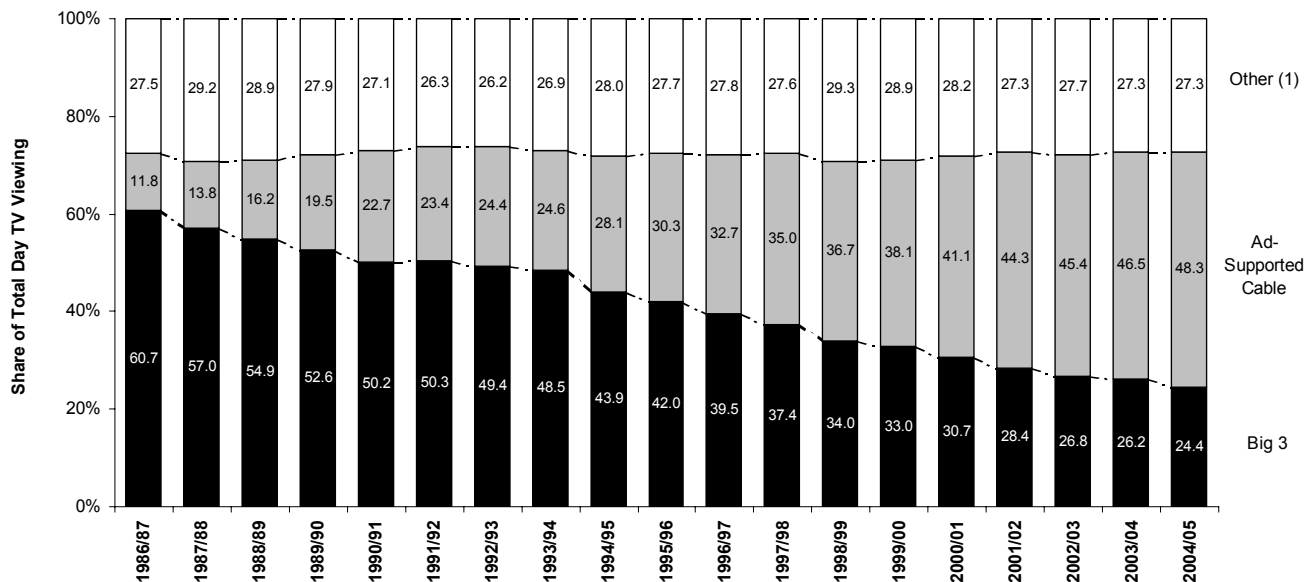
While the hypothesis that social networking sites are going to become the next generation portal is debatable to some investors, we think at the minimum, those sites represent the new advertising channels to entice advertising dollars away from existing online platforms (the Ad Dollar Splintering (ADS) effect).

The Ad Dollar Splintering (ADS) Effect. The rise of social networking sites, blogs, and smaller vertical content sites have multiplied the availability of page view inventory on the web. As such, advertisers who once were limited in their advertising options to the web portals like Yahoo!, AOL, and MSN now have a plethora of options available to them. We think that the increased availability of inventory could be a significant cause of the CPM pricing pressure that we are witnessing across the major portals, as advertisers are now more willing to allocate their online advertising dollars across multiple sites.

To better understand how the splintering effect could impact Yahoo, we cite an analysis from the *“A Longer Look at the Long Tail”* report (June 2007) done by [Spencer Wang, Bear Stearns Cable and Entertainment Analyst](#). In his analysis, Wang pointed to the evolution of television as a parallel to understand how increased entertainment choices may affect consumption, overall demand, and market shares.

“Niche” Market Not So Niche. One can see from the chart below how the market share of the broadcasters declined over time with the evolution of cable channels. TV viewership for each new cable channel is (very) small; however, cumulatively, ad-supported cable’s viewing share now dwarfs broadcast viewing on a total-day basis. This analogy can be drawn to the original portals and the explosion now of user-generated content and smaller vertical websites.

Exhibit 4 Individual Niche Networks Small, But Cumulatively Larger than Broadcast

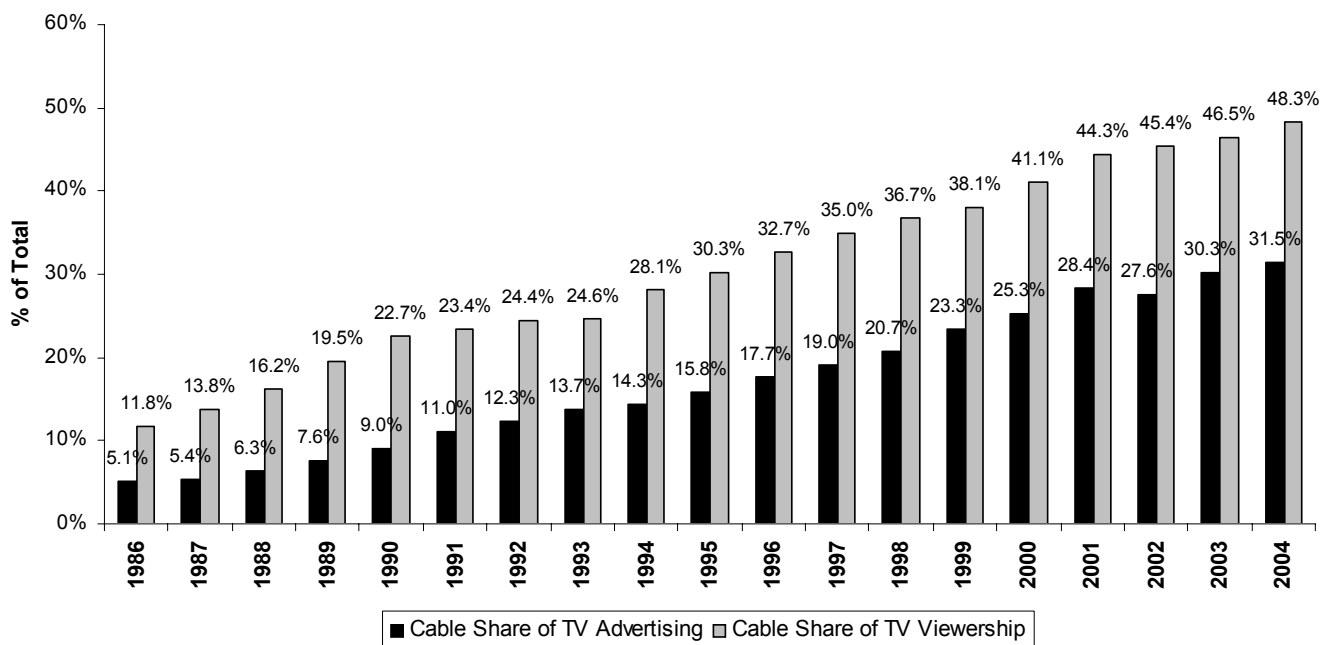


(1) Includes independents, pay cable, WB/UPN/PAX affiliates, PBS, and all other cable. All shares based on sum of total U.S. HH delivery (not HUT).

Source: CAB; Media Dynamics; Bear, Stearns & Co. Inc. estimates.

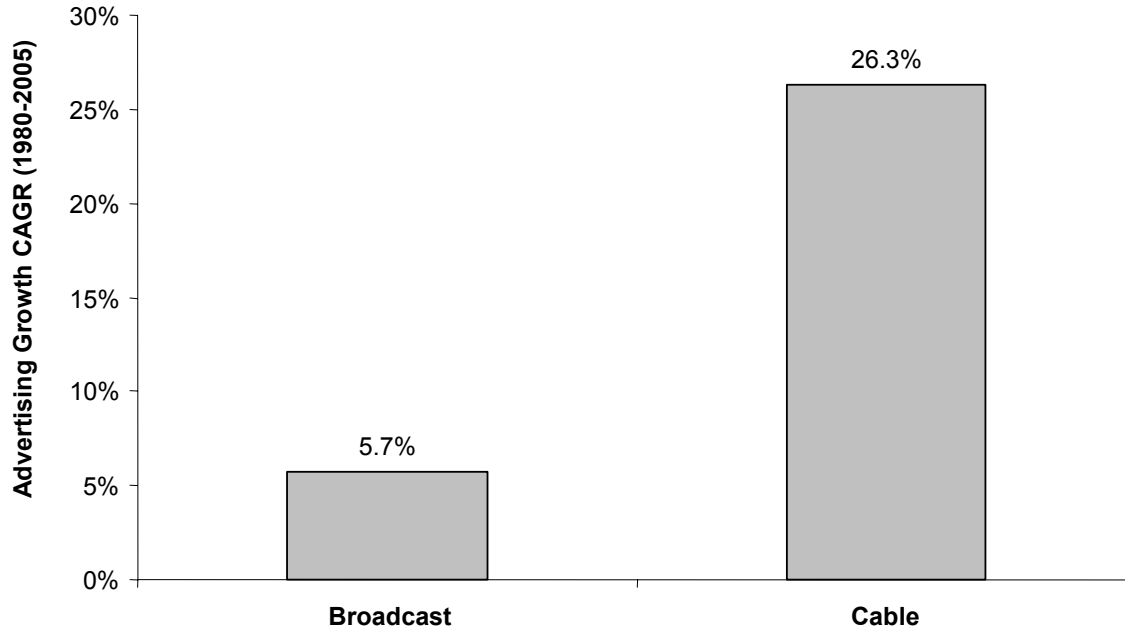
Most importantly, one can see from Wang’s report how the ad dollars in that medium grew for cable channels as they proliferated. However, cable advertising’s share of the ad pie is still lagging its share of TV viewing – Wang cites several reasons for this mismatch including lower mass market reach than broadcast (which affects audience duplication and the speed of viewership accumulation) and, in some cases, a more cluttered environment.

Exhibit 5 Cable TV Share of Total TV Advertising vs. Viewership, 1986-2004



Source: Universal McCann; Jack Myers Reports; Bear, Stearns & Co. Inc. estimates

Lastly in Wang’s report, we can also see the faster growth rates that cable experiences over the broadcast networks. The main takeaway is that if the online display market is an analogy to the TV advertising market, then the traditional portals would experience some Ad Dollar Splintering (ADS) to other websites. This would pressure display growth for Yahoo! – we believe this is well understood by investors.



Source: Universal McCann; Jack Myers Reports; Bear, Stearns & Co. Inc. estimates.

3) BEHAVIORAL TARGETING

The third reason why we think Yahoo! should be / is looking at social networking sites is the vast amount of personal information social networking sites retain, which could significantly aid the development of behavioral targeting. We believe behavioral targeting is a prioritized item on Yahoo's (as well as all major Internet company's) agenda. Yahoo recently soft launched SmartAds, which allows Yahoo to deliver more targeted display advertising to its users, using demographic and behavioral data. It essentially allows personalized and branded marketing messages to be delivered to users based on their expressed interests, combining brand advertising and direct response. SmartAds will allow marketers to create customized and specific campaigns based on the user data. Yahoo also plans to roll the service out to its display partners including eBay, Comcast, the newspaper consortium, and the RightMedia network. We believe SmartAds constitutes a part of the answer to reinvigorate the growth of branded display advertising. Yahoo can fully leverage social networking sites' massive database of user information to better compete with Google which is aiming to expand its display business with the acquisition of DoubleClick. Google had stated that one of the reasons for purchasing DoubleClick was to help it better target display advertising.

MAJOR PARTICIPANTS OVERVIEW

In general, we classify social networking destinations into four main categories:

- ***Traditional Leisure Networking Sites:***
Those sites usually have an entertainment focus and are open to all users around the globe. Examples in this category include the leading social networking sites, MySpace and Facebook. Other participants that fall into this category include Bebo, Friendster, Orkut, Windows Live Space, and Hi5.
- ***Professional Networking Sites:***
Those sites usually have a focus on business networking. LinkedIn, for example, is the leading site in this category. There are also sites that have more niche focuses to unite professionals in a particular field such as itlinkz.
- ***Media Sharing Sites:***
Those sites usually focus on distribution and consumption of user generated multi-media content such as video and photos. Prime examples in this category include YouTube and Flickr.

- **Virtual Meeting place:**

These are the new generation social networking sites that are essentially a 3-D virtual world built and owned by its residents (the users). Second Life is a frontrunner in this area.

We provide a detailed overview of each of those social networking sites, their respective features and niches in our full report.

SOCIAL NETWORKING: LOOK AT THE NUMBERS

We believe social networking sites have already attracted a majority of online audiences. In June 2007, for example, domestic visitors to social networking sites amounted to 115M, representing 64% of total U.S. Internet users. MySpace is clearly the leading site in terms of traffic, with 70 million unique visitors in June 2007, up 35% YoY. A more striking statistic to look at is that 39% of total U.S. Internet users visited MySpace in June 2007, further demonstrating the impact that MySpace, or social networking in general, has on the daily lifestyle of Americans. While MySpace is by far the largest social networking site, Facebook, however, is the fastest growing in recent months. In June, Facebook again posted significant growth of 103% YoY. Though Friendster remains outside of the top ten, this popular social networking site continues to show moderate growth with over 1.7 million viewers in June 2007. Compared with Yahoo!, social networking sites show significantly higher growth than the Internet portal. Yahoo! grew 3% YoY, while other social networks such as Hi5 and Bebo, grew 39% and 138%, respectively.

Exhibit 7 Domestic Social Networking Unique Visitors (000)

	Jun-06	May-07	Jun-07	% Reached	YoY Growth	Seq. Growth
Total Internet	172,907	177,487	178,839	100%	3%	1%
Yahoo! Sites	128,671	130,526	133,093	74%	3%	2%
Social Networking	N/A	112,150	115,104	64%	NM	3%
1 MYSPACE.COM	52,342	68,939	70,478	39%	35%	2%
2 FACEBOOK.COM	13,752	26,649	27,965	16%	103%	5%
3 Classmates.com Sites	13,963	12,103	14,846	8%	8%	23%
4 FLICKR.COM	5,913	8,447	9,622	5%	63%	14%
5 Windows Live Spaces	8,720	7,998	8,271	5%	-5%	3%
6 AOL People Connection	9,324	6,455	7,069	4%	-24%	9%
7 Yahoo! Groups	7,745	6,607	6,263	4%	-19%	-5%
8 BEBO.COM	1,713	3,711	4,083	2%	138%	10%
9 XANGA.COM	6,822	4,039	3,961	2%	-42%	-2%
10 MSN Groups	5,550	4,024	3,659	2%	-34%	-9%
11 Yahoo! 360°	4,686	3,797	3,507	2%	-25%	-8%
12 AIM Pages	333	2,804	3,340	2%	904%	19%
13 HI5	2,102	2,502	2,914	2%	39%	16%
14 FRIENDSTER.COM	1,356	1,654	1,667	1%	23%	1%
15 LINKEDIN.COM	342	1,652	1,734	1%	407%	5%

64% of all Internet users are involved in social networking sites and they are growing faster.

Source: comScore.

Globally, both Bebo, Orkut, and Hi5 have a considerably higher number of unique visitors. Both sites are extremely popular internationally, Bebo in the U.K., and Hi5 in South America. Facebook significantly grew, being one of the few sites to have triple digit growth YoY in 2007 so far. We attribute this growth to their opening up of the platform outside of just education (September 2006) and the new **F8 Platform**, which allows any third party developers to create applications available to all members (see details in our full report). Friendster, however, although only having 1.7 million unique visitors in the domestic market, jumps to 24.7 million visitors on a global basis, aided by its strength in international markets, especially South East Asian countries such as Malaysia and the Philippines. We note that Internet portal Yahoo!, showed no growth both sequentially and YoY.

Exhibit 8 Worldwide Social Networking Unique Visitors (000)

	May-06	Apr-07	May-07	% Reached	YoY Growth	Seq. Growth
Total Internet	705,644	766,188	771,997	100%	9%	1%
Yahoo! Sites	480,200	467,642	469,826	61%	-2%	0%
Social Networking	N/A	431,492	454,132	59%	NM	5%
1 MYSpace.COM	61,635	104,961	109,535	14%	78%	4%
2 Windows Live Spaces	96,199	108,072	107,279	14%	12%	-1%
3 FACEBOOK.COM	14,096	38,764	47,208	6%	235%	22%
4 HI5.COM	20,864	29,345	28,492	4%	37%	-3%
5 FLICKR.COM	13,289	23,976	26,781	3%	102%	12%
6 Yahoo! Groups	21,006	24,582	25,615	3%	-22%	4%
7 FRIENDSTER.COM	14,175	22,517	24,684	3%	74%	10%
8 Orkut	13,049	22,343	23,104	3%	-77%	3%
9 MSN Groups	24,919	18,597	18,398	2%	-26%	-1%
10 BEBO.COM	6,135	14,408	17,246	2%	181%	20%
11 Classmates.com Sites	16,681	17,467	16,423	2%	-2%	-6%
12 AOL Hometown	17,956	16,525	15,944	2%	-11%	-4%

Despite growing only 23% domestically, Friendster has shown 74% growth globally due to its popularity outside of the U.S.

Source: comScore.

LOOKING AT OTHER METRICS OUTSIDE OF UV....

To better understand engagement of these sites, we also reviewed a few other measures including page views, time spent, and time spent per user (as an indicator for stickiness).

In 2007, MySpace and Facebook remained dominate competitors of social networking sites, both ranking high for pages viewed in the U.S. MySpace grew to 46 million page views in the month of June, up 54% YoY. Facebook showed triple-digit growth, with page views accelerating to 143%, almost triple the growth rate of MySpace. We believe strong growth could be attributed to the innovative features and functionalities as a result of Facebook's openness and new platform which allows third parties to create and distribute custom-made applications. In addition to Facebook and MySpace, Friendster also showed tremendous growth YoY despite its ebbed flow in 2006. Similar to that of unique visitors, Yahoo!'s page view growth also declined both globally and domestically. However, we do point out that Yahoo!'s PV growth is likely being hampered by new technologies like AJAX, which eliminates the need to refresh the page.

Exhibit 9 Domestic Social Networking Pages Viewed (MM)

	Jun-06	May-07	Jun-07	YoY Growth	Seq. Growth
Total Internet	492,975	459,025	473,831	-4%	3%
Yahoo! Sites	39,680	36,232	34,927	-12%	-4%
Social Networking	N/A	112,150	115,104	NM	3%
1 MYSFACE.COM	30,187	44,402	46,469	54%	5%
2 FACEBOOK.COM	6,093	15,841	14,785	143%	-7%
3 BEBO.COM	1,085	1,978	2,201	103%	11%
4 GAIAPONLINE.COM	273	777	750	175%	-3%
5 Orkut	346	312	455	32%	46%
6 HI5.COM	332	370	394	19%	7%
7 FRIENDSTER.COM	92	361	336	264%	-7%
8 Classmates.com Sites	259	290	326	26%	12%
9 Yahoo! Groups	431	379	293	-32%	-23%
10 Windows Live Spaces	212	221	244	15%	10%
11 AOL People Connection	247	120	183	-26%	53%
12 FLICKR.COM	80	128	179	124%	40%
13 Yahoo! 360°	208	141	158	-24%	12%
14 XANGA.COM	649	164	155	-76%	-6%
15 MSN Groups	213	123	150	-30%	22%
16 LINKEDIN.COM	31	23	26	-16%	13%

As Yahoo page views decline YoY, social networking sites such as MySpace, Facebook and Bebo increase.

Source: comScore

Globally, pages viewed demonstrates many similarities to the domestic data. MySpace and Facebook are top ranked sites amongst worldwide users. Sites with strong international presence rose up the rank, including Bebo, Hi5, Orkut, and Friendster. Bebo showed a significant 415% YoY growth rate, with 11 million pages viewed in May 2007. Facebook and Friendster continue to have triple digit growth not just domestically, but globally as well. Facebook grew over 4x in page views YoY, ranking third with 29.9 million pages viewed.

Exhibit 10 Worldwide Social Networking Pages Viewed (MM)

	May-06	Apr-07	May-07	YoY Growth	Seq. Growth
Total Internet	1,828,000	1,925,110	1,944,666	6%	1%
Yahoo! Sites	114,432	107,055	106,530	-7%	0%
Social Networking	N/A	193,498	222,036	NM	15%
1 MYSFACE.COM	28,807	48,911	50,593	76%	3%
2 Orkut	20,204	33,134	34,438	70%	4%
3 FACEBOOK.COM	6,562	26,655	29,882	355%	12%
4 BEBO.COM	2,476	9,396	11,202	415%	19%
5 FRIENDSTER.COM	2,186	6,402	8,990	311%	40%
6 HI5.COM	4,776	7,280	7,192	51%	-1%
7 Windows Live Spaces	2,130	2,439	2,226	5%	-9%
8 Yahoo! 360°	516	791	913	77%	15%
9 Yahoo! Groups	827	807	764	-8%	-5%
10 LINKEDIN.COM	40	49	79	98%	61%

Bebo, Friendster, and Hi5 have higher page views globally than domestically, due to their strong international presence.

Source: comScore.

In our view, time spent on social networking sites is a very important measure as it measures user activities on a site and could likely be an indicator of future tractions. The more features and services a site has to offer, the more time users are willing to spend on the site, and hence the more vibrant the community. With MySpace and Facebook continually adding enhancements, it is

no surprise that they also dominate this metric. As mentioned before, Facebook's continuous triple-digit growth could very well be attributed to the many new features they have recently begun to offer. Another site that shows significant growth, both domestically and globally, is Bebo, a social network that is very popular in the U.K. and among younger users. Bebo showed triple-digit YoY growth, with worldwide time spent accelerating to 5x domestic. The same can be said for Hi5, whose worldwide time spent grew 18x of that in the U.S. We attribute this difference in time spent to the site's increasing popularity in many South American countries.

Exhibit 11 Total Minutes Domestic (MM)

	Jun-06	May-07	Jun-07	YoY Growth	Seq. Growth
Total Internet	310,134	306,647	312,461	1%	2%
Yahoo! Sites	42,006	40,850	39,663	-6%	-3%
Social Networking		22,538	24,229		8%
1 MYSACE.COM	9,843	13,513	14,106	43%	4%
2 FACEBOOK.COM	1,749	4,957	5,335	205%	8%
3 BEBO.COM	313	804	897	187%	12%
4 GAIACONLINE.COM	134	253	342	156%	35%
5 HI5.COM	64	120	157	147%	31%
6 FRIENDSTER.COM	31	119	149	376%	26%
7 Windows Live Spaces	141	131	148	5%	13%
8 Classmates.com Sites	92	141	141	54%	0%
9 Orkut	108	82	122	13%	50%
10 Yahoo! Groups	184	138	113	-39%	-18%
11 Yahoo! 360°	124	77	87	-29%	13%
12 FLICKR.COM	35	60	85	140%	42%
13 XANGA.COM	326	77	72	-78%	-7%
14 AOL People Connection	84	47	63	-25%	33%
16 MSN Groups	83	53	53	-35%	1%
17 LINKEDIN.COM	13	11	13	0%	18%

Source: comScore

Exhibit 12 Total Minutes Worldwide (MM)

	May-06	Apr-07	May-07	% Reached	YoY Growth
Total Internet	705,644	766,188	771,997	100%	9%
Yahoo! Sites	480,200	467,642	469,826	61%	-2%
Social Networking	N/A	431,492	454,132	59%	NM
1 MYSACE.COM	61,635	104,961	109,535	14%	78%
2 Windows Live Spaces	96,199	108,072	107,279	14%	12%
3 FACEBOOK.COM	14,096	38,764	47,208	6%	235%
4 HI5.COM	20,864	29,345	28,492	4%	37%
5 FLICKR.COM	13,289	23,976	26,781	3%	102%
6 Yahoo! Groups	21,006	24,582	25,615	3%	22%
7 FRIENDSTER.COM	14,175	22,517	24,684	3%	74%
8 Orkut	13,049	22,343	23,104	3%	77%
9 MSN Groups	24,919	18,597	18,398	2%	-26%
10 BEBO.COM	6,135	14,408	17,246	2%	181%
11 Classmates.com Sites	16,681	17,467	16,423	2%	-2%
12 AOL Hometown	17,956	16,525	15,944	2%	-11%
13 LINKEDIN.COM	1,245	3,852	4,101	1%	229%

Source: comScore

Bebo, Hi5, and Friendster have higher total minutes worldwide vs. in the U.S., attributed to the sites' international popularity.

To take an even deeper look at the time metrics, we further rank the social networking sites by average minutes per user. The exhibits below show the average amount of minutes users spend on each site both domestically and worldwide. We note that one striking revelation is that MySpace and Facebook, while ranking top in all traffic metrics, rank lower by average minutes per visitor domestically. We think one of the reasons attributing to this paradox is that sites such as BEBO and GAIAONLINE, which are more skewed to teen demo, who have more leisure time to spend on social networking sites. Yahoo!'s average minutes per visitor also declined, which could result from users spending more time on social networking sites as compared to Internet portals.

Exhibit 13 Average Minutes Per Visitor Domestic

	Jun-06	May-07	Jun-07	YoY Growth	Seq. Growth
Total Internet	1,793.6	1,727.7	1,747.2	-3%	1%
Yahoo! Sites	326.5	313.0	298.0	-9%	-5%
Social Networking	...	201.0	210.5	NM	5%
1 GAIAONLINE.COM	345.3	223.7	238.0	-31%	6%
2 BEBO.COM	182.5	216.7	219.6	20%	1%
3 Orkut	388.7	162.5	208.3	-46%	28%
4 MYSPACE.COM	188.1	196.0	200.1	6%	2%
5 FACEBOOK.COM	127.2	186.0	190.8	50%	3%
6 FRIENDSTER.COM	23.1	71.8	89.5	287%	25%
7 HI5.COM	30.2	48.0	53.8	78%	12%
8 LINKEDIN.COM	37.2	6.7	7.3	-80%	9%

Despite high rankings in other traffic metrics, both MySpace and Facebook rank lower in average minutes per user. We believe that because users are mainly in college or working full-time, they may not have as much free time to spend on the internet.

Source: comScore

Globally, both Facebook and Friendster's users spend a greater amount of time on each site when compared to competitor MySpace, whose users spent an average of 146 minutes per month in May 2007. Social networks such as Orkut and Bebo rank high, both in the U.S. and globally, due to their strong presence internationally. Though Orkut did experience negative YoY growth, it is the number one site worldwide with users spending an average of 535 minutes per month or 17 minutes per day on the site. Both Bebo and Orkut also ranked above popular social networks such as Facebook and Friendster with users spending nearly double the time on these sites. Facebook and MySpace ranked even lower than they did domestically. We think this could be explained by more leisure time for users in some international countries compared to the U.S. which provides lift to worldwide average minutes per visitor for sites with strong international presence.

Exhibit 14 Average Minutes Per Visitor Worldwide

	May-06	Apr-07	May-07	YoY Growth	Seq. Growth
Total Internet	1,507.4	1,491.9	1,510.2	0%	1%
Yahoo! Sites	232.9	207.1	243.5	5%	18%
Social Networking	...	163.2	182.1	NM	12%
Orkut	566.7	512.6	535.7	-5%	5%
2 BEBO.COM	131.3	284.1	298.2	127%	5%
3 FACEBOOK.COM	138.6	218.6	218.2	57%	0%
4 FRIENDSTER.COM	85.6	192.3	199.9	134%	4%
5 GAIAONLINE.COM	513.2	160.5	184.6	-64%	15%
6 MYSPACE.COM	153.2	139.0	146.4	-4%	5%
7 HI5.COM	74.2	95.5	100.0	35%	5%
8 LINKEDIN.COM	12.2	6.4	9.5	-22%	48%

With strong international presence, Orkut and Bebo rank high in average minutes per visitor. We attribute these high rankings to international users having more leisure time to spend on the internet.

Source: comScore

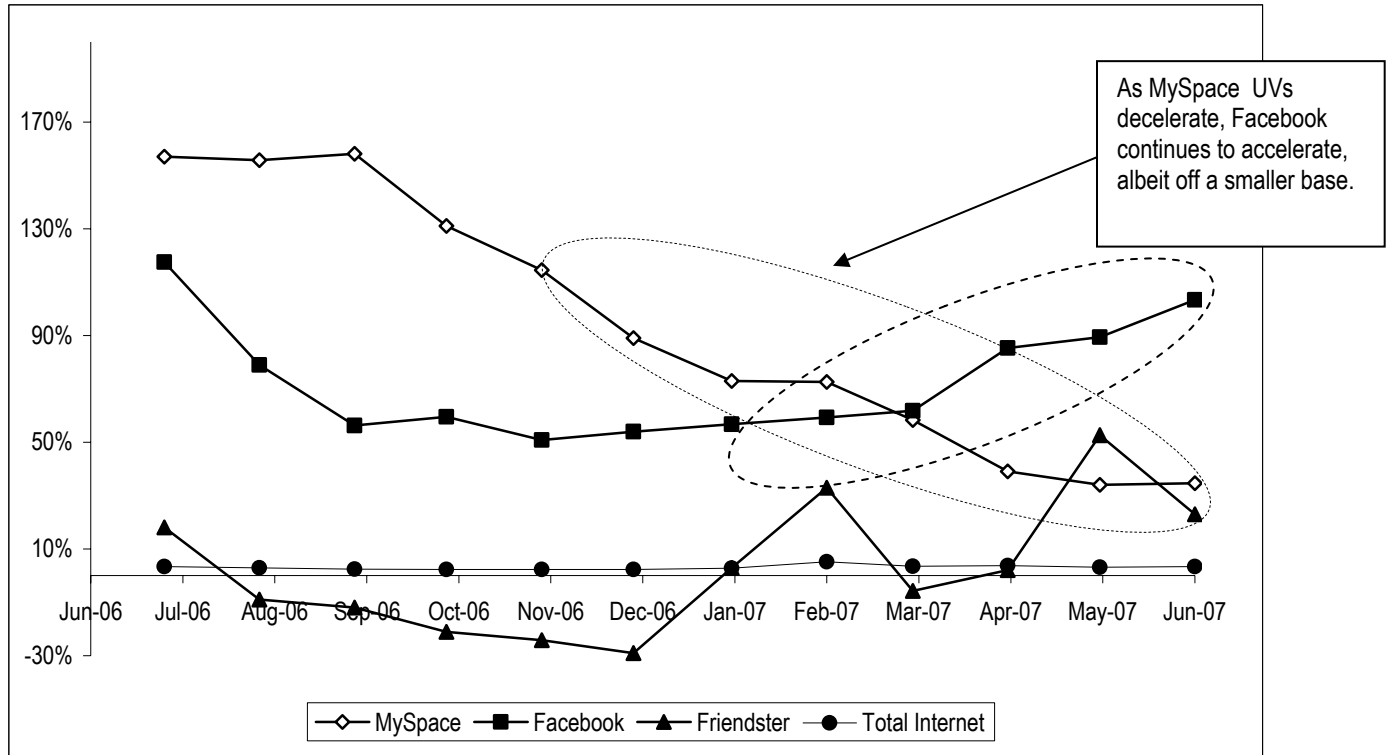
GROWTH TRAJECTORY ANALYSIS

Since the debut of social networking sites, many have proven to be more successful than others. MySpace, a leader among social networks, continues to rank number one across most traffic metrics. MySpace's competitor Facebook has also shown significant growth since its inception in 2004. Friendster, one of the first developed social networking sites, remains popular, but has a tough

time keeping up with the leaders of these sites' recent popularity. In addition to these sites, YouTube plays a prime competitor (as we believe it is a quasi-social network), continually showing triple digit growth since beginning in 2006. The following models show the trajectory growth of some of social networking's most popular sites.

Though MySpace ranks highest in visitors, its growth rate has significantly fallen YoY. This could be, to a certain degree, attributed to the rising popularity of Facebook, which has significantly grown since December 2006. We believe this significant growth stems from Facebook's new policy allowing users of any age to join, in addition to the site continually adding new features and applications. Friendster had volatile growth, consistently declining, rising and falling during the course of a year. After March 2007, Friendster shows positive growth. The rise in Friendster's unique visitors could have to do with the fact that many users are now more comfortable with having multiple accounts on more than one social networking site. We chose not to show YouTube on the graph as its explosive growth was out of the scale of the graph from 18,093% YoY growth in September 2006 to 222% YoY in June 2007.

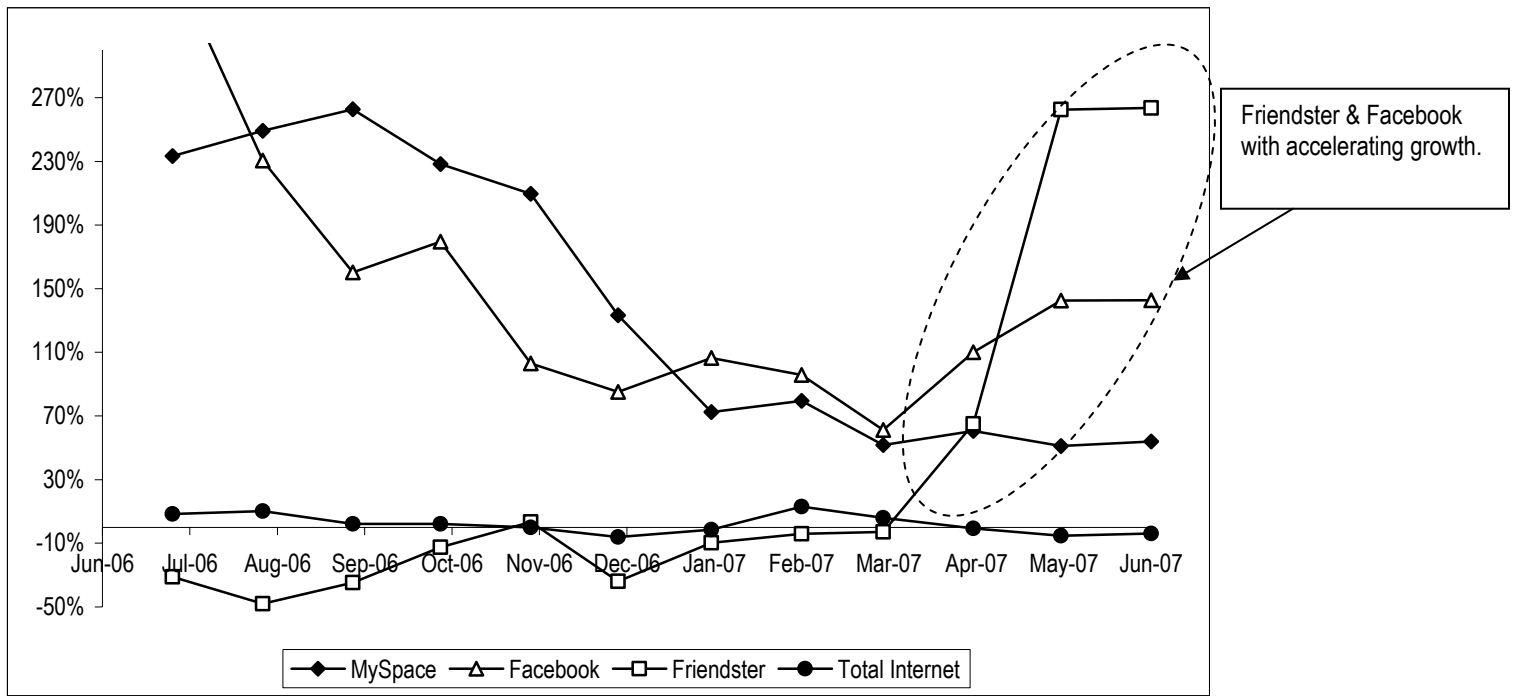
Exhibit 15 Domestic Unique Visitors YoY Growth



Source: comScore; Bear, Stearns & Co. Inc. estimate

Page Views is another important metric in regards to social networking. MySpace, Facebook, and YouTube each grew at a faster pace than the total social networking Internet population. Similar to unique visitors, MySpace, shows a significant decline in pages viewed. Between July and November 2006, MySpace was growing at triple-digit levels. MySpace and Facebook's growth converged around December 2006 after that. We note that after March 2007, Facebook's viewed pages began to increase and MySpace's declined. This could be evidence that more users are converting to or opening an account on Facebook in addition to MySpace and other networks. YouTube (which is out of the scale of this graph) shows stellar YoY growth in pages viewed. Though not visible on the chart, YouTube demonstrated a growth rate of over 100,000% in July 2006. Since then, their growth rates have fallen, but continue to remain at triple-digit levels. In June 2007, YouTube grew at 578% YoY, significantly higher than comparable video sharing and social networking sites.

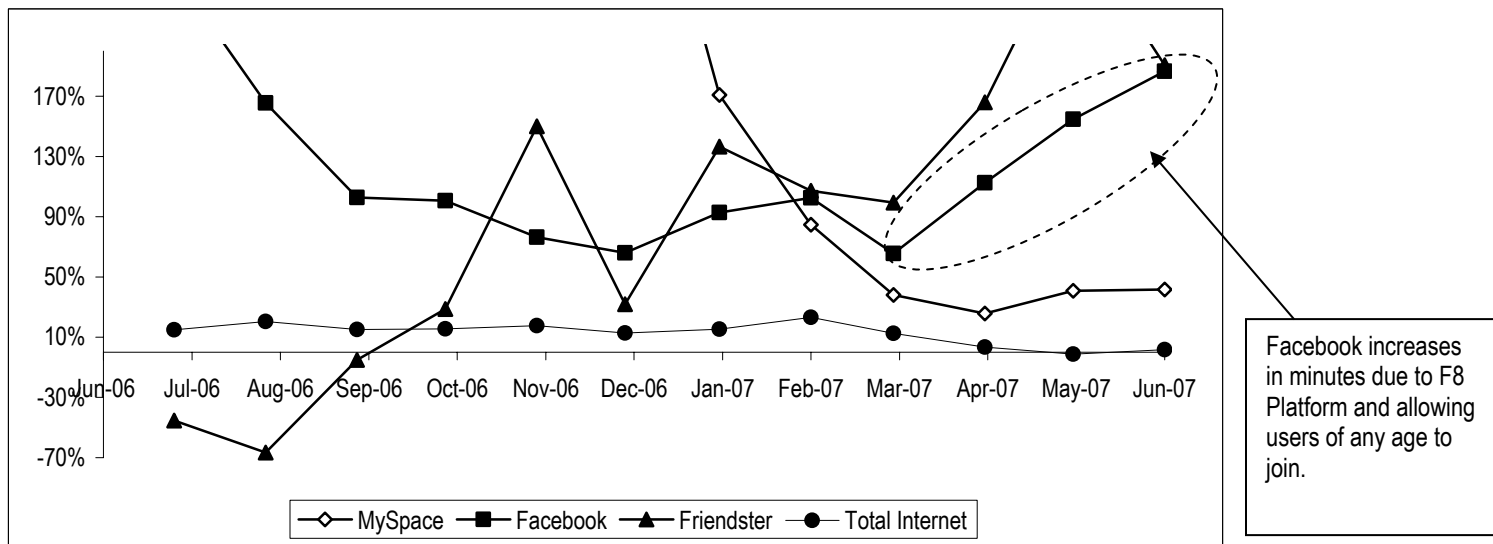
Exhibit 16 Domestic Pages Viewed YoY Growth



Source: comScore; Bear, Stearns & Co. Inc. estimate

The following exhibit shows the YoY growth of total minutes spent on popular social networking sites based on comScore data. Facebook continues to show strong growth. Consistent with Unique Visitors (UV) and Page Views (PV), the site shows accelerating triple-digit growth after March of 2007 despite ebbed flow in 2006. This growth can be attributed to the new features produced by Facebook's new platform which allows third party users to create and distribute customized applications, attracting users to spend more time on the site. The site grows at a faster pace than both total Internet users and MySpace, narrowing the gap between its number one competitor. Friendster's growth is very inconsistent, falling to negative levels and rising in November 2006 with 150% YoY growth. After March of 2007, Friendster continues to grow at positive triple digit growth, exceeding the rates of its competitors, MySpace and Facebook. YouTube continues to show consistent positive growth as more and more people are beginning to watch content online rather than on television. Since beginning to grow at 17,000% YoY in October 2006, YouTube maintains growth rates in the thousands and triple digits. Again, the site's growth has far surpassed that of other social networking sites such as Facebook, MySpace, and Friendster.

Exhibit 17 Domestic Total Minutes YoY Growth



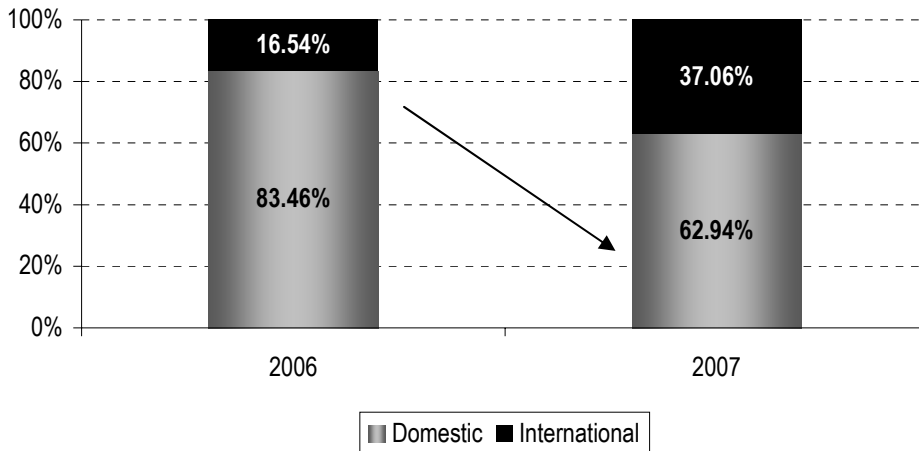
Source: comScore; Bear, Stearns & Co. Inc. estimate

GEOGRAPHIC MIX IS CHANGING

As social networking sites expand globally, they are diversifying the geographic mix of their user base as is witnessed by the mix shift towards international users.

Though still heavily concentrated with domestic unique visitors, MySpace showed a 20% increase in international visitors YoY.

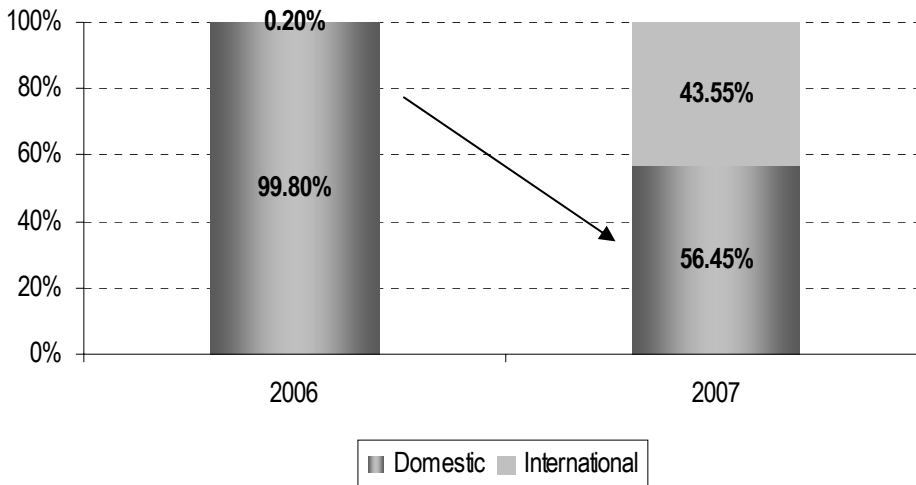
Exhibit 18 MySpace Domestic vs. International Visitors



Source: comScore

The concentration of Facebook's domestic and international visitors significantly changed between 2006 and 2007.

Exhibit 19 Facebook Domestic vs. International Visitors

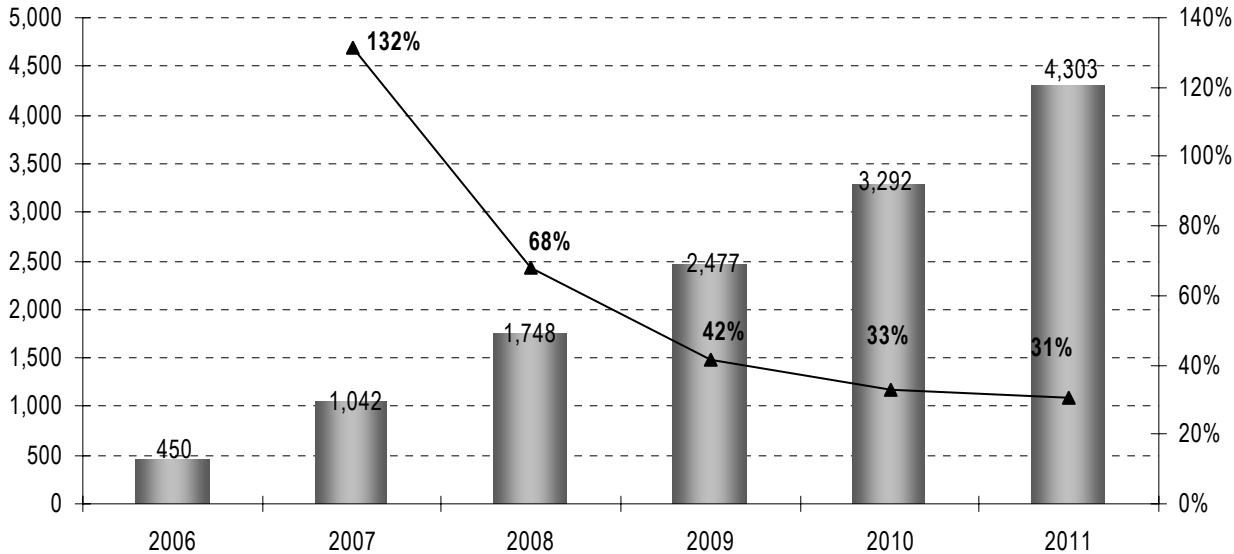


Source: comScore

MARKET SIZE: UGC - \$8.2B Global Revenues by 2010

Domestic Market Size. The exhibit below shows U.S. advertising revenues from user-generated content sites (including media sharing sites as well). User-generated content sites include not only Social Networks like MySpace and Facebook, but also YouTube for video sharing and Flickr for popular photo-sharing. eMarketer estimates that advertising revenues for these sites are around \$1 billion in 2007 and are growing to \$4.3 billion dollars over the next 4 years (more than quadrupled), representing a CAGR of 43%.

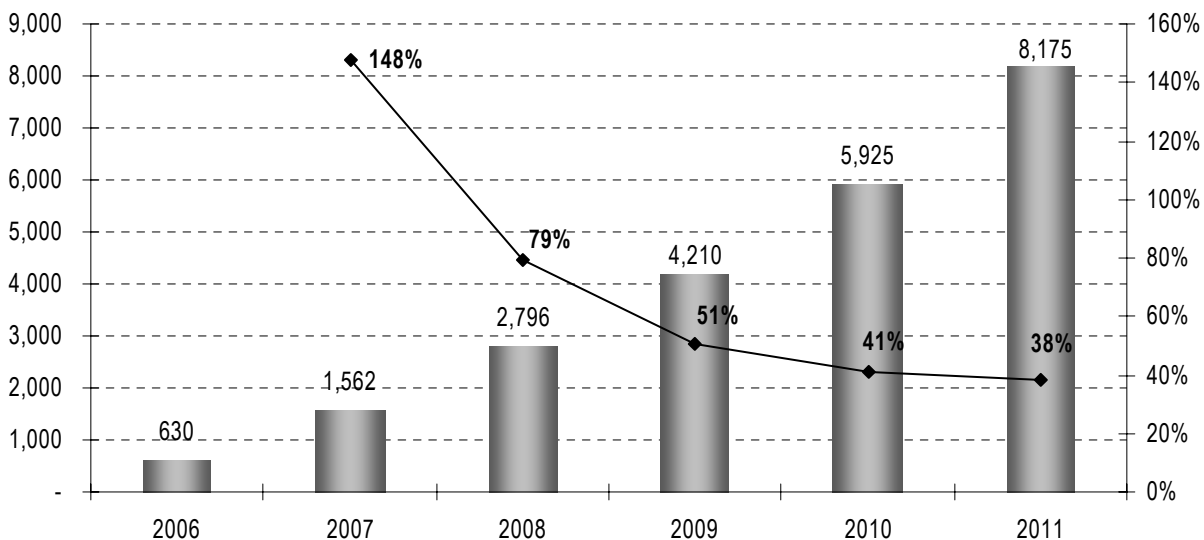
Exhibit 20 U.S. User-Generated Content Advertising Revenues, 2006-2011 (millions)



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

Global Market Size. The following exhibit shows worldwide advertising revenues from user-generated sites (including media sharing sites as well). eMarketer estimates that global revenues will reach \$8.2 billion in 2011, increasing from \$630 million in 2006. In 2007, revenues are expected to reach \$1.6 billion worldwide, growing 5x over the next 4 years and representing a CAGR of 51%.

Exhibit 21 Worldwide User-Generated Content Advertising Revenues, 2006-2011 (millions)

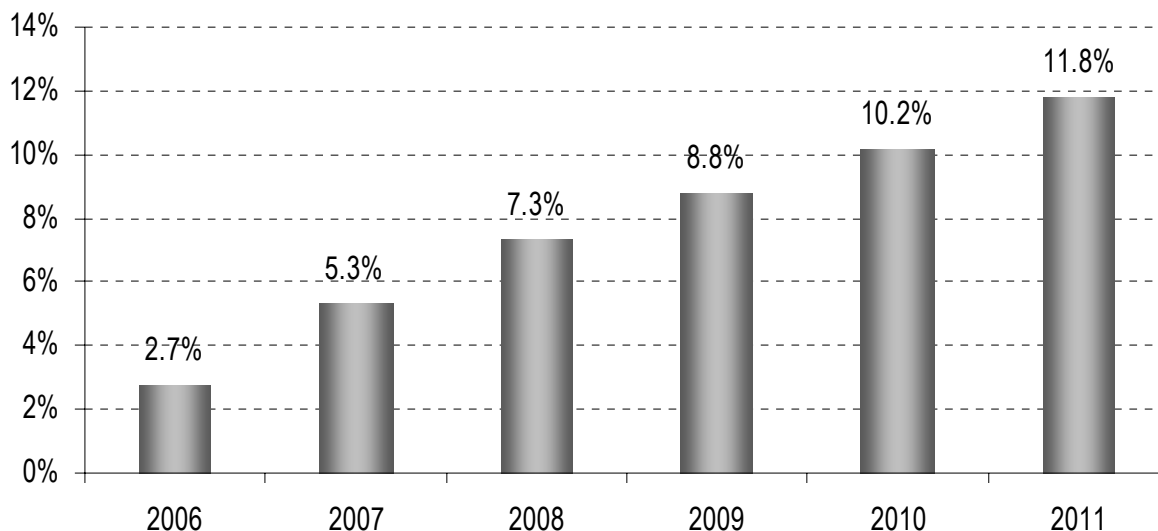


Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

What does this imply for ad dollar penetration? The exhibit below shows social networking advertising revenues as a percentage of total online advertising spend. We note that as years progress, the percentage of estimated revenues as a portion of

total advertising spending increases. We attribute this growth to the rising popularity of social networks, the increasing economic power as social networking users age, and as advertisers become more comfortable in allocating their online advertising dollars across multiple sites in addition to traditional portal sites.

Exhibit 22 Social Networking Domestic Advertising Revenues as a Percentage of Online Advertising Spend



Source: eMarketer.com: "User-Generated Content: Will Web 2.0 Pay Its Way?"

WHAT SHOULD YAHOO! PAY?

Another important piece of the mosaic here is valuation – what should Yahoo! pay for the social networking sites is the ultimate question. We believe price could have been the major deterrent to Yahoo!'s past pursuit in the space. We believe Facebook, Bebo, Friendster and MySpace are all sites that Yahoo! has considered, and when it comes down to it, we think the price tag is the ultimate factor for a transaction to materialize. Below, we attempt to build out the projections for Facebook to nail down a possible range for market valuation as a proxy for what Yahoo! should pay for it. Investors can tweak assumptions in our projection model based on their own understanding of the space. We also encourage investors to use this as a roadmap to replicate the model for other social networking sites for valuation purposes.

Facebook

We start with total global Internet users, which we expect to grow from 741 million in 2006 to 1.1 billion in 2016 by assuming a steadily declining YoY growth over the next 9 years.

We then did the same analyses for social networking in which we assume global unique visitors to grow from 382 million in 2006 to 951 million in 2016. We also project social network users as a percent of total internet users to grow from 52% in 2006 to 84% in 2016 (today, portal sites in aggregate, has close to 90% reach in terms of visitors.) In regards to social networking pages viewed, we expect an increase from 1.4 trillion in 2007 to 7.3 trillion in 2016. As page views increase, we also expect the social networking percentage of total Internet page views to steadily grow from 7% in 2006 to 25% in 2016 (today, portal sites in aggregate commands close to 25% of total page views.)

We expect Facebook visitors in 2007 to reach 50 million by year end 2007 as the site grow 120% YoY (in May 07, Facebook grew over 200% YoY). We believe the site's unique visitors will grow to 219 million in 2016, with Internet penetration also steadily growing from 6% in 2007 to 19% in 2016, which we think is achievable, given that MySpace today has close to 40% reach domestically while growing fast in the international market.

We then projected Facebook's pages viewed and estimate that it will grow from 265 billion in 2007 to 1.6 trillion in 2016. In 2007, we believe YoY growth will reach 200% as the site's growth rate for the months in first half of the year was between 200% and 350% and we expect growth rate to decelerate significantly over the next nine years. As the site's pages viewed rapidly increases, we believe that Facebook's pages viewed as a percentage of total internet users will slowly increase, comprising 5.5% in 2016. We base this number on the fact that Yahoo! currently accounts for 5.5% of global page views.

We sampled a significant amount of pages on Facebook and found that north of 60% of pages are being monetized. For conservatism, we use 60% monetization rate and expect this percentage to increase to around 70% in 2016. As such, total monetized page views on Facebook come out to be around 159 billion in 2007 and grow to over 1 trillion in 2016. We estimate prime page views as a percentage of total monetized page views to reach 10% in 2007 and grow to 20% in 2016. We estimate Prime CPM to amount to \$4.30 based on conversation with industry contacts. We project CPM to grow to \$18.11 in 2016. Multiplying prime page views by prime CPM leads us to prime advertising revenues.

In regards to remnant page views as a percentage of total page views, we estimate 90% in 2007 and steadily declining to comprise 80% in 2016 as prime inventory increases as a percentage of the total. We apply a Remnant CPM of \$0.50, based on industry estimates, and project this CPM to increase steadily to \$2.11 in 2016. Multiplying remnant page views by remnant CPM leads us to remnant advertising revenues.

As such, we add up revenues from prime and remnant advertising to reach \$140 million in revenues 2007 and \$358 million in 2008 and estimate revenues to grow to close to \$6 billion in 2016.

Assuming EBITDA margins of high 20% growing to high 30% , we can then extrapolate EBITDA estimates for all years. We expect EBITDA to grow from \$40 million in 2007 to \$2.3 billion in 2016.

After the EBITDA line, we assume Facebook incurs 20% in tax in later years and we estimate Capex at 10% of revenues.

We then apply a WACC of 17% (at significant premium to large cap Internet companies to account for the uncertainty associated with social media companies) to arrive at NPV of \$5.8 billion.

Alternatively, we take the estimated 2008 EBITDA and apply a multiple of 45x (close to the Google-Double Click acquisition multiple at 45x and Microsoft-aQuantive multiple at 41x). We reach \$4.9 billion using this approach.

As such, Our rough analysis indicates Facebook could be worth as much as ~\$5-\$6B.

Exhibit 23 Facebook Projection & Valuation

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Global Internet Users - EOP (000)	740,984	815,082	880,289	924,303	961,275	999,726	1,029,718	1,060,609	1,081,822	1,103,458	1,125,527
Social Networking Users - EOP (000)	381,753	572,630	732,966	828,252	869,665	895,754	913,670	922,806	932,034	941,355	950,768
FACEBOOK											
Facebook Visitors - EOP (000)	22,753	50,056	82,593	107,371	128,845	148,171	165,952	182,547	197,151	208,980	219,429
% YoY Growth		120%	65%	30%	20%	15%	12%	10%	8%	6%	5%
% Penetration of Internet Users		6%	9%	12%	13%	15%	16%	17%	18%	19%	19%
% Penetration of SNUs		9%	11%	13%	15%	17%	18%	20%	21%	22%	23%
Page Views (in MM)	88,201	264,604	502,748	703,848	879,810	1,055,772	1,214,138	1,335,551	1,442,395	1,528,939	1,605,386
% YoY Growth		200%	90%	40%	25%	20%	15%	10%	8%	6%	5%
% of Social Networking PVs	6%	8%	11%	12%	14%	16%	18%	20%	21%	21%	22%
% of Internet PVs	0.4%	1.2%	2.1%	2.9%	3.5%	4.0%	4.5%	4.8%	5.1%	5.3%	5.5%
Page Views Utilization		60.0%	62.0%	63.5%	65.0%	66.5%	68.0%	69.5%	71.0%	71.0%	71.0%
Monetized Page Views (in MM)		158,763	311,704	446,943	571,876	702,088	825,614	928,208	1,024,101	1,085,547	1,139,824
Prime Page Views (in MM)		15,876	37,404	62,572	91,500	126,376	165,123	185,642	204,820	217,109	227,965
% of Total Monetized Page Views		10%	12%	14%	16%	18%	20%	20%	20%	20%	20%
Prime CPM		\$4.30	\$5.16	\$6.15	\$7.28	\$8.53	\$9.92	\$11.53	\$13.40	\$15.58	\$18.11
% YoY Growth			20%	19%	18%	17%	16%	16%	16%	16%	16%
Prime Ad Revenues		\$68,267,947	\$193,007,140	\$385,024,729	\$665,780,950	\$1,078,167,592	\$1,637,652,804	\$2,140,342,976	\$2,745,197,742	\$3,382,769,918	\$4,129,093,531
Remnant Page Views		142,886	274,300	384,371	480,376	575,712	660,491	742,566	819,281	868,437	911,859
% of Total Monetized Page Views		90%	88%	86%	84%	82%	80%	80%	80%	80%	80%
Remnant CPM		\$0.50	\$0.60	\$0.72	\$0.85	\$0.99	\$1.15	\$1.34	\$1.56	\$1.81	\$2.11
% YoY Growth			20%	19%	18%	17%	16%	16%	16%	16%	16%
Remnant Ad Revenues		\$71,443,200	\$164,579,732	\$275,017,664	\$406,436,045	\$571,122,368	\$761,698,979	\$995,508,361	\$1,276,836,159	\$1,573,381,357	\$1,920,508,619
Total Ad Revenues	\$139,711,147	\$357,586,872	\$660,042,393	\$1,072,216,996	\$1,649,289,959	\$2,399,351,783	\$3,135,851,337	\$4,022,033,901	\$4,956,151,275	\$6,049,602,150	
EBITDA	\$39,119,121	\$108,706,409	\$213,853,735	\$358,120,477	\$567,355,746	\$849,370,531	\$1,141,449,887	\$1,504,240,679	\$1,903,162,089	\$2,323,047,225	
EBITDA Margin %	28%	30%	32%	33%	34%	35%	36%	37%	38%	38%	
% YoY Growth		178%	97%	67%	58%	50%	34%	32%	27%	22%	
- Tax (@ 20% Revs)				71,624,095	113,471,149	169,874,106	228,289,977	300,848,136	380,632,418	464,609,445	
- Capex (10% Revs)		\$13,971,115	\$35,758,687	\$66,004,239	\$107,221,700	\$164,928,996	\$239,935,178	\$313,585,134	\$402,203,390	\$495,615,127	\$604,960,215
= Free Cash Flows	\$25,148,007	\$72,947,722	\$147,849,496	\$179,274,682	\$288,955,601	\$439,561,247	\$599,574,776	\$801,189,153	\$1,026,914,544	\$1,253,477,565	

Source: comScore, Bear Stearns

To give investors further comfort, we also conducted sensitivity analyses on several assumptions that investors may disagree. Below are a few tables where we show valuation range under different EBITDA multiple, WACC and prime CPM assumptions. We think the likely outcome is between \$4.5-7 billion.

Exhibit 24 Facebook Valuation Sensitivity Analysis

		EBITDA Multiple				
		40.0x	42.0x	45.0x	48.0x	50.0x
Prime CPM	\$3.50	\$3,912	\$4,107	\$4,401	\$4,694	\$4,890
	\$4.00	\$4,185	\$4,394	\$4,708	\$5,021	\$5,231
	\$4.30	\$4,348	\$4,566	\$4,892	\$5,218	\$5,435
	\$5.00	\$4,730	\$4,967	\$5,322	\$5,676	\$5,913
	\$5.50	\$5,003	\$5,253	\$5,629	\$6,004	\$6,254

		WACC				
		15%	16%	17%	18%	19%
Prime CPM	\$3.50	\$6,469	\$5,606	\$5,041	\$4,348	\$3,878
	\$4.00	\$7,053	\$6,112	\$5,496	\$4,740	\$4,227
	\$4.30	\$7,403	\$6,415	\$5,768	\$4,974	\$4,436
	\$5.00	\$8,220	\$7,123	\$6,404	\$5,522	\$4,924
	\$5.50	\$8,804	\$7,628	\$6,858	\$5,913	\$5,273

Source: Bear Stearns

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Robert Peck

Companies Analyzed

* Yahoo! Corp. (YHOO) - \$23.25 (as of July 31, 2007 16:00 ET) - Outperform

Price Target ('08): \$34.00

Risk(s) to Price Target - Slowdown in ad shift to online advertising; increasing competition

Valuation Methodology - EBITDA, DCF

Yahoo! Corp. (YHOO): The subject company is or during the past twelve (12) months has been a non-investment banking client (securities related services) of Bear Stearns & Co. Inc.

Yahoo! Corp. (YHOO): Within the past twelve (12) months, Bear, Stearns & Co. Inc. or one of its affiliates has received non-investment banking compensation from this company.

Yahoo! Corp. (YHOO): Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.



Bear, Stearns & Co. Inc. Equity Research Rating System:

Ratings for Stocks (vs. analyst coverage universe):

Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index):

Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the US) over the next 12 months.

Market Underweight (MU) - Expect the industry to underperform the primary market index for the region (S&P 500 in the US) over the next 12 months.

Bear, Stearns & Co. Inc. Ratings Distribution as of June 30, 2007:

Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.

Outperform (Buy): 42.6 / 15.8

Peer Perform (Neutral): 49.8 / 11.1

Underperform (Sell): 7.6 / 7.5

Securities covered by the author(s) of this report include:

Robert Peck (Consumer Internet): Amazon.Com, Expedia, Inc., IAC/InterActiveCorp., Yahoo! Corp., Ebay Inc., Google, GSI Commerce, Vistaprint Ltd., Liberty Interactive, Baidu.com

Victor Anthony (Consumer Internet): Bankrate

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