

Online Advertising, Privacy and Sensitive Information

A fast growing segment of Internet advertising is “behavioral advertising,” which requires tracking consumers as they perform personal searches and interact with web sites. Information gathered from tracking is used by online advertising networks to develop consumer profiles used for more targeted advertising. Behavioral advertising, already a multi-billion dollar industry, is expected to grow dramatically in coming years. In nearly all cases, consumers have not given affirmative opt-in consent for deployment of behavioral advertising.

Online advertising is critical to Yahoo! “Marketing services,” which comprise its online advertising business, represented 88% of total 2008 revenue.

Consumer confidence in Yahoo!’s respect for privacy is essential to the Company’s success. Anne Toth, the Company’s Vice President of Policy and Head of Privacy, told a Congressional subcommittee in June 2009: “Trust has been paramount to our growth and is critical to our future success.”

The Company acknowledges in its 2008 10-K report that “failure or perceived failure” to comply with policies, requirements or self-regulatory principles related to privacy “could result in a loss of user confidence in us, damage to the Yahoo! brands, and ultimately in a loss of users, advertising partners, or Affiliates which could adversely affect our business.”

Yahoo!’s behavioral advertising has become the focus of scrutiny and concern on the part of consumers, regulators and legislators.

The Federal Trade Commission (FTC) is reviewing online advertising practices and privacy. The head of FTC’s Bureau of Consumer Protection notes: “The frameworks that we’ve been using historically for (protecting) privacy are no longer sufficient in this incredibly dynamic marketing.” The U.S. Congress is also considering legislation on behavioral advertising.

There is growing evidence that the American public is alarmed about behavioral advertising. A recent study found that “most adult Americans (66%) do not want marketers to tailor advertisements to their interests. Moreover, when Americans are informed of three common ways that marketers gather data about people in order to tailor ads, even higher percentages — between 73% and 86% -- say they would not want such advertising.”

In light of which, we believe the Company should give serious consideration to adopting a policy of seeking prior consent of users.

Numerous concerns about behavioral advertising were recently outlined by a coalition of ten leading consumer privacy groups. This coalition noted that online information about a consumer’s health, financial condition, age, sexual orientation, and other personal attributes can be inferred from online tracking and used to target vulnerable consumers, especially children, who may lack the capacity to evaluate ads.

The coalition recommended that personal and sensitive behavioral data not be disclosed, made available or otherwise used without prior consent of an individual. We believe the Company should adopt online advertising principles incorporating its recommendations.

<http://www.uspirg.org/uploads/s6/9h/s69h7ytWnmbOJE-V2uGd4w/Online-Privacy---Legislative-Primer.pdf>

RESOLVED: Shareholders request the Board adopt, by August 2010, a set of principles for online advertising that goes beyond current Company statements and addresses the collection of sensitive information about health, finances, ethnicity, race, sexual orientation, and political activity for the purposes of behavioral advertising.