Opening Statement of Michael J. Callahan
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Antitrust Task Force and Competition Policy
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Thank you Chairman Conyers and members of the Task Force. My name is Michael Callahan, and I am Executive Vice President and General Counsel of Yahoo! Inc. I appreciate the opportunity to be here today to discuss the dynamic and growing Internet advertising space and the commercial agreement between Google and Yahoo!.

Yahoo! welcomes this hearing and we are confident that the more one learns about this agreement, the more clear it becomes that it is good for competition – good for consumers, good for advertisers, and yes, good for Yahoo!.

The purpose of this commercial arrangement, and the intent of Yahoo! moving forward, is to help make our company an even stronger competitor to Google, to Microsoft and to others in the dynamic and rapidly growing online advertising world.

As I am sure you know, this has been an interesting time for our company, to say the least.

While I don't want to dwell on the very public proxy fight in which we are currently engaged, I want to spend a brief moment on it because it will give you a flavor for how intensely competitive the search business has become. All of the companies at this table are laser focused on being significant players in search. With this business arrangement, Yahoo! will continue to execute on its long term corporate strategy. Microsoft, on the other hand, has turned to activist shareholder Carl Icahn, in the apparent hope that this will force a fire sale of Yahoo!'s core strategic search business.

Our priority is to build value for our stockholders. That continues to be our core mission. What we will not do, however, is allow our business to be dismantled or sold off piecemeal on terms that would be disadvantageous to Yahoo! stockholders and to the market as a whole. I trust that this will give you context to understand the extraordinary value we all place in the paid search portion of the online advertising business, and how very competitive it is and will remain. And why there are so many misconceptions - advanced by our competitors - about the agreement we have entered into with Google.

Since quite a few misconceptions about this agreement have emerged, I think it is important to understand what **this agreement is <u>not</u>** as well as **what it is.**

First, this is not a merger. Far from it – we will increasingly compete with Google, and they with us. This is a commercial arrangement between two companies who will remain autonomous and compete aggressively -- in search and display advertising, mobile, news, e-mail, finance -- you name it. Yahoo! is here to stay and we intend to compete across countless platforms, including search, for years to come.

Second, Yahoo! is not exiting search, nor are we ceding any portion of that space to Google. This will not, as some claim, result in Google controlling 90% of the search business. To the contrary, we will continue to do everything we can to grow our share and also strengthen our competitiveness in search and search advertising. This deal is just one more important step along that path, and with all due respect to Google, we have every intention of fighting them and winning -- in this and in other areas, for years to come.

Furthermore, this agreement does not affect "algorithmic" search at all – when a user comes to Yahoo! and performs a search, the algorithmic results returned will still be entirely Yahoo!'s. Yahoo! serves close to a quarter of the searches that consumers make today, and we expect to be serving that or more after this deal is implemented.

With respect to sponsored search and contextual advertising, this agreement simply allows Yahoo! to replace some of the ads we now sell—which, in practice, will likely be our least valuable ads—with more valuable ads that Google sells. One can think of this as opening up Yahoo!'s search results pages to competition from the ads that Google sells with the same search terms. In fact, the CEO of the world's fourth largest advertising company, Publicis, recently stated that his company is "happy" with the agreement primarily because both Yahoo! and Google "agreed to work … on an open platform." He further noted that "creating this so that it's a more open platform for search (ads) is a good first step."

This agreement also principally focuses on sponsored search and not the fast-growing and dynamic display advertising sector. We see online display as the likely destination for the billions of ad dollars that are beginning to flow from traditional advertising outlets like television, radio and newspapers onto the Internet. More significantly, we see an increasing convergence of the display and search space, and advertisers will increasingly seek ad packages that include both search and display. Yahoo! has invested hundreds of millions of dollars in developing technologies that will better serve advertisers in a newly converged marketplace, and the proceeds from this agreement will permit us to accelerate our efforts. Just this past year we purchased both Right

Media and BlueLithium, additions to Yahoo! that represent significant investments in the future of our search and display advertising efforts.

Third, this agreement is non-exclusive and gives Yahoo! complete discretion over if, how, where and when we will choose to use some Google advertising on our sites. There are no minimum requirements either, and Yahoo! is free to make similar deals with other companies. In other words, this gives Yahoo! the option to show Google ads, but does not tie our hands in any important respect.

We are strongly competitive with Google for many search terms, and where that is the case it will always be more profitable for Yahoo! to sell its own ads rather than backfill with Google ads. We have every incentive to minimize over time how often we use Google ad results. As we continue to improve the performance and monetization of our own advertising, we expect to use Google's ads less and less frequently.

Fourth, The claim some have made that Yahoo! and Google are price-fixing is entirely false. Prices for search terms are set by open and fair market-based auctions, and advertisers only pay when consumers click on their ads.

This agreement is truly win-win – it benefits consumers, advertisers, publishers, and Yahoo!. We believe that this agreement will improve the experience for advertisers and for consumers, by making ads even more relevant to Yahoo! users. This, in turn, will mean a better experience for users who get more ads that interest them, resulting in more click-throughs, and a better experience for advertisers who will get a better return on their investment.

It's worth pointing out that a number of large advertisers have already spoken out in support of this agreement in recent weeks, and I'd like to submit a series of quotes from those advertisers for the record if I may. These advertisers, who understand the implications of the agreement, have determined that it will improve the value of their advertising. Advertisers are also realizing that pricing will remain competitive and will be set by an open and competitive auction process – not set by Yahoo! or Google, as some might have you believe. Advertisers will continue to bid in Yahoo!'s keyword auction and in others' auction marketplaces and will determine where the best value exists. The very nature of the marketplace ensures that prices will be fair.

And to address one last point on the agreement itself, since I know there have been some questions surrounding it, I want to make it clear that maintaining the privacy of our users will continue to be paramount. The privacy concerns raised about this deal that somehow Google and Yahoo! are merging vast databases of personal information are simply false. While we will share some search terms to obtain sponsored search results from Google, Yahoo! will not be transferring any personally identifiable information in connection with this agreement without user consent.

Before concluding, I think it is important to recall the history of Yahoo!'s efforts in the search space to best understand how and why we came to this agreement, and where we intend to go after it is completed.

When Yahoo! was founded some 13 years ago, the web was in its infancy and our two co-founders, Jerry Yang and David Filo, sought to create a catalog of interesting web sites to make surfing easier. Later, as the number of sites multiplied exponentially it became more difficult for any one site to track and categorize what was on the Internet. As a result, search began to play a larger role, and it became clear to us that we should be providing this service on our sites.

Initially, we provided neither the algorithmic search results nor sponsored search advertising on our own. Before 2000, we outsourced our algorithmic search results to a number of different companies, ending with a company called Inktomi. From 2000 to 2004, we outsourced algorithmic search to a brand new company in the space. That company was Google.

Likewise, until 2003, Yahoo! outsourced its entire sponsored search advertising business to a company called Overture.

In 2003 and 2004, our company made a strategic decision to bring search and sponsored search in house. We bought Overture and proceeded to incorporate sponsored search into our own company. And we bought Inktomi and did the same with algorithmic search.

This strategic decision to produce our own search product and to serve our own sponsored search advertising has not changed. Contrary to claims that we are somehow exiting a long-term effort on search, we are in fact doing just the opposite, and are on the upswing of our efforts. It was only a few years ago that we took over search and search advertising for ourselves, and we have been investing hundreds of millions of dollars to make it better and better ever since. This deal is a continuation of that process, and one that will allow us to invest even more in this effort and other innovations in online advertising.

Competing in this rapidly-evolving space is not easy, but we are committed to doing so and we believe we are at the beginning of a revolution in online advertising that will transform the way businesses reach their customers. We want to remain at the forefront of this transformation because we believe we are extremely well-positioned to capitalize on the growth we expect the online advertising market will experience in the coming years.

Yahoo! has a number of exciting new technologies with the potential to revolutionize how advertisers and publishers connect with each other and with consumers. For example, just last week we announced BOSS, an open platform build-your-own search service, which we believe will unleash a wave of innovation. And our efforts to create a robust, open exchange to bring publishers and advertisers together are also well on their way. These efforts are consistent with our complete commitment to continued growth in search and display advertising.

With the additional operating cash flow from this agreement – anticipated to be between $250 million and $450 million in the first year – Yahoo! will accelerate our innovation and better compete against Google, Microsoft, and others in the online advertising marketplace.

Over the coming weeks, Yahoo! will continue to work with our advertisers, our users, outside groups and government authorities to explain this agreement and address any questions about the facts of the arrangement. We have kept the U.S. Department of Justice informed every step of the way, and will continue to cooperate with them and this Task Force. We are confident that the more one knows about this agreement, the more it becomes clear that it will increase competition, stimulate creativity and benefit consumers, advertisers and the online advertising industry overall.

Thank you again for inviting me to appear here today. I look forward to answering any questions you may have.