
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): September 18, 2012

Yahoo! Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-28018
(Commission
File Number)

77-0398689
(I.R.S. Employer
Identification No.)

701 First Avenue
Sunnyvale, California
(Address of principal executive offices)

94089
(Zip Code)

Registrant's telephone number, including area code: (408) 349-3300

Not Applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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-

Item 2.01 Completion of Acquisition or Disposition of Assets.

Initial Repurchase of Alibaba Group Holding Limited Ordinary Shares

On September 18, 2012 (the “Closing Date”), Alibaba Group Holding Limited, (“Alibaba”), completed the initial repurchase (the “Initial Repurchase”) of 523 million ordinary shares of Alibaba (“Shares”) from Yahoo! Inc. (the “Company”).

The Initial Repurchase was made pursuant to the Share Repurchase and Preference Share Sale Agreement (the “Repurchase Agreement”), dated May 20, 2012, among the Company, Alibaba, and Yahoo! Hong Kong Holdings Limited, a wholly-owned subsidiary of the Company (“YHK”; together with the Company, “Yahoo!”), as amended by a First Amendment to Share Repurchase and Preference Share Sale Agreement, dated September 11, 2012 (the “Amendment”).

- Yahoo! received \$13.5414 per Share, or approximately \$7.1 billion in total, for the 523 million Shares sold to Alibaba.
- Approximately \$6.3 billion of the consideration was paid in cash and \$800 million was paid in Alibaba preference shares (“Preference Shares”).
- After the Initial Repurchase, Yahoo! owns a total of 523,565,416 Shares of Alibaba, representing approximately 23% of Alibaba’s Shares outstanding on a fully-diluted basis.

In addition, on the Closing Date, pursuant to the terms of the Repurchase Agreement:

- (1) Alibaba paid the Company \$550 million (the “TIPLA Payment”) in satisfaction of certain future royalty payments under the existing Technology and Intellectual Property License Agreement between the Company and Alibaba;
- (2) the parties amended and restated the Shareholders Agreement, among Alibaba, Yahoo!, Softbank Corp., (“Softbank”), Jack Ma Yun and Joseph Tsai (together, the “Management Members”), both of whom are shareholders, directors and executive officers of Alibaba, and certain other shareholders named therein;
- (3) the parties amended and restated the Registration Rights Agreement among Alibaba, Yahoo!, Softbank, the Management Members and the other parties listed therein; and
- (4) the parties terminated certain existing contractual limitations on Yahoo!’s ability to compete in the People’s Republic of China and certain restrictions on Alibaba’s ability to operate outside of the People’s Republic of China.

The material provisions of the Repurchase Agreement, the Preference Shares, and related agreements are described in the Company’s Current Report on Form 8-K filed May 24, 2012.

Alibaba's Financing of the Initial Repurchase

Alibaba informed Yahoo! that Alibaba financed the Initial Repurchase and the TIPLA Payment as follows:

- \$2 billion of new senior secured bank debt financing;
- approximately \$3.9 billion of equity financing, consisting of the issuance of ordinary shares of Alibaba at \$15.50 per share and Series A Convertible Preference Shares (the "Convertible Shares");
- the Preference Shares issued to Yahoo!; and
- the remainder with cash from Alibaba's balance sheet.

Effect of the First Amendment to the Repurchase Agreement

The Repurchase Agreement specified that the Repurchase Price would be equal to the greater of \$13.50 per Share and the discounted price per Share at which Alibaba raised equity financing and that an agreed-upon formula would be used for determining the ordinary Share equivalent price for the Convertible Shares. The parties agreed that the Repurchase Agreement formula would not properly value the Convertible Shares because the shares included terms not contemplated at the time the Repurchase Agreement was executed. Accordingly, Yahoo! and Alibaba entered into the Amendment to provide that the Repurchase Price would be based solely on the \$15.50 per Share price, resulting in a payment to Yahoo! of \$13.5414 per Share, applying the applicable discount of 12.636%. The Amendment also permitted an investment fund affiliated with Alibaba Chief Executive Officer Jack Ma Yun to purchase up to \$150 million of the Convertible Shares as part of the financing for the Share repurchase.

The foregoing summary is subject to, and is qualified in its entirety by, the full text of the Repurchase Agreement and the Amendment which are incorporated herein by reference.

Item 7.01 Regulation FD Disclosure.

On September 18, 2012, the Company issued a press release relating to the consummation of the Initial Repurchase and announced that the Company will be returning \$3 billion of the net cash proceeds of the Initial Repurchase to shareholders in addition to the \$646 million the Company has already returned to shareholders through share repurchases since the announcement of the transaction.

A copy of the press release is furnished with this Form 8-K and attached hereto as Exhibit 99.1. Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Yahoo! under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01 Financial Statements and Exhibits.

(b) *Pro Forma Financial Information.* The unaudited pro forma condensed consolidated financial statements of the Company as of and for the six months ended June 30, 2012 and the year ended December 31, 2011, and the notes related thereto, that give effect to the Initial Repurchase are attached hereto as Exhibit 99.2.

(d) Exhibits

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 2.1 | Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, Yahoo! Inc., and Yahoo! Hong Kong Holdings Limited, dated as of May 20, 2012 (previously filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 24, 2012 and incorporated herein by reference). |
| 2.2 | First Amendment to Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, Yahoo! Inc., and Yahoo! Hong Kong Holdings Limited, dated as of September 11, 2012. |
| 99.1 | Press release dated September 18, 2012. |
| 99.2 | Unaudited Pro Forma Condensed Consolidated Financial Information. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

YAHOO! INC.
(Registrant)

By: /s/ Ronald S. Bell
Name: Ronald S. Bell
Title: General Counsel and Secretary

Date: September 18, 2012

EXHIBIT INDEX

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|--------------------|--|
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**FIRST AMENDMENT TO
SHARE REPURCHASE AND PREFERENCE SHARE SALE AGREEMENT**

This Amendment, dated as of September 11, 2012 (this "Amendment"), to the Share Repurchase and Preference Share Sale Agreement, dated as of May 20, 2012 (as amended, modified or supplemented from time to time in accordance with its terms, the "Agreement"), is by and among Alibaba Group Holding Limited ("AGH" or "Purchaser"), Yahoo! Inc. ("Yahoo!") and Yahoo! Hong Kong Holdings Limited ("YHK", and each of Yahoo! and YHK, a "Seller", and together, the "Sellers").

WHEREAS, pursuant to the Agreement prior to this Amendment, the Repurchase Price is to be determined, in part, with reference to the Resale Per Share Price, and the Resale Per Share Price is to be determined, in part, with reference to the per share value, as calculated in accordance with the Agreed Formula and Adjustment, of any Equity Interests (other than Shares) sold by Purchaser as part of the financing of the Initial Repurchase;

WHEREAS, the Series A Convertible Preference Shares to be sold by Purchaser as part of the financing for the Initial Repurchase (which preference shares are Equity Interests) contain certain features or provisions that were not contemplated at the time the Agreement was executed and are not contemplated by the Agreed Formula for determining the per share value of Equity Interests contained in the Agreement;

WHEREAS, the calculation of the Repurchase Price pursuant to the Agreement as in effect prior to this Amendment would have resulted in a Repurchase Price equal to or lower than the Repurchase Price provided for in Section 4(b) of this Amendment;

WHEREAS, the parties hereto desire that the Repurchase Price be based solely on the price at which Shares are sold in the Qualified Resale, and without reference to the per share value of any other Equity Interests sold by Purchaser as part of the financing of the Initial Repurchase;

WHEREAS, the parties hereto wish to make certain other, unrelated amendments to the Agreement at this time; and

WHEREAS, Section 7.7 of the Agreement provides that the Parties may amend the Agreement by means of this written Amendment, signed by the Parties.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

1. Defined Terms: Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

2. Section 2.11 is hereby amended to change its numbering to Section 2.12. The following language is hereby inserted as the new Section 2.11:

“Resale Per Share Price; Repurchase Price. As of the Initial Repurchase Closing Date, the Purchaser represents and warrants to Sellers (a) that the per share price at which Purchaser has sold or will sell Shares in the Qualified Resale is or will be US\$15.50 and (b) that the calculation of the Repurchase Price pursuant to the Agreement as in effect prior to the First Amendment to Share Repurchase and Preference Share Sale Agreement, by and among the Parties, dated on or about the Initial Repurchase Closing Date (the “First Amendment”) would have resulted in a Repurchase Price equal to or less than US\$13.5414. The Purchaser has provided Sellers with an opportunity to review (in person at the offices of Purchaser’s U.S. counsel), but not make copies of or retain, the equity financing documents relevant to determining the price and terms on which Purchaser has sold (or will be selling concurrent with the Initial Repurchase Closing) Equity Interests as part of the Qualified Resale or as part of financing the Initial Repurchase (including any Replacement Equity Financing).”

3. Section 4.6 is hereby amended by deleting the phrase “and provide Yahoo! with an opportunity to review (in person at the offices of Purchaser’s U.S. counsel), but not to make copies of or retain, the equity financing documents relevant to calculating the Repurchase Price” from the second sentence thereof, such that such sentence shall now read in its entirety as follows: “No later than five Business Days prior to the Initial Repurchase Closing Date, Purchaser shall deliver to Yahoo! the Financing Certificate.”

4. Amendment to Section 2.10.

(a) Section 2.10 is hereby amended by deleting the words “and the calculation of the Repurchase Price” therefrom, such that such section shall now read as follows:

“Financing Certificate. As of the date of the delivery of the Financing Certificate to Sellers pursuant to Section 4.6 and the Initial Repurchase Closing Date, the information included in and attached to the Financing Certificate, including the Cash Financing Amount and the number of Repurchased Shares as of the expected Initial Repurchase Closing Date, is true and complete in all material respects.”

5. Amendment to Section 7.16.

(a) The definition of “Applicable Discount” is hereby amended and replaced in its entirety with the following:

““Applicable Discount” means, as applicable, (a) with respect to the Initial Repurchase, the Resale Per Share Price multiplied by 12.636% or (b) with respect to any Replacement Equity Financing, (i) the Resale Per Share Price multiplied by 12.5%, if the Resale Per Share Price is equal to or less than US\$15.43; (ii) the Resale Per Share Price multiplied by 20%, if the

Resale Per Share Price is equal to or greater than US\$19.29; and (iii) if the Resale Per Share Price is greater than US\$15.43 but less than US\$19.29, the Resale Per Share Price multiplied by the sum of (1) and (2), where (1) is 12.5% and (2) is the product of (x) and (y), where (x) is 7.5% and (y) is a fraction, the numerator of which is the Resale Per Share Price minus \$15.43 and the denominator of which is \$3.86.”

(b) The definition of “Repurchase Price” is hereby amended and replaced in its entirety with the following:

“‘Repurchase Price’ means US\$13.5414.”

(c) The definition of “Resale Per Share Price” is hereby amended and replaced in its entirety with the following:

“‘Resale Per Share Price’ means the per share price at which Purchaser sells Shares in the Qualified Resale.”

(d) The definition of “Qualified Resale Deemed Number of Shares” is hereby amended and replaced in its entirety with the following:

“‘Qualified Resale Deemed Number of Shares’ means the sum of (A) the number of Shares sold in the Qualified Resale and (B) the Attributable Number of Shares sold by Purchaser as a part of the financing of the Initial Repurchase.”

6. Amendment to Section 4.6.

(a) Section 4.6(c) is hereby amended by inserting the following sentence at the end thereof:

“The foregoing notwithstanding, Purchaser shall be permitted to sell Equity Interests (other than Shares) to Yunfeng Fund, L.P. or an affiliate fund thereof as part of the financing of the Initial Repurchase, in an amount not to exceed US\$150 million.”

7. Amendment to Exhibit D.

(a) The form of Registration Rights Agreement attached to the Agreement as Exhibit D is hereby amended by amending Section 10.1 by inserting the words “for Yahoo, SB and the Management Members” before the words “in the case of an Initial Public Offering, for up to one (1) year . . .”, such that such section shall now read as follows:

“10.1 In the case of any underwritten offering initiated by the Company (a “**Company Initiated Marketed Offering**”), to the extent that the Company and the Management Members (the “**Lockup Parties**”) enter into the same or more restrictive agreements and are subject to the same restrictions as set forth in this Section 10.1, each Holder (whether or not such Holder seeks to or does include Shares in such offering) hereby agrees that it shall not, to the extent requested by the Company or the joint global coordinators or the underwriters of the underwritten offering, sell or otherwise transfer or dispose of any Registrable Securities (other than to donees or partners of the Holder who agree to be similarly bound) for up to one hundred eighty (180) days from the listing date in respect of the underwritten offering (or, for Yahoo, SB and the Management Members in the case of an Initial Public Offering, for up to one (1) year from the listing date in respect of the underwritten offering); provided, however, that upon any waiver of such obligations of any Lockup Party or any five percent (5%) Shareholder by all parties entitled to enforce such obligations, all Holders will be automatically released from all such waived obligations. Each Holder further agrees to execute such agreements as may be reasonably requested by the underwriters the extent necessary to give further effect to this Section 10.1.”

8. Amendment to Exhibit I.

(a) The Financing Certificate attached to the Agreement as Exhibit I is hereby amended and replaced in its entirety with Annex A, attached hereto.

9. Effect of Amendment; Miscellaneous.

(a) Except as otherwise expressly provided herein, the parties make no other amendment, alteration or modification of the Agreement nor do they, nor does any of them, by executing this Amendment, waive any provision of the Agreement or any right that they or it may have thereunder. Except as expressly set forth herein, the Agreement shall otherwise remain in full force and effect.

(b) Miscellaneous. Sections 7.1 through 7.15 of the Agreement are hereby incorporated by reference, *mutatis mutandis*.

[Signature Pages Follow]

IN WITNESS WHEREOF, each of the parties hereto has executed this Amendment as of the date first written above.

ALIBABA GROUP HOLDING LIMITED

By: /s/ Joseph C. Tsai

Name: Joseph C. Tsai

Title: Chief Financial Officer

YAHOO! INC.

By: /s/ Timothy R. Morse

Name: Timothy R. Morse

Title: Executive Vice President and Chief Financial Officer

YAHOO! HONG KONG HOLDINGS LIMITED

By: /s/ Stephen Man

Name: Stephen Man

Title: Director

[Signature Page to First Amendment to Share Repurchase Agreement]

EXHIBIT I – FORM OF FINANCING CERTIFICATE

ALIBABA GROUP HOLDING LIMITED

FINANCING CERTIFICATE

[—], 201[—]

I, Joseph C. Tsai, am the Chief Financial Officer of Alibaba Group Holding Limited, a Cayman Islands company (the “**Company**”). The Company is a party to that certain Share Repurchase and Preference Share Sale Agreement (as amended, modified or supplemented from time to time in accordance with its terms, the “**Agreement**”), by and among the Company, Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation (“**YHK**”), and Yahoo! Inc., a Delaware corporation (together with YHK, “**Yahoo**”), dated as of May 20, 2012. Capitalized terms used but not otherwise defined in this Financing Certificate have the meanings assigned to such terms in the Agreement.

Pursuant to Section 4.6 of the Agreement, on behalf of the Company, I hereby certify to Yahoo, in my capacity as an officer of the Company and not in an individual capacity, to the best of my knowledge and belief that, as of the date hereof, and, subject to any subsequently delivered Financing Certificate, as of the Initial Repurchase Closing Date:

1. The expected Cash Financing Amount is US\$.
2. The number of Repurchased Shares is .
3. The Repurchase Price is US\$13.5414.
4. The aggregate number of Shares sold in the Qualified Resale is .
5. The per share price at which Purchaser sold Shares in the Qualified Resale is US\$15.50.

6. The following terms have the following values:

| Term | Value |
|----------------------------------|--------------|
| Qualified Resale Amount | US\$ |
| Additional Share Percentage | |
| Minimum Repurchase Amount | US\$ |
| Minimum Repurchased Shares | 261,500,000 |
| Additional Repurchased Shares | |
| Total Repurchased Shares | |
| Adjustment Amount | US\$ |
| Preference Share Value | US\$ |
| Aggregate Purchase Consideration | US\$ |

7. The following terms have the following values:

| Term | Value |
|---|--------------|
| Repurchase Price | US\$13.5414 |
| Resale Per Share Price | US\$ |
| Applicable Discount | US\$ |
| Attributable Number of Shares sold by Purchaser as part of the financing of the Initial Repurchase | |
| Qualified Resale Deemed Number of Shares | |

I hereby certify, in my capacity as an officer of the Company, that to the best of my knowledge and belief each of the values and calculations set forth above is accurate and determined in accordance with the terms of the Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, I have executed this certificate as of the date first written above.

By: _____

Name: Joseph C. Tsai

Title: Chief Financial Officer

Alibaba Group Holding Limited

[Signature page to Financing Certificate]

Yahoo! Completes First Stage of Alibaba Share Repurchase Agreement Valued at \$7.6 Billion

SUNNYVALE, Calif., Sept. 18, 2012 – Yahoo! Inc. (NASDAQ: YHOO) announced today that it has closed the initial sale of shares in Alibaba Group Holding Limited. At closing, Yahoo! received approximately \$7.6 billion, \$6.3 billion in cash and \$800 million in preferred shares of Alibaba in exchange for half of Yahoo!'s 40 percent stake in Alibaba, as well as a payment of \$550 million for a technology and intellectual property license agreement. Net cash proceeds after taxes and fees from the first stage of the repurchase agreement total approximately \$4.3 billion.

“The completion of the first stage of the Alibaba share repurchase represents a significant milestone for both Alibaba and Yahoo!. The execution of the deal was excellent, and we are excited to announce its completion well within the six-month time frame we communicated. I look forward to continued partnership with Jack Ma and his team as they position Alibaba for future growth,” said Yahoo! CEO Marissa Mayer. “The Yahoo! board and management have met, reviewed the strategy with regard to the proceeds, and are pleased to announce that we will be returning \$3 billion of the proceeds to shareholders in addition to the ‘down payment’ of \$646 million made over the past few months. This yields a substantial return for investors while retaining a meaningful amount of capital within the company to invest in future growth.”

Yahoo! will return approximately \$3.65 billion in after-tax proceeds to shareholders, or 85 percent of the net cash proceeds from the initial sale of its shares in Alibaba. This amount includes the \$646 million the company has already returned to shareholders through share repurchases since the announcement of the transaction, as well as an additional \$3.0 billion.

After accretion from the Alibaba share repurchase, Yahoo! continues to own approximately 23 percent of Alibaba Group common stock, valued at \$8.1 billion based on this most recent round of funding. Together with its preferred stock, the implied valuation of Yahoo!'s entire remaining stake is approximately \$8.9 billion.

Under the terms of the agreement with Alibaba, the second phase allows for Yahoo! to monetize approximately half of its remaining stake at the time of an initial public offering (IPO) of Alibaba. After an IPO, Yahoo! has the right to sell its remaining shares at its discretion following a customary lock-up period.

Forward-Looking Statements

This press release contains forward-looking statements (including in the quotations in this press release) concerning the agreement entered into by Yahoo! with Alibaba Group Holding Limited, including, without limitation, statements about the ability of Yahoo! to monetize its holdings in Alibaba in the future, potential future actions by Yahoo! and Alibaba concerning future business initiatives between Yahoo! and Alibaba and the potential for an initial public offering of Alibaba shares, and other expected benefits of the agreement and related agreements. Risks and uncertainties may cause actual results and benefits of the transactions contemplated by the agreement and related agreements to differ materially from management expectations. The potential risks and uncertainties include, among others, uncertainty regarding the future valuation of Alibaba; uncertainty regarding if and when there will be an initial public offering of Alibaba shares; uncertainty regarding any future business initiatives with Alibaba; general economic and market conditions; and the possibility that some or all of the expected future benefits of the agreement and related agreements may not be realized. All information set forth in this press release is as of September 18, 2012. Yahoo! does not intend, and undertakes no duty, to update this information to reflect subsequent events or circumstances. More information about potential factors that could affect Yahoo!'s business and financial results is included under the captions

“Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Yahoo!’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as amended, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, which are on file with the Securities and Exchange Commission (“SEC”) and available at the SEC’s website at www.sec.gov.

Yahoo! is the trademark and/or registered trademark of Yahoo! Inc.

About Yahoo!

Yahoo! is focused on creating deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. Yahoo!’s unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses. Yahoo! is headquartered in Sunnyvale, California. For more information, visit the pressroom (pressroom.yahoo.net) or the company’s blog, Yodel Anecdotal (yodel.yahoo.com).

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Unaudited Pro Forma Condensed Consolidated Financial Information

The following unaudited pro forma condensed consolidated financial information has been derived from the historical financial statements of Yahoo! Inc., adjusted to give effect to the Initial Repurchase under the Share Repurchase and Preference Share Sale Agreement between Yahoo! Inc., Alibaba Group Holding Limited, a company organized under the laws of the Cayman Islands ("Alibaba") and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo! Inc. ("YHK" and collectively with Yahoo! Inc., "Yahoo!"), consummated on September 18, 2012. This unaudited pro forma condensed consolidated financial information should be read in conjunction with the accompanying notes and tax rate assumption as well as the historical consolidated financial statements and related notes of Yahoo! Inc.

The unaudited pro forma condensed consolidated financial statements as of and for the six months ended June 30, 2012 are based on our historical unaudited consolidated financial statements. The unaudited pro forma consolidated statement of income for the year ended December 31, 2011 is based on our historical audited consolidated financial statements. Our historical audited consolidated financial statements were filed on February 2, 2012 with our Annual Report on Form 10-K for the year ended December 31, 2011, and our historical unaudited financial statements as of and for the six months ended June 30, 2012 were filed on August 9, 2012 with our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2011 and the six months ended June 30, 2012 assumes that the Initial Repurchase occurred on January 1, 2011. The unaudited pro forma condensed consolidated balance sheet as of June 30, 2012 assumes that the Initial Repurchase occurred on June 30, 2012. The unaudited pro forma condensed consolidated financial information and pro forma adjustments are preliminary and have been made solely for informational purposes and are not necessarily indicative of the condensed consolidated financial position or results of operations that would have been realized had the Initial Repurchase occurred as of the dates indicated, nor is it meant to be indicative of any anticipated condensed consolidated financial position or future results of operations that the company will experience. The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed consolidated financial statements to give effect to pro forma events that are (1) directly attributable to the Initial Repurchase, (2) factually supportable and (3) with respect to the unaudited pro forma condensed consolidated statements of income, are expected to have a continuing impact on the combined results. Accordingly, the accompanying unaudited pro forma condensed consolidated statements of income do not include the gain on disposition of Alibaba shares by Yahoo! Inc. The adjustments presented are based on currently available information and certain estimates and assumptions. Therefore, actual results may differ from the pro-forma adjustments.

Yahoo! Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Income
(In thousands, except per share amounts)

| | As Reported | Year Ended December 31, 2011 | |
|--|-------------|------------------------------|-------------|
| | | Pro Forma Adjustments | Pro Forma |
| Revenue | \$4,984,199 | | \$4,984,199 |
| Operating expenses: | | | |
| Cost of revenue | 1,502,650 | | 1,502,650 |
| Sales and marketing | 1,122,302 | | 1,122,302 |
| Product development | 1,005,090 | | 1,005,090 |
| General and administrative | 495,804 | | 495,804 |
| Amortization of intangibles | 33,592 | | 33,592 |
| Restructuring charges, net | 24,420 | | 24,420 |
| Total operating expenses | 4,183,858 | | 4,183,858 |
| Income from operations | 800,341 | | 800,341 |
| Other income, net | 27,175 | 80,000(1) | 107,175 |
| Income before income taxes and earnings in equity interests | 827,516 | 80,000 | 907,516 |
| Provision for income taxes | (241,767) | (30,400)(3) | (272,167) |
| Earnings in equity interests | 476,920 | (47,529)(4) | 429,391 |
| Net income | 1,062,669 | 2,071 | 1,064,740 |
| Less: Net income attributable to noncontrolling interests | (13,842) | | (13,842) |
| Net income attributable to Yahoo! Inc. | \$1,048,827 | 2,071 | \$1,050,898 |
| Net income attributable to Yahoo! Inc. common stockholders per share—basic | \$ 0.82 | \$ 0.00 | \$ 0.82 |
| Net income attributable to Yahoo! Inc. common stockholders per share—diluted | \$ 0.82 | \$ 0.00 | \$ 0.82 |
| Shares used in per share calculation—basic | 1,274,240 | | 1,274,240 |
| Shares used in per share calculation—diluted | 1,282,282 | | 1,282,282 |

See accompanying Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements

Yahoo! Inc.
Unaudited Pro Forma Condensed Consolidated Statement of Income
(In thousands, except per share amounts)

| | <u>As Reported</u> | <u>Six Months Ended June 30,</u> <u>2012</u> | |
|--|--------------------|---|------------------|
| | | <u>Pro Forma</u> <u>Adjustments</u> | <u>Pro Forma</u> |
| Revenue | \$2,439,027 | | \$2,439,027 |
| Operating expenses: | | | |
| Cost of revenue | 813,548 | | 813,548 |
| Sales and marketing | 558,178 | | 558,178 |
| Product development | 428,106 | | 428,106 |
| General and administrative | 260,388 | (8,945)(2) | 251,443 |
| Amortization of intangibles | 19,809 | | 19,809 |
| Restructuring charges, net | 134,809 | | 134,809 |
| Total operating expenses | <u>2,214,838</u> | <u>(8,945)</u> | <u>2,205,893</u> |
| Income from operations | 224,189 | 8,945 | 233,134 |
| Other income, net | 22,453 | 40,000(1) | 62,453 |
| Income before income taxes and earnings in equity interests | 246,642 | 48,945 | 295,587 |
| Provision for income taxes | (82,942) | (18,599)(3) | (101,541) |
| Earnings in equity interests | 352,234 | (59,693)(4) | 292,541 |
| Net income | 515,934 | (29,347) | 486,587 |
| Less: Net income attributable to noncontrolling interests | (2,960) | | (2,960) |
| Net income attributable to Yahoo! Inc. | <u>512,974</u> | <u>(29,347)</u> | <u>483,627</u> |
| Net income attributable to Yahoo! Inc. common stockholders per share—basic | <u>\$ 0.42</u> | <u>\$ (0.02)</u> | <u>\$ 0.40</u> |
| Net income attributable to Yahoo! Inc. common stockholders per share—diluted | <u>\$ 0.42</u> | <u>\$ (0.02)</u> | <u>\$ 0.40</u> |
| Shares used in per share calculation—basic | <u>1,214,551</u> | | <u>1,214,551</u> |
| Shares used in per share calculation—diluted | <u>1,224,102</u> | | <u>1,224,102</u> |

See accompanying Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements

Yahoo! Inc.
Unaudited Pro Forma Condensed Consolidated Balance Sheet
(In thousands)

| | As of June 30, 2012 | | |
|---|---------------------|-----------------------|---------------------|
| | As Reported | Pro Forma Adjustments | Pro Forma |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,539,269 | \$ 6,282,152(5) | \$ 7,821,421 |
| Short-term marketable debt securities | 371,204 | | 371,204 |
| Accounts receivable, net | 1,040,893 | | 1,040,893 |
| Prepaid expenses and other current assets | 318,932 | | 318,932 |
| Total current assets | 3,270,298 | 6,282,152 | 9,552,450 |
| Mandatorily redeemable preference shares | — | 800,000(9) | 800,000 |
| Long-term marketable debt securities | 490,570 | | 490,570 |
| Property and equipment, net | 1,663,665 | | 1,663,665 |
| Goodwill | 3,887,360 | | 3,887,360 |
| Intangible assets, net | 196,729 | | 196,729 |
| Other long-term assets | 209,669 | | 209,669 |
| Investments in equity interests | 4,939,938 | (2,643,538)(6) | 2,296,400 |
| Total assets | <u>\$14,658,229</u> | <u>\$ 4,438,614</u> | <u>\$19,096,843</u> |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 132,105 | | \$ 132,105 |
| Accrued expenses and other current liabilities | 768,080 | 2,494,665(7) | 3,262,745 |
| Deferred revenue | 176,960 | | 176,960 |
| Total current liabilities | 1,077,145 | 2,494,665 | 3,571,810 |
| Long-term deferred revenue | 38,757 | | 38,757 |
| Capital lease and other long-term liabilities | 130,149 | | 130,149 |
| Deferred and other long-term tax liabilities, net | 895,941 | (505,960)(7) | 389,981 |
| Total liabilities | 2,141,992 | 1,988,705 | 4,130,697 |
| Commitments and contingencies | — | | — |
| Yahoo! Inc. stockholders' equity: | | | |
| Preferred stock | — | | — |
| Common stock | 1,253 | | 1,253 |
| Additional paid-in capital | 9,976,949 | | 9,976,949 |
| Treasury stock at cost | (942,244) | | (942,244) |
| Retained earnings | 2,945,269 | 2,571,287(8) | 5,516,556 |
| Accumulated other comprehensive income | 491,770 | (121,377) | 370,393 |
| Total Yahoo! Inc. stockholders' equity | 12,472,997 | 2,449,909 | 14,922,906 |
| Noncontrolling interests | 43,240 | | 43,240 |
| Total equity | 12,516,237 | 2,449,909 | 14,966,146 |
| Total liabilities and equity | <u>\$14,658,229</u> | <u>\$ 4,438,614</u> | <u>\$19,096,843</u> |

See accompanying Notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements

Notes to the unaudited pro forma condensed consolidated statements of income

- (1) Reflects the inclusion of dividends related to the new Alibaba preference shares issued to Yahoo! Inc. in connection with the repurchase transaction. The Alibaba preference shares will yield semi-annual dividends at a rate per annum of up to 10 percent. For the purposes of the pro forma financial statements, we have assumed a 10% dividend rate as this is the rate expected for the foreseeable future.
- (2) Reflects the elimination of third party advisory, legal and regulatory costs that were directly attributable to the repurchase transaction but that are not expected to have a continuing impact on Yahoo!'s results.
- (3) For purposes of determining the estimated income tax expense for pro forma adjustments reflected in the unaudited pro forma condensed consolidated statement of income, an estimated assumed effective tax rate of 38% was applied.
- (4) Represents the reduction in equity earnings due to reduced income available for common holders due to the preferred stock issued by Alibaba and reduced ownership interest in Alibaba.

Notes to unaudited pro forma condensed consolidated balance sheet

- (5) Represents cash received from Alibaba on our sale of ordinary shares under the repurchase agreement.
- (6) Reflects an adjustment to give effect to the reduction in Yahoo!'s ownership of Alibaba from 42% to approximately 23% on a fully diluted basis resulting from our sale of Alibaba ordinary shares.
- (7) Represents \$1.9 billion in taxes on the gain on disposition of Alibaba's shares by Yahoo! based on the estimated tax rate of 40% and the reversal of deferred tax liabilities of \$595 million related to Yahoo!'s ownership of Alibaba.
- (8) Reflects the impact of the gain on disposition of Alibaba's shares by Yahoo!. The pro forma consolidated statements of income do not reflect the non-recurring after-tax gain on disposition of \$2.6 billion.
- (9) Reflects the mandatorily redeemable preference shares received as part of the consideration paid by Alibaba to Yahoo! as part of the repurchase transaction.