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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 8-K

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

July 18, 2006  
Date of Report (Date of Earliest Event Reported)

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Yahoo! Inc.  
(Exact name of Registrant as specified in its charter)

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Delaware (State or other Jurisdiction of Incorporation)	0-28018 (Commission File No.)	77-0398689 (IRS Employer Identification No.)
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701 First Ave.  
Sunnyvale, California 94089  
(Address of principal executive offices, including zip code)

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

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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 (see General Instruction A.2. below):

- 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 2.02 Results of Operations and Financial Condition

The information in this Current Report is being furnished and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

On July 18, 2006, Yahoo! Inc., a Delaware corporation ("Yahoo!") announced its financial results for the second quarter ended June 30, 2006 and certain other information. A copy of Yahoo!'s press release announcing these financial results and certain other information is attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits.

The following exhibit is furnished with this report on Form 8-K:

99.1 Yahoo! Inc. press release dated July 18, 2006.



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SIGNATURES

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.

By:/s/ Susan Decker

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Susan Decker  
Executive Vice President, Finance and  
Administration, and Chief Financial  
Officer (Principal Financial Officer)

Date: July 18, 2006

YAHOO! INC.

INDEX TO EXHIBITS

Exhibit Number -----	Description -----
99.1	Press Release dated July 18, 2006

Yahoo! Reports Second Quarter 2006 Financial Results; Revenues - \$1,576 Million, Operating Income - \$230 Million, Operating Income Before Depreciation, Amortization and Stock-Based Compensation Expense - \$457 Million

SUNNYVALE, Calif.--(BUSINESS WIRE)--July 18, 2006--Yahoo! Inc. (Nasdaq:YHOO) today reported results for the second quarter ended June 30, 2006.

"Yahoo! continued to make major strides this quarter against some of our most valuable business initiatives, further strengthening our foundation for ongoing growth," said Terry Semel, chairman and chief executive officer, Yahoo!. "Our ability to remain focused on our advertiser and consumer communities, while also continuing to innovate and take advantage of new opportunities in the marketplace, has put us in a great position."

#### Second Quarter 2006 Financial Results

- Revenues were \$1,576 million for the second quarter of 2006, a 26 percent increase compared to \$1,253 million for the same period of 2005.
- Marketing services revenue was \$1,386 million for the second quarter of 2006, a 27 percent increase compared to \$1,094 million for the same period of 2005.
- Fees revenue was \$190 million for the second quarter of 2006, a 19 percent increase compared to \$159 million for the same period of 2005.
- Revenues excluding traffic acquisition costs ("TAC") were \$1,123 million for the second quarter of 2006, a 28 percent increase compared to \$875 million for the same period of 2005.
- Gross profit for the second quarter of 2006 was \$930 million, a 24 percent increase compared to \$753 million for the same period of 2005.
- Operating income for the second quarter of 2006 was \$230 million (including \$100 million for stock-based compensation expense recorded under the fair value method), a 12 percent decrease compared to \$261 million (including \$11 million for stock-based compensation expense recorded under the intrinsic value method) for the same period of 2005.
- Operating income before depreciation, amortization and stock-based compensation expense for the second quarter of 2006 was \$457 million, a 24 percent increase compared to \$368 million for the same period of 2005.
- Cash flow from operating activities for the second quarter of 2006 was \$430 million, a 6 percent increase compared to \$404 million for the same period of 2005.
- Free cash flow for the second quarter of 2006 was \$358 million, a 19 percent increase compared to \$300 million for the same period of 2005.
- Net income for the second quarter of 2006 was \$164 million or \$0.11 per diluted share (including \$73 million of stock-based compensation expense, net of tax, recorded under the fair value method), compared to \$755 million or \$0.51 per diluted share for the same period of 2005 (including \$7 million of stock-based compensation expense, net of tax, recorded under the intrinsic value method) or compared to adjusted net income of \$152 million or \$0.10 per diluted share (including \$57 million of stock-based compensation, net of tax, calculated under the fair value method and excluding gains of \$552 million, net of tax, on the sale of certain investments and settlements) for the second quarter of 2005.
- Adjusted net income excluding stock-based compensation expense, net of tax, recorded under the fair value method for the second quarter of 2006 was \$237 million or \$0.16 per diluted share. This compares to adjusted net income of \$209 million or \$0.14 per diluted share, excluding stock-based compensation expense, net of tax, recorded under the intrinsic value method and gains on the sale of certain investments and settlements, net of tax, for the same period of 2005.
- Explanations of the Company's non-GAAP financial measures and the related reconciliations to the GAAP financial measures the Company considers most comparable are included in the accompanying "Note to Unaudited Condensed Consolidated Statements of Operations" and the "Reconciliations to Unaudited Condensed Consolidated Statements of Operations".

"We continued to execute on our plan in the second quarter -- delivering strong revenue growth, profitability, and returns on our significant free cash flow -- while also investing in our business to position the company for future growth," said Susan Decker, chief financial officer, Yahoo!. "We believe these investments will expand our unique collection of online services to best meet the objectives of our customers and users, generating maximum value for our network."

#### Segment Financial Results

- United States revenues for the second quarter of 2006 were \$1,070 million, a 23 percent increase compared to \$870 million for the same period of 2005.
- International revenues for the second quarter of 2006 were \$506 million, a 32 percent increase compared to \$383 million for the same period of 2005.
- United States segment operating income before depreciation, amortization and stock-based compensation expense for the second quarter of 2006 was \$341 million, a 17 percent increase compared to \$291 million for the same period of 2005.
- International segment operating income before depreciation, amortization and stock-based compensation expense for the second quarter of 2006 was \$116 million, a 51 percent increase compared to \$77 million for the same period of 2005.

#### Cash Flow Information

Free cash flow was \$358 million in the second quarter of 2006 compared to \$300 million for the same period of 2005. In addition to free cash flow, Yahoo! generated \$102 million from the issuance of common stock as a result of the exercise of employee stock options. These sources of cash were offset by \$250 million used for structured stock repurchase transactions, \$51 million used for direct stock repurchases and \$61 used for acquisitions. Cash, cash equivalents and investments in marketable debt securities were \$3,965 million at June 30, 2006 as compared to \$3,833 million at March 31, 2006, an increase of \$132 million.

Please refer to the "Note to Unaudited Condensed Consolidated Statements of Operations" for definitions of certain key financial measures used here and in the "Business Outlook" attached to this press release.

#### Quarterly Conference Call

Yahoo! will host a conference call to discuss second quarter results at 5:00 p.m. Eastern Time today. A live webcast of the conference call, together with supplemental financial information, can be accessed through the Company's Investor Relations website at <http://yhoo.client.shareholder.com/earnings.cfm>. In addition, an archive of the webcast can be accessed through the same link. An audio replay of the call will be available following the conference call by calling 877-213-9653 or 630-652-3041, reservation number: 15156743.

#### About Yahoo!

Yahoo! Inc. is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo! seeks to provide online products and services essential to users' lives, and offers a full range of tools and marketing solutions for businesses to connect with Internet users around the world. Yahoo! is headquartered in Sunnyvale, California.

This press release includes the following financial measures defined as non-GAAP financial measures by the Securities and Exchange Commission: revenues excluding traffic acquisition costs, operating income before depreciation, amortization and stock-based compensation expense, free cash flow, and adjusted net income and adjusted net income per share. These measures may be different from non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles. See "Note to Unaudited Condensed Consolidated Statements of Operations" and "Reconciliations to Unaudited Condensed Consolidated Statements of Operations" included in this press release for further information regarding these non-GAAP financial measures.

This press release and its attachments contain forward-looking statements that involve risks and uncertainties concerning Yahoo!'s expected financial performance (as described without limitation in the Business Outlook section and the quotations from management in this press release), as well as Yahoo!'s strategic and operational plans. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, the Company's ability to compete with new or existing competitors;

reduction in spending by, or loss of, marketing services customers; the demand by customers for Yahoo!'s premium services; acceptance by users of new products and services; risks related to joint ventures and the integration of recent acquisitions; risks related to the Company's international operations; failure to manage growth and diversification; adverse results in litigation, including intellectual property infringement claims; the Company's ability to protect its intellectual property and the value of its brands; dependence on key personnel; dependence on third parties for technology, services, content and distribution; and general economic conditions. All information set forth in this release and its attachments is as of July 18, 2006. Yahoo! does not intend, and undertakes no duty, to update this information to reflect future events or circumstances. More information about potential factors that could affect the Company'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 the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 which are on file with the SEC and available at the SEC's website at [www.sec.gov](http://www.sec.gov). Additional information will also be set forth in those sections in Yahoo!'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, which will be filed with the SEC in the third quarter of 2006.

Yahoo! and the Yahoo! logos are trademarks and/or registered trademarks of Yahoo! Inc. All other names are trademarks and/or registered trademarks of their respective owners.

Yahoo! Inc.  
Unaudited Condensed Consolidated Statements of Operations  
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Revenues	\$1,252,997	\$1,575,854	\$2,426,739	\$3,142,909
Cost of revenues (1)	500,158	645,767	967,082	1,303,710
Gross profit	752,839	930,087	1,459,657	1,839,199
Operating expenses:				
Sales and marketing (2)	247,915	325,845	479,924	657,005
Product development (2)	129,285	208,743	251,896	426,320
General and administrative (2)	87,128	131,909	165,387	260,214
Amortization of intangibles (1)	27,154	34,003	53,730	64,861
Total operating expenses	491,482	700,500	950,937	1,408,400
Income from operations	261,357	229,587	508,720	430,799
Other income, net	979,736	36,090	1,029,730	71,526
Income before income taxes, earnings in equity interests and minority interests	1,241,093	265,677	1,538,450	502,325
Provision for income taxes	(515,855)	(122,698)	(636,290)	(225,630)
Earnings in equity interests	33,105	21,634	62,483	48,071
Minority interests in operations of consolidated subsidiaries	(3,654)	(283)	(5,394)	(577)
Net income	\$ 754,689	\$ 164,330	\$ 959,249	\$ 324,189
Net income per share - diluted	\$ 0.51	\$ 0.11	\$ 0.65	\$ 0.22

Shares used in per share calculation - diluted	1,484,200	1,476,642	1,481,114	1,484,809
	=====	=====	=====	=====

(2) Stock-based compensation expense was allocated as follows:

Cost of revenues	\$ -	\$ 1,582	\$ -	\$ 3,267
Sales and marketing	1,509	38,489	2,999	77,356
Product development	3,741	36,170	7,003	73,887
General and administrative	5,698	23,482	10,412	53,854
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Total stock-based compensation expense	\$ 10,948	\$ 99,723	\$ 20,414	\$ 208,364
	=====	=====	=====	=====

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Supplemental Financial Data (See Note)  
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Revenues excluding TAC	\$ 875,112	\$1,122,655	\$1,695,867	\$2,210,353
Operating income before depreciation, amortization and stock-based compensation expense	\$ 368,440	\$ 456,858	\$ 713,502	\$ 891,790
Free cash flow	\$ 299,874	\$ 357,830	\$ 617,440	\$ 700,776

Adjusted net income per diluted share excluding stock-based compensation expense	\$ 0.14	\$ 0.16	\$ 0.27	\$ 0.32
Adjusted net income per diluted share including fair value stock-based compensation expense	\$ 0.10	\$ 0.11	\$ 0.20	\$ 0.22

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(1) Yahoo! has changed its classification of amortization expense related to developed technology and patents acquired through acquisitions. Amortization expense of \$14 million and \$28 million for the three and six months ended June 30, 2005, respectively, has been reclassified to cost of revenues from operating expenses.

(2) Prior to January 1, 2006, Yahoo! accounted for stock-based compensation under Accounting Principles Board, Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In accordance with APB 25, Yahoo! historically used the intrinsic value method to account for stock-based compensation expense. As of January 1, 2006, Yahoo! accounts for stock-based compensation expense under the fair value method in accordance with Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"). As Yahoo! adopted the modified prospective transition method, results for prior periods have not been restated under the fair value method for GAAP purposes. Yahoo! is presenting a non-GAAP adjusted net income per diluted share financial measure which includes stock-based compensation expense calculated under the fair value method for all periods presented. Yahoo! is also presenting a non-GAAP adjusted net income per diluted share financial measure which excludes stock-based compensation expense for all periods presented.

Yahoo! Inc.

Note to Unaudited Condensed Consolidated Statements of Operations

This press release includes the non-GAAP financial measures of revenues excluding traffic acquisition costs or TAC, operating income before depreciation, amortization and stock-based compensation expense, free cash flow and adjusted net income and adjusted net income per share, which are reconciled to gross profit, income from operations, cash flow from operating activities, and net income and net income per share, respectively, which we believe are the most comparable GAAP measures. We use these non-GAAP financial measures for internal managerial purposes, when publicly providing our business outlook, and to facilitate period-to-period comparisons. These

non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations to corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, gross profit, income from operations, cash flow from operating activities and net income and net income per share calculated in accordance with generally accepted accounting principles.

Revenues excluding TAC is defined as gross profit plus other cost of revenues. Under GAAP, both our revenues and cost of revenues include TAC. In defining revenues excluding TAC as our non-GAAP gross profit measure, we have removed TAC from both revenues and cost of revenues. TAC consists of payments made to affiliates that have integrated our sponsored search offerings into their websites and payments made to companies that direct consumer and business traffic to the Yahoo! website. We present revenues excluding TAC: (1) to provide a metric for our investors to analyze and value our Company and (2) to provide investors one of the primary metrics used by the Company for evaluation and decision-making purposes. We provide revenues excluding TAC because we believe it is useful to investors in valuing our Company. One of the ways investors value companies is to apply a multiple to revenues. Since a significant portion of the GAAP revenues associated with our sponsored search offerings is paid to our third party affiliates, we believe investors find it more meaningful to apply multiples to revenues excluding TAC to assess our value as this avoids "double counting" revenues that are paid to, and being reported by, our third party affiliates. Further, management uses revenues excluding TAC for evaluating the performance of our business, making operating decisions, for budgeting purposes, and as a factor in determining management compensation. A limitation of revenues excluding TAC is that it is a measure which we have defined for internal and investor purposes that may be unique to the Company and therefore it may not enhance the comparability of our results to other companies in our industry who have similar business arrangements but address the impact of TAC differently.

Operating income before depreciation, amortization and stock-based compensation expense is defined as income from operations before depreciation, amortization of intangible assets and stock-based compensation expense. We consider operating income before depreciation, amortization and stock-based compensation expense to be an important indicator of the operational strength of the Company. This measure eliminates the effects of depreciation, amortization of intangible assets and stock-based compensation expense from period to period, which we believe is useful to management and investors in evaluating the operating performance of the Company, as depreciation and amortization costs are not directly attributable to the underlying performance of the Company's business operations. A limitation associated with this measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company's businesses. Management evaluates the costs of such tangible and intangible assets through other financial measures such as capital expenditures. A further limitation associated with this measure is that it does not include stock-based compensation expense related to our workforce.

Free cash flow is defined as cash flow from operating activities, less net capital expenditures and dividends received and including the excess tax benefits from stock-based compensation. We consider free cash flow to be a liquidity measure which provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for strategic opportunities including, among others, investing in the Company's business, making strategic acquisitions, strengthening the balance sheet and repurchasing stock. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period.

Adjusted net income is defined as net income excluding certain gains, losses and expenses and their related tax effects that we do not believe are indicative of our ongoing operating results and further adjusted for stock-based compensation expense under two different methods. Effective January 1, 2006, we adopted SFAS 123R under the modified prospective transition method and therefore have recorded stock-based compensation expense under the fair value method for the three and six months ended June 30, 2006. Prior to January 1, 2006, including the three and six months ended June 30, 2005, we recorded

stock-based compensation expense under the intrinsic value method. We have included two non-GAAP measures for adjusted net income and adjusted net income per share. In one adjusted net income measure, we have excluded stock-based compensation expense in addition to certain gains, losses and expenses and their related tax effects. In the alternative adjusted net income measure, we have included our calculation of stock-based compensation expense calculated under the fair value method (as previously disclosed) for the three and six months ended June 30, 2005, in addition to excluding certain gains, losses and expenses and their related tax effects, so that both presented periods include stock-based compensation expense under the fair value method. We consider adjusted net income to be a profitability measure which facilitates the forecasting of our operating results for future periods and allows for the comparison of our results to historical periods and to other companies in our industry. A limitation of adjusted net income is that it does not include all items that impact our net income and net income per share for the period.

Yahoo! Inc.  
Reconciliations to Unaudited Condensed Consolidated Statements of  
Operations  
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2006	2005	2006
Revenues for groups of similar services:				
Marketing services	\$1,094,301	\$1,386,245	\$2,119,097	\$2,767,099
Fees	158,696	189,609	307,642	375,810
Total revenues	<u>\$1,252,997</u>	<u>\$1,575,854</u>	<u>\$2,426,739</u>	<u>\$3,142,909</u>
Revenues by segment:				
United States	\$ 869,517	\$1,070,134	\$1,688,243	\$2,167,172
International	383,480	505,720	738,496	975,737
Total revenues	<u>\$1,252,997</u>	<u>\$1,575,854</u>	<u>\$2,426,739</u>	<u>\$3,142,909</u>
Cost of revenues:				
Traffic acquisition costs ("TAC")	\$ 377,885	\$ 453,199	\$ 730,872	\$ 932,556
Other cost of revenues	122,273	192,568	236,210	371,154
Total cost of revenues	<u>\$ 500,158</u>	<u>\$ 645,767</u>	<u>\$ 967,082</u>	<u>\$1,303,710</u>
Revenues excluding TAC:				
Gross profit	\$ 752,839	\$ 930,087	\$1,459,657	\$1,839,199
Other cost of revenues	122,273	192,568	236,210	371,154
Revenues excluding TAC	<u>\$ 875,112</u>	<u>\$1,122,655</u>	<u>\$1,695,867</u>	<u>\$2,210,353</u>
Revenues excluding TAC by segment:				
United States:				
Gross profit	\$ 562,712	\$ 679,116	\$1,090,609	\$1,361,507
Other cost of revenues	97,333	157,388	188,328	301,662
Revenues excluding TAC	<u>\$ 660,045</u>	<u>\$ 836,504</u>	<u>\$1,278,937</u>	<u>\$1,663,169</u>
International:				
Gross profit	\$ 190,127	\$ 250,971	\$ 369,048	\$ 477,692
Other cost of revenues	24,940	35,180	47,882	69,492
Revenues excluding TAC	<u>\$ 215,067</u>	<u>\$ 286,151</u>	<u>\$ 416,930</u>	<u>\$ 547,184</u>
Operating income before depreciation, amortization and stock-based compensation expense:				
Income from operations	\$ 261,357	\$ 229,587	\$ 508,720	\$ 430,799
Depreciation and amortization	96,135	127,548	184,368	252,627

Stock-based compensation expense	10,948	99,723	20,414	208,364
-----				
Operating income before depreciation, amortization and stock-based compensation expense	\$ 368,440	\$ 456,858	\$ 713,502	\$ 891,790
=====				
Operating income before depreciation, amortization and stock-based compensation expense by segment:				
Operating income before depreciation, amortization and stock-based compensation expense - United States	\$ 291,244	\$ 340,598	\$ 561,659	\$ 675,867
Operating income before depreciation, amortization and stock-based compensation expense - International	77,196	116,260	151,843	215,923
-----				
Operating income before depreciation, amortization and stock-based compensation expense	\$ 368,440	\$ 456,858	\$ 713,502	\$ 891,790
=====				
United States:				
Income from operations	\$ 202,275	\$ 148,144	\$ 392,293	\$ 285,095
Depreciation and amortization	78,591	103,081	150,194	203,638
Stock-based compensation expense	10,378	89,373	19,172	187,134
-----				
Operating income before depreciation, amortization and stock-based compensation expense - United States	\$ 291,244	\$ 340,598	\$ 561,659	\$ 675,867
=====				
International:				
Income from operations	\$ 59,082	\$ 81,443	\$ 116,427	\$ 145,704
Depreciation and amortization	17,544	24,467	34,174	48,989
Stock-based compensation expense	570	10,350	1,242	21,230
-----				
Operating income before depreciation, amortization and stock-based compensation expense - International	\$ 77,196	\$ 116,260	\$ 151,843	\$ 215,923
=====				
Free cash flow:				
Cash flow from operating activities	\$ 404,195	\$ 429,684	\$ 789,910	\$ 814,565
Acquisition of property and equipment, net	(93,651)	(175,078)	(161,800)	(316,825)
Dividends received	(10,670)	(12,908)	(10,670)	(12,908)
Excess tax benefits from stock-based compensation	-	116,132	-	215,944
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Free cash flow	\$ 299,874	\$ 357,830	\$ 617,440	\$ 700,776
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Yahoo! Inc.

Reconciliations to Unaudited Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

## Adjusted Net Income Excluding Stock-based Compensation Expense

	Three Months Ended June 30, 2005		
	Reported	Adjustments	Adjusted
Revenues	\$1,252,997	\$ -	\$1,252,997
Cost of revenues	500,158	-	500,158
Gross profit	752,839	-	752,839
Operating expenses:			
Sales and marketing	247,915	(1,509) (a)	246,406
Product development	129,285	(3,741) (a)	125,544
General and administrative	87,128	(5,698) (a)	81,430
Amortization of intangibles	27,154	-	27,154
Total operating expenses	491,482	(10,948)	480,534
Income from operations	261,357	10,948	272,305
Other income, net	979,736	(949,242) (c)	30,494
Income before income taxes, earnings in equity interests and minority interests	1,241,093	(938,294)	302,799
Provision for income taxes	(515,855)	392,732 (d)	(123,123)
Earnings in equity interests	33,105	-	33,105
Minority interests in operations of consolidated subsidiaries	(3,654)	-	(3,654)
Net income	\$ 754,689	\$ (545,562)	\$ 209,127
Net income per share - diluted	\$ 0.51		\$ 0.14
Shares used in per share calculation - diluted	1,484,200		1,484,200

	Three Months Ended June 30, 2006		
	Reported	Adjustments	Adjusted
Revenues	\$1,575,854	\$ -	\$1,575,854
Cost of revenues	645,767	(1,582) (b)	644,185
Gross profit	930,087	1,582	931,669
Operating expenses:			
Sales and marketing	325,845	(38,489) (b)	287,356
Product development	208,743	(36,170) (b)	172,573
General and administrative	131,909	(23,482) (b)	108,427
Amortization of intangibles	34,003	-	34,003
Total operating expenses	700,500	(98,141)	602,359
Income from operations	229,587	99,723	329,310
Other income, net	36,090	-	36,090

Income before income taxes, earnings in equity interests and minority interests	265,677	99,723	365,400
Provision for income taxes	(122,698)	(26,926)(d)	(149,624)
Earnings in equity interests	21,634	-	21,634
Minority interests in operations of consolidated subsidiaries	(283)	-	(283)
	-----	-----	-----
Net income	\$ 164,330	\$ 72,797	\$ 237,127
	=====	=====	=====
Net income per share - diluted	\$ 0.11		\$ 0.16
	=====		=====
Shares used in per share calculation - diluted	1,476,642		1,476,642
	=====		=====

Six Months Ended  
June 30, 2005

	Reported	Adjustments	Adjusted
	-----	-----	-----
Revenues	\$2,426,739	\$ -	\$2,426,739
Cost of revenues	967,082	-	967,082
	-----	-----	-----
Gross profit	1,459,657	-	1,459,657
	-----	-----	-----
Operating expenses:			
Sales and marketing	479,924	(2,999)(a)	476,925
Product development	251,896	(7,003)(a)	244,893
General and administrative	165,387	(10,412)(a)	154,975
Amortization of intangibles	53,730	-	53,730
	-----	-----	-----
Total operating expenses	950,937	(20,414)	930,523
	-----	-----	-----
Income from operations	508,720	20,414	529,134
Other income, net	1,029,730	(974,927)(c)	54,803
	-----	-----	-----
Income before income taxes, earnings in equity interests and minority interests	1,538,450	(954,513)	583,937
Provision for income taxes	(636,290)	399,313 (d)	(236,977)
Earnings in equity interests	62,483	-	62,483
Minority interests in operations of consolidated subsidiaries	(5,394)	-	(5,394)
	-----	-----	-----
Net income	\$ 959,249	\$ (555,200)	\$ 404,049
	=====	=====	=====
Net income per share - diluted	\$ 0.65		\$ 0.27
	=====		=====
Shares used in per share calculation - diluted	1,481,114		1,481,114
	=====		=====

Six Months Ended  
June 30, 2006

	Reported	Adjustments	Adjusted
	-----	-----	-----
Revenues	\$3,142,909	\$ -	\$3,142,909

Cost of revenues	1,303,710	(3,267)(b)	1,300,443
	-----	-----	-----
Gross profit	1,839,199	3,267	1,842,466
	-----	-----	-----
Operating expenses:			
Sales and marketing	657,005	(77,356)(b)	579,649
Product development	426,320	(73,887)(b)	352,433
General and administrative	260,214	(53,854)(b)	206,360
Amortization of intangibles	64,861	-	64,861
	-----	-----	-----
Total operating expenses	1,408,400	(205,097)	1,203,303
	-----	-----	-----
Income from operations	430,799	208,364	639,163
Other income, net	71,526	-	71,526
	-----	-----	-----
Income before income taxes, earnings in equity interests and minority interests	502,325	208,364	710,689
Provision for income taxes	(225,630)	(64,073)(d)	(289,703)
Earnings in equity interests	48,071	-	48,071
Minority interests in operations of consolidated subsidiaries	(577)	-	(577)
	-----	-----	-----
Net income	\$ 324,189	\$ 144,291	\$ 468,480
	=====	=====	=====
Net income per share - diluted	\$ 0.22		\$ 0.32
	=====		=====
Shares used in per share calculation - diluted	1,484,809		1,484,809
	=====		=====

Yahoo! Inc.  
Reconciliations to Unaudited Condensed Consolidated Statements of  
Operations  
(in thousands, except per share amounts)

Adjusted Net Income Including Stock-based Compensation Expense Under  
the Fair Value Method

	Three Months Ended June 30, 2005		
	-----	-----	-----
	Reported	Adjustments	Adjusted
	-----	-----	-----
Net income	\$ 754,689	\$ (602,709)(e, g)	\$ 151,980
	=====	=====	=====
Net income per share - diluted	\$ 0.51		\$ 0.10
	=====		=====
Shares used in per share calculation - diluted	1,484,200	1,513 (h)	1,485,713
	=====	=====	=====

	Three Months Ended June 30, 2006		
	-----	-----	-----
	Reported	Adjustments	Adjusted
	-----	-----	-----
Net income	\$ 164,330	(f)	\$ 164,330
	=====		=====

Net income per share -

diluted	\$ 0.11	\$ 0.11
	=====	=====

Shares used in per share calculation - diluted	1,476,642	1,476,642
	=====	=====

Six Months Ended  
June 30, 2005

	Reported	Adjustments	Adjusted
Net income	\$ 959,249	\$ (669,393)(e, g)	\$ 289,856
	=====	=====	=====
Net income per share - diluted	\$ 0.65		\$ 0.20
	=====		=====
Shares used in per share calculation - diluted	1,481,114	1,384 (h)	1,482,498
	=====	=====	=====

Six Months Ended  
June 30, 2006

	Reported	Adjustments	Adjusted
Net income	\$ 324,189	(f)	\$ 324,189
	=====		=====
Net income per share - diluted	\$ 0.22		\$ 0.22
	=====		=====
Shares used in per share calculation - diluted	1,484,809		1,484,809
	=====		=====

Notes:

- (a) To eliminate stock-based compensation expense as measured using the intrinsic value method under APB 25.
- (b) To eliminate stock-based compensation expenses as measured using the fair value method under SFAS 123R.
- (c) To eliminate gains on the sale of certain investments and settlements.
- (d) To eliminate income tax effects associated with adjustments referenced in (a), (b), and (c).
- (e) To include fair value stock-based compensation expense of \$57 million and \$114 million, net of tax, respectively, using the fair value method under SFAS 123 as previously disclosed and exclude recorded stock-based compensation expense of \$7 million and \$12 million, net of tax, respectively, using the intrinsic value method under APB 25 for the three and six months ended June 30, 2005.
- (f) Fair value stock-based compensation expenses calculated under SFAS 123R is included in the reported figures and therefore no adjustment is made.
- (g) To eliminate gains of \$552 million and \$567 million, net of tax, respectively, on the sale of certain investments and settlements for the three and six months ended June 30, 2005.
- (h) To adjust the number of shares used in the diluted net income per share count for the impact of applying SFAS 123.

Yahoo! Inc.  
Business Outlook

Business Outlook

The following business outlook is based on current information and expectations as of July 18, 2006. Yahoo!'s business outlook as of today is expected to be available on the Company's Investor Relations website throughout the current quarter. Yahoo! does not expect, and undertakes no obligation, to update the outlook prior to the release of the Company's next quarterly earnings announcement, notwithstanding

subsequent developments; however, Yahoo! may update the outlook or any portion thereof at any time at its discretion.

	Three months ending September 30, 2006	Year ending December 31, 2006
	-----	-----
Revenues excluding TAC (3) outlook (in millions):		
Gross profit	\$925 - \$1,015	\$3,820 - \$4,030
Other cost of revenues	190 - 210	780 - 820
	-----	-----
Revenues excluding TAC	\$1,115 - \$1,225	\$4,600 - \$4,850
	=====	=====
Operating income before depreciation, amortization and stock-based compensation expense (3) outlook (in millions):		
Income from operations	\$185 - \$225	\$935 - \$1,025
Depreciation and amortization	145 - 155	550 - 580
Stock-based compensation expense	115 - 125	430 - 450
	-----	-----
Operating income before depreciation, amortization and stock-based compensation expense	\$445 - \$505	\$1,915 - \$2,055
	=====	=====

(3) Refer to Note to Unaudited Condensed Consolidated Statements of Operations.

Yahoo! Inc.  
Unaudited Condensed Consolidated Statements of Cash Flows  
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
	2005	2006	2005	2006
	-----	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 754,689	\$ 164,330	\$ 959,249	\$ 324,189
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	54,721	70,587	102,751	139,201
Amortization of intangible assets	41,414	56,961	81,617	113,426
Stock-based compensation expense	10,948	99,723	20,414	208,364
Tax benefits from stock-based compensation	495,041	84,536	602,568	164,281
Excess tax benefits from stock-based compensation	-	(116,132)	-	(215,944)
Earnings in equity interests	(33,105)	(21,634)	(62,483)	(48,071)
Dividends received	10,670	12,908	10,670	12,908
Minority interests in operations of consolidated subsidiaries	3,654	283	5,394	577
(Gain)/loss from sale of investments, assets and other, net	(937,998)	5,207	(952,266)	(2,070)
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable, net	(47,740)	(13,254)	(78,157)	(53,355)
Prepaid expenses and other	(8,868)	(4,604)	10,240	(15,963)
Accounts payable	10,433	28,100	(14,193)	63,753
Accrued expenses				

and other liabilities	34,597	42,327	79,816	88,596
Deferred revenue	15,739	20,346	24,290	34,673
	-----	-----	-----	-----
Net cash provided by operating activities	404,195	429,684	789,910	814,565
	-----	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Acquisition of property and equipment, net	(93,651)	(175,078)	(161,800)	(316,825)
Purchases of marketable debt securities	(3,838,067)	(313,571)	(5,474,827)	(648,333)
Proceeds from sales and maturities of marketable debt securities	3,597,080	409,679	5,374,465	845,674
Acquisitions, net of cash acquired	(72,404)	(60,833)	(126,374)	(55,329)
Proceeds from sales of marketable equity securities	958,914	-	970,296	-
Other investing activities, net	(49,913)	(299)	(38,595)	(644)
	-----	-----	-----	-----
Net cash provided by (used in) investing activities	501,959	(140,102)	543,165	(175,457)
	-----	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from issuance of common stock, net	212,420	102,306	302,724	189,825
Repurchases of common stock	-	(51,311)	(164,895)	(690,209)
Structured stock repurchases, net	(263,729)	(250,000)	(359,931)	(227,705)
Excess tax benefits from stock-based compensation	-	116,132	-	215,944
Other financing activities, net	-	-	800	-
	-----	-----	-----	-----
Net cash provided by (used in) financing activities	(51,309)	(82,873)	(221,302)	(512,145)
	-----	-----	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(25,332)	22,419	(15,073)	34,567
Net change in cash and cash equivalents	829,513	229,128	1,096,700	161,530
Cash and cash equivalents, beginning of period	1,090,910	1,362,095	823,723	1,429,693
	-----	-----	-----	-----
Cash and cash equivalents, end of period	\$ 1,920,423	\$ 1,591,223	\$ 1,920,423	\$ 1,591,223
	=====	=====	=====	=====
<b>Supplemental schedule of acquisition-related activities:</b>				
Cash paid for acquisitions	\$ 73,455	\$ 60,983	\$ 127,452	\$ 63,006
Cash acquired in acquisitions	(1,051)	(150)	(1,078)	(7,677)
	-----	-----	-----	-----
	\$ 72,404	\$ 60,833	\$ 126,374	\$ 55,329
	=====	=====	=====	=====
Common stock, restricted stock and				

stock options issued  
in connection with  
acquisitions

\$ 6,615 \$ - \$ 44,381 \$ -  
=====

Yahoo! Inc.  
Unaudited Condensed Consolidated Balance Sheets  
(in thousands)

	December 31, 2005	June 30, 2006
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,429,693	\$ 1,591,223
Marketable debt securities	1,131,141	1,097,332
Accounts receivable, net	721,723	792,451
Prepaid expenses and other current assets	166,976	173,699
	-----	-----
Total current assets	3,449,533	3,654,705
Long-term marketable debt securities	1,439,014	1,276,117
Property and equipment, net	697,522	884,005
Goodwill	2,895,557	2,975,278
Intangible assets, net	534,615	454,040
Other assets	57,192	136,175
Investments in equity interests	1,758,401	1,810,242
	-----	-----
Total assets	\$ 10,831,834	\$ 11,190,562
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 70,291	\$ 139,378
Accrued expenses and other current liabilities	827,589	935,008
Deferred revenue	306,172	348,505
	-----	-----
Total current liabilities	1,204,052	1,422,891
Long-term deferred revenue	67,792	64,189
Long-term debt	749,995	749,971
Other long-term liabilities	243,580	247,928
Minority interests in consolidated subsidiaries	-	7,921
Stockholders' equity	8,566,415	8,697,662
	-----	-----
Total liabilities and stockholders' equity	\$ 10,831,834	\$ 11,190,562
	=====	=====

CONTACT: Yahoo! Inc.  
Kelly Delaney, 408-349-2579 (Media Relations)  
kellyd@yahoo-inc.com  
Cathy La Rocca, 408-349-5188 (Investor Relations)  
cathy@yahoo-inc.com  
or  
OutCast Communications  
Kim Milosevich, 415-345-4734 (Media Relations)  
kim@outcastpr.com