

**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): **May 25, 2006**

Yahoo! Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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)

(408) 349-3300
(Registrant's Telephone Number, Including Area Code)

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 240.425)
- 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))

Item 1.01 Entry into a Material Definitive Agreement.

The Board of Directors of Yahoo! Inc. (the "Company") has previously adopted an amended and restated version of the Yahoo! Inc. 1996 Directors' Stock Option Plan, which has been renamed the 1996 Directors' Stock Plan (the "Restated Director Plan"). At the Company's annual meeting of stockholders held on May 25, 2006 (the "2006 Annual Meeting"), the Company's stockholders approved the Restated Director Plan. Among other things, the Restated Director Plan reflects the following amendments:

- **Reduction in Option Grants.** The number of shares of the Company's common stock subject to annual grants of stock options to continuing non-employee directors under the Restated Director Plan has been reduced from 50,000 shares to 15,000 shares, and the number of shares subject to stock options granted to newly elected or appointed non-employee directors has been reduced from 100,000 shares to 30,000 shares.
- **Vesting of Options.** Stock options granted under the Restated Director Plan will vest in equal quarterly installments over a one-year period following the date of grant.
- **Reduction of Option Term.** The term of options granted under the Restated Director Plan has been reduced from ten years to seven years.
- **Extension of Option Exercise Period.** The period in which a non-employee director may exercise the vested portion of his or her option granted under the Restated Director Plan following the director's termination of service has been increased from 90 days to one year.
- **Awards of Restricted Stock Units.** Continuing non-employee directors will be granted 5,000 restricted stock units each year. Newly appointed or elected non-employee directors will be granted 10,000 restricted stock units. The restricted stock units will vest in equal quarterly installments over a one-year period following the date of grant and will generally be paid in an equal number of shares of the

Company's common stock on the earlier of the third anniversary of the grant date or the date the director ceases being a member of the Board of Directors (the "Board").

- **Share-Counting Rules for Restricted Stock Units.** Any shares of the Company's common stock issued in payment of restricted stock units granted under the Restated Director Plan will be counted against the plan's share limit as 1.75 shares for every one share actually issued in payment of the restricted stock units. For example, if 100 shares were issued in payment of stock units granted under the plan, 175 shares would be charged against the plan's share limit.

These changes were effective with respect to the Company's grants to its non-employee directors made in connection with the 2006 Annual Meeting.

The following summary of the Restated Director Plan is qualified in its entirety by reference to the text of the Restated Director Plan, which was previously filed as Annex B to the Company's proxy statement dated April 14, 2006.

The Restated Director Plan is designed to work automatically and not to require administration; however, to the extent administration is necessary, it will be provided by the Board.

The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the Restated Director Plan is 8,800,000.

The awards that may be granted under the Restated Director Plan are limited to nonqualified stock options and restricted stock units. Awards may be granted under the Restated Director Plan only to members of the Board who are not officers or employees of the Company or of any parent or subsidiary of the Company ("non-employee directors"). As described above, awards of stock options and restricted stock units are automatically granted to each newly appointed or elected non-employee director who has not previously served on the Board and to each non-employee director who is in office immediately following the Company's regular annual meeting of stockholders in each year during the term of the Restated Director Plan and has been a member of the Board for at least six months

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as of the date of such annual meeting. Non-employee directors who have been in office for less than six months as of the annual meeting dates will receive awards on a pro-rated basis.

The exercise price of each option granted pursuant to the Restated Director Plan is 100 percent of the fair market value of a share of the Company's common stock on the date of grant of the option. Each option granted pursuant to the Restated Director Plan has a maximum term of seven years from the date of grant of the option. As described above, options and restricted stock units granted under the Restated Director Plan vest in equal quarterly installments over a one-year period following the date of grant. Restricted stock units will generally be paid in an equal number of shares of the Company's common stock on the earlier of the third anniversary of the grant date or the date the director ceases being a member of the Board, subject to any election by the director to defer the payment date.

A non-employee director may elect to have cash fees paid for his or her services as a director converted into an award of either stock options or restricted stock units granted under the Restated Director Plan. If the director elects a stock option, the option will cover a number of shares of the Company's common stock determined by multiplying his or her fee by three and dividing the product by the fair market value of a share of the Company's common stock on the grant date. If the director elects a restricted stock unit award, he or she will be credited with a number of restricted stock units equal to the amount of his or her fee divided by the fair market value of a share of the Company's common stock on the grant date. The exercise price of the stock option will be equal to the fair market value of a share of the Company's common stock on the grant date. Any stock option or restricted stock unit award granted on conversion of cash fees will be fully vested on the grant date.

As is customary in incentive plans of this nature, the share limit and the number and kind of shares available under the Restated Director Plan and any outstanding awards, as well as the exercise prices of awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the stockholders.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 10.1 Yahoo! Inc. Amended and Restated 1996 Directors' Stock Plan (incorporated by reference to Annex B to the Company's definitive proxy statement filed on April 14, 2006.)
- 10.2 Form of Notice of Stock Option Grant and Director Nonstatutory Stock Option Agreement.
- 10.3 Form of Notice of Restricted Stock Unit Grant and Director Restricted Stock Unit Award Agreement.

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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, thereunto duly authorized.

YAHOO! INC.

Date: June 1, 2006

By: /s/ Michael J. Callahan
Michael J. Callahan
Senior Vice President, General Counsel
and Secretary

YAHOO! INC.

1996 DIRECTORS' STOCK PLAN

NOTICE OF STOCK OPTION GRANT

C/o Yahoo! Inc.
701 First Avenue
Sunnyvale, CA 94089

You have been granted an option to purchase Common Stock of Yahoo! Inc. (the "Company") as follows:

Date of Grant:

Exercise Price per Share: \$

Total Number of Shares Granted:

Expiration Date:

Vesting Schedule: [This Option may be exercised, in whole or in part, in accordance with the following schedule: 25% of the Shares subject to the Option shall vest and become exercisable at the end of each three-month period following the Date of Grant, such that the Option will be fully vested on the first anniversary of the Date of Grant.]

[This Option shall be fully vested and exercisable as of the Date of Grant.]

Termination Period: This Option may be exercised for one year after termination of your Continuous Status as a Director for any reason, but in no event later than the Expiration Date as provided above.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1996 Directors' Stock Plan and the Director Nonstatutory Stock Option Agreement, both of which are attached and made a part of this document.

OPTIONEE:

YAHOO! INC.

Signature

By: _____

Print Name

Title: Chairman & CEO

YAHOO! INC.

DIRECTOR NONSTATUTORY STOCK OPTION AGREEMENT

1. **Grant of Option.** The Board of Directors of the Company hereby grants to the Optionee named in the Notice of Stock Option Grant attached as Part I of this Agreement (the "Optionee"), an option (the "Option") to purchase a number of Shares, as set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price"), subject to the terms and conditions of the 1996 Directors' Stock Plan, as amended (the "Plan"), which is incorporated herein by reference. (Capitalized terms not defined herein shall have the meanings ascribed to such terms in the Plan.) In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Director Nonstatutory Stock Option Agreement (this "Agreement"), the terms and conditions of the Plan shall prevail.

2. **Exercise of Option.**

(a) **Right to Exercise.** This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and the applicable provisions of the Plan and this Agreement. In the event of the Optionee's death, disability or other termination of the Optionee's Continuous Service as a Director, the exercisability of the Option is governed by the applicable provisions of the Plan and this Agreement.

(b) **Method of Exercise.** This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with all relevant provisions of law and the requirements of any stock exchange or quotation service upon which the Shares are then listed. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

3. **Method of Payment.** Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) delivery of a properly executed Exercise Notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price; provided that the Board may from time to time limit the availability of any non-cash payment alternative; or

(d) surrender of other Shares which (a) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (b) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

4. **Non-Transferability of Option.** This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution or pursuant to a domestic relations order (as defined by the Code or the rules thereunder) and may be exercised during the lifetime of the Optionee only by the Optionee or a transferee permitted by Section 12 of the Plan. The terms of the Plan and this Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. **Term of Option; Corporate Transaction.** This Option may be exercised only within the term set out in the Notice of Stock Option Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement. Notwithstanding any other provision herein, in the event of a Corporate Transaction, this Option shall become fully vested and may be subject to early termination as provided in Section 13(b) of the Plan.

6. **Tax Consequences.** Set forth below is a brief summary of certain federal and California tax consequences relating to this Option under the law in effect as of the date of grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT HIS OR HER OWN TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) **Exercising the Option.** Since this Option does not qualify as an incentive stock option under Section 422 of the Code, the Optionee may incur ordinary federal and California income tax liability upon exercise. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price.

(b) **Disposition of Shares.** If the Optionee holds the Exercised Shares for more than one year, gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Agreement. You acknowledge and agree that you have reviewed the Plan and this Agreement in their entirety, have had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understand all provisions of the Plan and this Agreement. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions relating to the Plan and this Agreement.

OPTIONEE:

YAHOO! INC.

Signature

By: _____

Print Name

Title: _____

CONSENT OF SPOUSE

The undersigned spouse of Optionee has read and hereby approves the terms and conditions of the Plan and this Agreement. In consideration of the Company's granting his or her spouse the right to purchase Shares as set forth in the Plan and this Agreement, the undersigned hereby agrees to be irrevocably bound by the terms and conditions of the Plan and this Agreement and further agrees that any community property interest shall be similarly bound. The undersigned hereby appoints the undersigned's spouse as attorney-in-fact for the undersigned with respect to any amendment or exercise of rights under the Plan or this Agreement.

EXHIBIT A

NOTICE OF EXERCISE

To: Yahoo! Inc.
Attn: Stock Option Administrator
Subject: Notice of Intention to Exercise Stock Option

This is official notice that the undersigned ("Optionee") intends to exercise Optionee's option to purchase _____ shares of Yahoo! Inc. Common Stock, under and pursuant to the Company's 1996 Directors' Stock Plan and the Director Nonstatutory Stock Option Agreement dated _____, as follows:

Grant Number:
Date of Purchase:
Number of Shares:
Purchase Price:
Method of Payment of
Purchase Price:
Social Security No.:

The shares should be issued as follows:

Name: _____
Address: _____

Signed: _____
Date: _____

YAHOO! INC.

1996 DIRECTORS' STOCK PLAN

NOTICE OF RESTRICTED STOCK UNIT GRANT

C/o Yahoo! Inc.
701 First Avenue
Sunnyvale, CA 94089

You have been granted an award of Restricted Stock Units by Yahoo! Inc. (the "Company") as follows:

Date of Grant:

Total Number of Restricted
Stock Units Granted:

Vesting Schedule:

[The Restricted Stock Units shall vest and become non-forfeitable in accordance with the following schedule: 25% of the Restricted Stock Units shall vest and become nonforfeitable at the end of each three-month period following the Date of Grant, such that the Restricted Stock Units will be fully vested on the first anniversary of the Date of Grant.]

[The Restricted Stock Units shall be fully vested as of the Date of Grant.]

By your signature and the signature of the Company's representative below, you and the Company agree that the Restricted Stock Units are granted under and governed by the terms and conditions of the 1996 Directors' Stock Plan and the Restricted Stock Unit Award Agreement, both of which are attached and made a part of this document.

GRANTEE:

YAHOO! INC.

Signature

By: _____

Print Name

Title: Chairman & CEO

YAHOO! INC.

DIRECTOR RESTRICTED STOCK UNIT AWARD AGREEMENT

1. **Grant of Restricted Stock Unit Award.** The Board of Directors of the Company hereby grants to the Grantee named in the Notice of Restricted Stock Unit Grant attached as Part I of this Agreement (the "Grantee"), an award (the "Award") of Restricted Stock Units, as set forth in the Notice of Restricted Stock Unit Grant, subject to the terms and conditions of the 1996 Directors' Stock Option Plan, as amended (the "Plan"), which is incorporated herein by reference. (Capitalized terms not defined herein shall have the meanings ascribed to such terms in the Plan.) In the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Restricted Stock Unit Award Agreement (this "Agreement"), the terms and conditions of the Plan shall prevail.

2. **Limitations on Rights Associated with Restricted Stock Units; Dividend Equivalent Rights.** The Restricted Stock Units are bookkeeping entries only. The Grantee shall have no rights as a stockholder of the Company, no dividend rights and no voting rights with respect to the Restricted Stock Units. Notwithstanding the foregoing, as of any date the Company pays an ordinary cash dividend on its Common Stock, the Grantee shall automatically be granted a number of additional Restricted Stock Units in respect of any then-outstanding and unpaid Restricted Stock Units granted hereunder as provided in Section 10(c) of the Plan. Any such additional Restricted Stock Units shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Restricted Stock Units to which they relate.

3. **Transfer Restrictions.** Restricted Stock Units and any interest therein, may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of descent and distribution. Any attempt to dispose of any Restricted Stock Units in contravention of the above restriction shall be null and void and without effect.

4. **Lapse of Restrictions.** The Restricted Stock Units shall vest and become nonforfeitable in accordance with the Vesting Schedule set out in the Notice of Restricted Stock Unit Grant and the applicable provisions of the Plan and this Agreement.

5. **Timing and Manner of Payment of Restricted Stock Units.** Subject to Sections 6 and 8 below, as soon as practicable after the earlier of (i) the date the Grantee's service as a member of the Board terminates for any reason, or (ii) the third anniversary of the Date of Grant set forth in the Notice of Restricted Stock Unit Grant (the "Payment Date"), any Restricted Stock Units subject to the Award that have vested and become non-forfeitable pursuant to Section 4 shall be paid by the Company delivering to the Grantee, a number of Shares equal to the number of such Restricted Stock Units being paid. The Company shall issue the Shares as provided in Section 10(d) of the Plan. Notwithstanding the foregoing, the Company shall have no obligation to issue

Shares in payment of the Restricted Stock Units unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

6. **Deferral of Payment of Restricted Stock Units.** Notwithstanding the first sentence of Section 5, the Grantee may irrevocably elect, on the form attached hereto as Exhibit A (or such other form as may be prescribed by the Board from time to time) (the "Deferral Election Form"), that the Restricted Stock Units shall be paid on or as soon as practicable after any date specified by the Grantee on the Deferral Election Form; provided, however, that such election must be made at least twelve (12) months before the original Payment Date and the date elected by the Grantee must be at least five (5) years after the original Payment Date. In the event of any such election, the new payment date timely elected by the Grantee shall be the new "Payment Date" with respect to the Restricted Stock Units covered by the election.

7. **Termination of Service.** In the event of the termination of the Grantee's Continuous Service as a Director for any reason prior to the lapsing of the restrictions in accordance with Section 4 hereof with respect to any of the Restricted Stock Units granted hereunder, such portion of the Restricted Stock Units held by Grantee shall be automatically forfeited by the Grantee as of the date of termination. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any rights or interests in any Restricted Stock Units that are so forfeited.

8. **Corporate Transaction.** Notwithstanding any other provision herein, in the event of a Corporate Transaction, any Restricted Stock Units that are then outstanding shall become fully vested and may be paid to the Grantee immediately prior to the effectiveness of the Corporate Transaction as provided in Section 13(b) of the Plan.

9. **Tax Consequences.** Set forth below is a brief summary of certain federal and California tax consequences relating to the Restricted Stock Units under the law in effect as of the date of grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE GRANTEE SHOULD CONSULT HIS OR HER OWN TAX ADVISER FOR MORE INFORMATION ON THE TAX CONSEQUENCES OF THE RESTRICTED STOCK UNITS.

(a) **Payment of the Restricted Stock Units.** Upon any payment of the Restricted Stock Units (including any additional Restricted Stock Units granted in respect of dividend equivalent rights), the Grantee may incur ordinary federal and California income tax liability at the time of payment. The Grantee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the Fair Market Value of the Shares received in payment of the Restricted Stock Units.

(b) **Disposition of Shares.** If the Grantee holds the Shares received in payment of the Restricted Stock Units for more than one year, gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes.

[Remainder of page intentionally left blank]

By your signature and the signature of the Company's representative below, you and the Company agree that this Award is granted under and governed by the terms and conditions of the Plan and this Agreement. You acknowledge and agree that you have reviewed the Plan and this Agreement in their entirety, have had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understand all provisions of the Plan and this Agreement. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions relating to the Plan and this Agreement.

GRANTEE:

YAHOO! INC.

Signature

By: _____

Print Name

Title: _____

EXHIBIT A

DEFERRAL ELECTION FORM

To: Yahoo! Inc.

Attn: Stock Option Administrator

Subject: Notice of Intention to Defer Payment of Restricted Stock Units

I, the undersigned, hereby make the following irrevocable election with respect to the Restricted Stock Units granted to me under the 1996 Directors' Stock Plan on _____, 200 .

- I elect **not** to defer the payment of my Restricted Stock Units. I understand that my Restricted Stock Units will be paid to me on or as soon as practicable after the earlier of (i) the date my services as a director terminate, or (ii) the third anniversary of the date my Restricted Stock Units were granted.

- I elect to defer the payment of my Restricted Stock Units until _____, 20____. *[The date you select must be at least eight years after the date the Restricted Stock Units were granted.]*

Authorization/Signature

My signature below certifies that I wish to make the irrevocable deferral elections indicated above, and that I authorize Yahoo! Inc. to defer payment of my Restricted Stock Units to implement these elections. I understand that, notwithstanding my election, my Restricted Stock Units may be paid to me early in the event of a Corporate Transaction. I understand that I must complete a new election form to defer payment of Restricted Stock Units granted in any subsequent year.

Signature: _____

Date: _____
