

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-28018

Yahoo! Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

701 First Avenue
Sunnyvale, California 94089
(Address of principal executive offices, including zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2014
Common Stock, \$0.001 par value	947,351,485

[Table of Contents](#)

YAHOO! INC.

Table of Contents

PART I	FINANCIAL INFORMATION	3
Item 1.	Condensed Consolidated Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets as of December 31, 2013 and September 30, 2014 (unaudited)	3
	Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2014 (unaudited)	4
	Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2014 (unaudited)	5
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2014 (unaudited)	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	52
Item 4.	Controls and Procedures	53
PART II	OTHER INFORMATION	54
Item 1.	Legal Proceedings	54
Item 1A.	Risk Factors	54
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	68
Item 3.	Defaults Upon Senior Securities	68
Item 4.	Mine Safety Disclosures	68
Item 5.	Other Information	68
Item 6.	Exhibits	68
	Signatures	69

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2013	September 30, 2014
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,077,590	\$10,345,285
Short-term marketable securities	1,330,304	848,558
Accounts receivable, net	979,559	831,393
Prepaid expenses and other current assets	638,404	554,271
Total current assets	5,025,857	12,579,507
Long-term marketable securities	1,589,500	1,056,992
Property and equipment, net	1,488,518	1,483,797
Goodwill	4,679,648	4,860,768
Intangible assets, net	417,808	395,662
Other long-term assets	177,281	265,812
Investment in Alibaba Group	—	34,079,787
Investments in equity interests	3,426,347	2,575,274
Total assets	<u>\$16,804,959</u>	<u>\$57,297,599</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 138,031	\$ 165,890
Income taxes payable related to sale of Alibaba Group ADSs	—	3,282,293
Accrued expenses and other current liabilities	907,782	514,301
Deferred revenue	294,499	415,477
Total current liabilities	1,340,312	4,377,961
Convertible notes	1,110,585	1,155,168
Long-term deferred revenue	258,904	19,196
Capital lease and other long-term liabilities	116,605	146,072
Deferred tax liabilities related to investment in Alibaba Group	—	13,796,527
Deferred and other long-term tax liabilities	847,956	1,048,290
Total liabilities	3,674,362	20,543,214
Commitments and contingencies (Note 12)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,019,812 shares issued and 1,014,338 shares outstanding as of December 31, 2013 and 1,039,837 shares issued and 979,219 shares outstanding as of September 30, 2014	1,015	1,036
Additional paid-in capital	8,688,304	8,645,084
Treasury stock at cost, 5,474 shares as of December 31, 2013 and 60,618 shares as of September 30, 2014	(200,228)	(2,247,762)
Retained earnings	4,267,429	11,622,814
Accumulated other comprehensive income	318,389	18,692,395
Total Yahoo! Inc. stockholders' equity	13,074,909	36,713,567
Noncontrolling interests	55,688	40,818
Total equity	<u>13,130,597</u>	<u>36,754,385</u>
Total liabilities and equity	<u>\$16,804,959</u>	<u>\$57,297,599</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

YAHOO! INC.
Condensed Consolidated Statements of Income

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
	(Unaudited, in thousands except per share amounts)			
Revenue	\$ 1,138,973	\$ 1,148,140	\$ 3,414,585	\$ 3,365,061
Operating expenses:				
Cost of revenue — traffic acquisition costs	58,464	54,180	188,848	143,915
Cost of revenue — other	271,763	266,820	821,032	818,812
Sales and marketing	282,562	309,618	819,319	932,281
Product development	267,444	305,624	733,222	890,915
General and administrative	151,304	147,234	419,764	411,746
Amortization of intangibles	15,253	15,322	30,702	48,826
Gains on sales of patents	—	(1,300)	(9,950)	(62,800)
Restructuring (reversals) charges, net	(576)	8,470	(4,060)	70,578
Total operating expenses	1,046,214	1,105,968	2,998,877	3,254,273
Income from operations	92,759	42,172	415,708	110,788
Other income, net	5,370	10,308,931	46,048	10,281,889
Income before income taxes and earnings in equity interests	98,129	10,351,103	461,756	10,392,677
Provision for income taxes	(31,891)	(3,973,402)	(111,894)	(3,985,762)
Earnings in equity interests	232,756	398,692	675,034	955,946
Net income	298,994	6,776,393	1,024,896	7,362,861
Net income attributable to noncontrolling interests	(2,338)	(2,291)	(6,805)	(7,474)
Net income attributable to Yahoo! Inc.	\$ 296,656	\$ 6,774,102	\$ 1,018,091	\$ 7,355,387
Net income attributable to Yahoo! Inc. common stockholders per share — basic	\$ 0.29	\$ 6.82	\$ 0.96	\$ 7.35
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	\$ 0.28	\$ 6.70	\$ 0.93	\$ 7.18
Shares used in per share calculation — basic	1,024,289	993,543	1,065,949	1,001,066
Shares used in per share calculation — diluted	1,041,698	1,007,693	1,081,495	1,017,935
Stock-based compensation expense by function:				
Cost of revenue — other	\$ 2,608	\$ 3,194	\$ 9,215	\$ 29,090
Sales and marketing	\$ 29,175	\$ 34,284	\$ 68,995	\$ 120,302
Product development	\$ 28,702	\$ 40,783	\$ 57,502	\$ 94,217
General and administrative	\$ 20,241	\$ 27,535	\$ 57,755	\$ 73,813

The accompanying notes are an integral part of these condensed consolidated financial statements.

YAHOO! INC.
Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
	(Unaudited, in thousands)			
Net income	\$ 298,994	\$ 6,776,393	\$ 1,024,896	\$ 7,362,861
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities, net of taxes of (\$2,390) and (\$12,778,134) for the three months ended September 30, 2013 and 2014, respectively, and \$598 and (\$12,782,270) for the nine months ended September 30, 2013 and 2014, respectively	(2,072)	18,580,283	2,046	18,596,799
Reclassification adjustment for realized (gains) losses on available-for-sale securities included in net income, net of taxes of \$187 and \$1,231 for the three months ended September 30, 2013 and 2014, respectively, and \$390 and \$1,304 for the nine months ended September 30, 2013 and 2014, respectively	(312)	(2,044)	(651)	(2,165)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(2,384)	18,578,239	1,395	18,594,634
Foreign currency translation adjustments ("CTA"):				
Foreign CTA gains (losses), net of tax of (\$8,024) and \$(839) for the three months ended September 30, 2013 and 2014, respectively, and (\$15,096) and \$1,431 for the nine months ended September 30, 2013 and 2014, respectively	(41,838)	(48,649)	(567,197)	(131,567)
Net investment hedge CTA gains (losses), net of tax of \$7,157 and (\$44,951) for the three months ended September 30, 2013 and 2014 respectively, and (\$154,804) and (\$29,389) for the nine months ended September 30, 2013 and 2014, respectively	(15,165)	74,490	254,572	48,579
Reclassification adjustment for realized (gains) losses included in CTA, net of tax of \$0 and \$30,325 for the three months ended September 30, 2013 and 2014, respectively, and \$0 and \$30,325 for the nine months ended September 30, 2013 and 2014, respectively	—	(50,301)	—	(50,301)
Net foreign CTA gains (losses), net of tax	(57,003)	(24,460)	(312,625)	(133,289)
Cash flow hedges:				
Unrealized gains (losses) on cash flow hedges, net of taxes of \$249 and (\$1,427) for the three months ended September 30, 2013 and 2014, respectively, and (\$114) and (\$996) for the nine months ended September 30, 2013 and 2014, respectively	856	2,799	867	909
Reclassification adjustment for realized (gains) losses on cash flow hedges included in net income, net of taxes of (\$65) and \$661 for the three months ended September 30, 2013 and 2014, respectively, and \$69 and \$1,165 for the nine months ended September 30, 2013 and 2014, respectively	(106)	(854)	(83)	(1,594)
Net change in unrealized gains (losses) on cash flow hedges, net of tax	750	1,945	784	(685)
Other comprehensive income (loss)	(58,637)	18,555,724	(310,446)	18,460,660
Comprehensive income	240,357	25,332,117	714,450	25,823,521
Less: comprehensive income attributable to noncontrolling interests	(2,338)	(2,291)	(6,805)	(7,474)
Comprehensive income attributable to Yahoo! Inc.	<u>\$ 238,019</u>	<u>\$25,329,826</u>	<u>\$ 707,645</u>	<u>\$25,816,047</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30, 2013	September 30, 2014
(Unaudited, in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,024,896	\$ 7,362,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	412,646	356,577
Amortization of intangible assets	68,365	96,961
Accretion of convertible notes discount	—	44,583
Stock-based compensation expense	193,467	317,422
Non-cash restructuring charges (reversals)	547	(7,031)
Losses from sales of investments, assets, and other, net	19,994	27,850
Gain on sale of Alibaba Group ADSs	—	(10,319,437)
Gains on sales of patents	(9,950)	(62,800)
Earnings in equity interests	(675,034)	(955,946)
Dividend income related to Alibaba Group Preference Shares	(35,726)	—
Tax benefits from stock-based awards	33,894	111,062
Excess tax benefits from stock-based awards	(47,193)	(114,392)
Deferred income taxes	(74,981)	397,415
Dividends received from equity investees	135,058	83,685
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	161,459	142,648
Prepaid expenses and other	(17,738)	21,058
Accounts payable	(54,343)	(310)
Accrued expenses and other liabilities	(183,706)	120,018
Income taxes payable related to sale of Alibaba Group ADSs	—	3,282,293
Deferred revenue	(114,085)	(118,850)
Net cash provided by operating activities	<u>837,570</u>	<u>785,667</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(229,310)	(304,267)
Purchases of marketable securities	(2,247,302)	(1,562,588)
Proceeds from sales of marketable securities	2,642,548	1,681,735
Proceeds from maturities of marketable securities	557,565	868,956
Proceeds from sale of Alibaba Group ADSs, net of underwriting discounts, commissions, and fees	—	9,404,974
Proceeds related to the redemption of Alibaba Group Preference Shares	800,000	—
Acquisitions, net of cash acquired	(1,187,229)	(313,837)
Purchases of intangible assets	(2,290)	(2,480)
Proceeds from settlement of derivative hedge contracts	6,059	186,079
Payments for settlement of derivative hedge contracts	(11,657)	(5,218)
Payments for equity investments in privately held companies	(4,226)	(60,399)
Proceeds from sales of patents	9,950	62,800
Other investing activities, net	(1,221)	1,239
Net cash provided by investing activities	<u>332,887</u>	<u>9,956,994</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

YAHOO! INC.
Condensed Consolidated Statements of Cash Flows (continued)

	<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>
	<u>(Unaudited, in thousands)</u>	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	203,417	247,568
Repurchases of common stock	(3,113,118)	(2,550,232)
Excess tax benefits from stock-based awards	47,193	114,392
Tax withholdings related to net share settlements of restricted stock units	(106,177)	(226,425)
Distributions to noncontrolling interests	—	(22,344)
Proceeds from credit facility borrowings	150,000	—
Repayment of credit facility borrowings	(150,000)	—
Other financing activities, net	(5,863)	(9,240)
Net cash used in financing activities	<u>(2,974,548)</u>	<u>(2,446,281)</u>
Effect of exchange rate changes on cash and cash equivalents	(21,259)	(28,685)
Net change in cash and cash equivalents	(1,825,350)	8,267,695
Cash and cash equivalents at beginning of period	<u>2,667,778</u>	<u>2,077,590</u>
Cash and cash equivalents at end of period	<u>\$ 842,428</u>	<u>\$10,345,285</u>

See Note 8 — “Investments in Equity Interests” regarding the fair value of the Alibaba Group Holdings Limited (“Alibaba Group”) shares and Note 15 — “Income Taxes” for information about the non-cash deferred tax liabilities recorded related to the investment in Alibaba Group.

The accompanying notes are an integral part of these condensed consolidated financial statements.

YAHOO! INC.

**Notes to Condensed Consolidated Financial Statements
(unaudited)**

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo” or the “Company”), is focused on making the world’s daily habits inspiring and entertaining. By creating highly personalized experiences for its users, the Company keeps people connected to what matters most to them, across devices and around the world. The Company creates value for advertisers by connecting them with the audiences that build their businesses. For advertisers, the opportunity to be a part of users’ daily habits across products and platforms is a powerful tool to engage audiences and build brand loyalty. Advertisers can build their businesses by advertising to targeted audiences on the Company’s online properties and services (“Yahoo Properties”) or through a distribution network of third-party entities (“Affiliates”) who integrate the Company’s advertising offerings into their Websites or other offerings (“Affiliate sites” and, together with Yahoo Properties, the “Yahoo Network”). The Company manages and measures its business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa) and Asia Pacific.

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal recurring items, which, in the opinion of management, are necessary for a fair statement of the results of operations for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full year or for any future periods.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States (“U.S.”) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, the useful lives of long-lived assets including property and equipment and intangible assets, investment fair values, stock-based compensation, goodwill, income taxes, contingencies, and restructuring charges. When these carrying values are not readily available from other sources, the Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, as amended. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2013 was derived from the Company’s audited financial statements for the year ended December 31, 2013, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2014-08, “Reporting of Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which provides a narrower definition of discontinued operations than under existing U.S. GAAP. ASU 2014-08 requires that only a disposal of a component of an entity, or a group of components of an entity, that represents a strategic shift that has, or will have, a major effect on the reporting entity’s operations and financial results should be reported in the financial statements as discontinued operations. ASU 2014-08 also provides guidance on the financial statement presentations and disclosures of discontinued operations. The amendments in ASU 2014-08 are effective for all disposals of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015, with early application permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with early application not permitted. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s financial position, results of operations and cash flows.

[Table of Contents](#)

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

Note 2 MARKETABLE SECURITIES AND INVESTMENTS

The following tables summarize the available-for-sale marketable securities (in thousands):

	December 31, 2013			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	\$ 538,397	\$ 65	\$ (101)	\$ 538,361
Corporate debt securities, commercial paper, and bank certificates of deposit	2,380,134	2,525	(1,216)	2,381,443
Corporate equity securities	230	153	—	383
Total available-for-sale marketable securities	<u>\$2,918,761</u>	<u>\$ 2,743</u>	<u>\$ (1,317)</u>	<u>\$2,920,187</u>

	September 30, 2014			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	\$ 371,927	\$ 302	\$ (153)	\$ 372,076
Corporate debt securities, commercial paper, and bank certificates of deposit	1,533,388	960	(874)	1,533,474
Corporate equity securities	230	159	—	389
Alibaba Group equity securities	2,713,484	31,366,303	—	34,079,787
Total available-for-sale marketable securities	<u>\$4,619,029</u>	<u>\$31,367,724</u>	<u>\$ (1,027)</u>	<u>\$35,985,726</u>

	December 31, 2013	September 30, 2014
Reported as:		
Short-term marketable securities	\$1,330,304	\$ 848,558
Long-term marketable securities	1,589,500	1,056,992
Investment in Alibaba Group	—	34,079,787
Other long-term assets	383	389
Total	<u>\$2,920,187</u>	<u>\$35,985,726</u>

Short-term, highly liquid investments of \$1.5 billion and \$9.7 billion as of December 31, 2013 and September 30, 2014, respectively, included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial as the carrying value approximates fair value because of the short maturity of those instruments. Realized gains and losses from sales of available-for-sale marketable securities were not material for the three and nine months ended September 30, 2013, and 2014, excluding the pre-tax gain of \$10.3 billion from the sale of Alibaba Group ADSs.

The contractual maturities of available-for-sale marketable debt securities were as follows (in thousands):

	December 31, 2013	September 30, 2014
Due within one year	\$1,330,304	\$ 848,558
Due after one year through five years	1,589,500	1,056,992
Total available-for-sale marketable debt securities	<u>\$2,919,804</u>	<u>\$ 1,905,550</u>

Table of Contents

The following tables show all available-for-sale marketable securities in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	\$263,514	\$ (101)	\$ —	\$ —	\$263,514	\$ (101)
Corporate debt securities, commercial paper, and bank certificates of deposit	696,950	(1,214)	3,833	(2)	700,783	(1,216)
Total available-for-sale marketable securities	<u>\$960,464</u>	<u>\$ (1,315)</u>	<u>\$3,833</u>	<u>\$ (2)</u>	<u>\$964,297</u>	<u>\$ (1,317)</u>

	September 30, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	\$126,855	\$ (153)	\$ —	\$ —	\$126,855	\$ (153)
Corporate debt securities, commercial paper, and bank certificates of deposit	599,352	(874)	—	—	599,352	(874)
Total available-for-sale marketable securities	<u>\$726,207</u>	<u>\$ (1,027)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$726,207</u>	<u>\$ (1,027)</u>

The Company's investment portfolio consists of Alibaba Group equity securities, liquid high-quality fixed income government, agency and corporate debt securities, money market funds, and time deposits with financial institutions. The change in the classification of the Company's investment in Alibaba Group from an equity method investment to an available-for-sale marketable security exposes our investment portfolio to increased equity price risk. The fair value of the equity investment in Alibaba Group will vary over time and is subject to a variety of market risks including: macro-economic, regulatory, industry, company performance, and systemic risks of the equity markets overall. Consequently, the carrying value of our investment portfolio will vary over time as the value of our investment in Alibaba Group changes. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Fixed income securities may have their fair value adversely impacted due to a deterioration of the credit quality of the issuer. The longer the term of the securities, the more susceptible they are to changes in market rates. Investments are reviewed periodically to identify possible other-than-temporary impairment. The Company has no current requirement or intent to sell the securities in an unrealized loss position. The Company expects to recover up to (or beyond) the initial cost of investment for securities held.

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of December 31, 2013 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 936,438	\$ —	\$ 936,438
Available-for-sale marketable securities:			
Government and agency securities ⁽¹⁾	—	876,197	876,197
Commercial paper and bank certificates of deposit ⁽¹⁾	—	472,080	472,080
Corporate debt securities ⁽¹⁾	—	2,059,159	2,059,159
Time deposits ⁽¹⁾	—	84,443	84,443
Corporate equity securities ⁽²⁾	383	—	383
Foreign currency derivative contracts ⁽³⁾	—	214,041	214,041
Financial assets at fair value	<u>\$ 936,821</u>	<u>\$ 3,705,920</u>	<u>\$ 4,642,741</u>
Liabilities			
Foreign currency derivative contracts ⁽³⁾	—	(1,401)	(1,401)
Total financial assets and liabilities at fair value	<u>\$ 936,821</u>	<u>\$ 3,704,519</u>	<u>\$ 4,641,340</u>

[Table of Contents](#)

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of September 30, 2014 (in thousands):

<u>Assets</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds ⁽¹⁾	\$ 9,633,272	\$ —	\$ 9,633,272
Available-for-sale marketable securities:			
Government and agency securities ⁽¹⁾	—	391,986	391,986
Commercial paper and bank certificates of deposit ⁽¹⁾	—	167,953	167,953
Corporate debt securities ⁽¹⁾	—	1,365,521	1,365,521
Time deposits ⁽¹⁾	—	81,538	81,538
Corporate equity securities ⁽²⁾	389	—	389
Alibaba Group equity securities	34,079,787	—	34,079,787
Foreign currency derivative contracts ⁽³⁾	—	132,426	132,426
Financial assets at fair value	\$43,713,448	\$2,139,424	\$ 45,852,872
<u>Liabilities</u>			
Foreign currency derivative contracts ⁽³⁾	—	(10,099)	(10,099)
Total financial assets and liabilities at fair value	\$43,713,448	\$2,129,325	\$ 45,842,773

⁽¹⁾ The money market funds, government and agency securities, commercial paper and bank certificates of deposit, corporate debt securities, and time deposits are classified as part of either cash and cash equivalents or short or long-term marketable securities in the condensed consolidated balance sheets.

⁽²⁾ The corporate equity securities are classified as part of other long-term assets in the condensed consolidated balance sheets.

⁽³⁾ Foreign currency derivative contracts are classified as part of either current or noncurrent assets or liabilities in the condensed consolidated balance sheets. The notional amounts of the foreign currency derivative contracts were \$1.8 billion, including contracts designated as net investment hedges of \$1.3 billion, as of December 31, 2013, and \$3.2 billion, including contracts designated as net investment hedges of \$2.8 billion, as of September 30, 2014.

The amount of cash and cash equivalents as of December 31, 2013 and September 30, 2014 included \$569 million and \$611 million, respectively, in cash deposits.

The fair values of the Company's Level 1 financial assets and liabilities are based on quoted market prices of the identical underlying security. The fair values of the Company's Level 2 financial assets and liabilities are obtained using quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices (e.g., interest rates and yield curves). The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of the investment portfolio.

Activity between Levels of the Fair Value Hierarchy

During the year ended December 31, 2013 and the nine months ended September 30, 2014, the Company did not make any transfers between Level 1 and Level 2 assets or liabilities.

Convertible Senior Notes

In 2013, the Company issued \$1.4375 billion aggregate principal amount of 0.00% Convertible Senior Notes due 2018 (the "Notes"). The Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The approximate estimated fair value of the Notes as of December 31, 2013 and September 30, 2014 was \$1.1 billion and \$1.2 billion, respectively. The estimated fair value of the Notes was determined on the basis of quoted market prices observable in the market and is considered Level 2 in the fair value hierarchy. See Note 11 — "Convertible Notes" for additional information related to the Notes.

Investments in Privately-Held Companies

The Company holds approximately \$95 million in investments in privately-held companies that are included within other long-term assets on the condensed consolidated balance sheets. Such investments are held at cost and fair value measurements are not applied. These investments are reviewed periodically for impairment.

[Table of Contents](#)

Note 3 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows (in thousands):

	December 31, 2013	September 30, 2014
Unrealized gains on available-for-sale securities, net of tax	\$ 15,101	\$ 18,609,735
Unrealized gains on cash flow hedges, net of tax	1,412	727
Foreign currency translation, net of tax	301,876	81,933
Accumulated other comprehensive income	<u>\$ 318,389</u>	<u>\$ 18,692,395</u>

Noncontrolling Interests

Noncontrolling interests were as follows (in thousands):

	December 31, 2013	September 30, 2014
Beginning balance of noncontrolling interests	\$ 45,403	\$ 55,688
Distributions to noncontrolling interests	—	(22,344)
Net income attributable to noncontrolling interests	10,285	7,474
Ending balance of noncontrolling interests	<u>\$ 55,688</u>	<u>\$ 40,818</u>

Other Income, Net

Other income, net was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Interest, dividend, and investment income	\$ 5,362	\$ 5,148	\$ 53,214	\$ 16,180
Interest expense	(2,593)	(17,292)	(7,084)	(51,461)
Gain on sale of Alibaba Group ADSs	—	10,319,437	—	10,319,437
Other income (expense), net	2,601	1,638	(82)	(2,267)
Total other income, net	<u>\$ 5,370</u>	<u>\$ 10,308,931</u>	<u>\$ 46,048</u>	<u>\$ 10,281,889</u>

Interest, dividend and investment income consists of income earned from cash in bank accounts, investments made in marketable debt securities and money market funds, and dividend income on the Alibaba Group Preference Shares.

Interest expense is related to the Notes and capital lease obligations for buildings and data centers.

The Company recorded a pre-tax gain of approximately \$10.3 billion in the three and nine months ended September 30, 2014 related to the sale of Alibaba Group ADSs. See Note 8 — “Investments in Equity Interests” for additional information.

Other income (expense), net consists of gains and losses from sales or impairments of marketable securities and/or investments in privately-held companies, foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies, and unrealized and realized foreign currency transaction gains and losses, including gains and losses related to balance sheet hedges.

[Table of Contents](#)

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications out of accumulated other comprehensive income for the three months ended September 30, 2013 and September 30, 2014 were as follows (in thousands):

	<u>Three Months Ended September 30, 2013</u>	<u>Three Months Ended September 30, 2014</u>	<u>Affected Line Item in the Statement of Income</u>
	Amount Reclassified from Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income	
Realized gains on cash flow hedges, net of tax	\$ (106)	\$ (854)	Revenue
Realized gains on available-for-sale securities, net of tax	(312)	(2,044)	Other income, net
Foreign currency translation adjustments ("CTA"):			
Alibaba Group equity method change related CTA reclassification, net of \$30 million in tax	—	(50,301)	Other income, net
Total reclassifications for the period	<u>\$ (418)</u>	<u>\$ (53,199)</u>	

Reclassifications out of accumulated other comprehensive income for the nine months ended September 30, 2013 and September 30, 2014 were as follows (in thousands):

	<u>Nine Months Ended September 30, 2013</u>	<u>Nine Months Ended September 30, 2014</u>	<u>Affected Line Item in the Statement of Income</u>
	Amount Reclassified from Accumulated Other Comprehensive Income	Amount Reclassified from Accumulated Other Comprehensive Income	
Realized gains on cash flow hedges, net of tax	\$ (83)	\$ (1,594)	Revenue
Realized gains on available-for-sale securities, net of tax	(651)	(2,165)	Other income, net
Foreign currency translation adjustments ("CTA"):			
Alibaba Group equity method change related CTA reclassification, net of \$30 million in tax	—	(50,301)	Other income, net
Total reclassifications for the period	<u>\$ (734)</u>	<u>\$ (54,060)</u>	

Note 4 ACQUISITIONS AND DISPOSITIONS

Transactions completed in 2013

Tumblr. On June 19, 2013, the Company completed the acquisition of Tumblr, Inc. ("Tumblr"), a blog-hosting Website that allows users to post their own content as well as follow or re-blog posts made by other users. The acquisition of Tumblr brought a community of new users to the Yahoo Network.

The purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired and, as a result, the Company recorded goodwill in connection with this transaction. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding vested options) in Tumblr. Tumblr stockholders and vested optionholders were paid in cash, outstanding Tumblr unvested options and restricted stock units were assumed and converted into equivalent awards for Yahoo common stock, and a portion of the Tumblr shares held by its founder were exchanged for Yahoo common stock.

[Table of Contents](#)

The total purchase price of approximately \$990 million consisted mainly of cash consideration. The allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

Cash and marketable securities acquired	\$ 16,587
Other tangible assets acquired	76,566
Amortizable intangible assets:	
Developed technology	23,700
Customer contracts and related relationships	182,400
Trade name	56,500
Goodwill	748,979
Total assets acquired	1,104,732
Liabilities assumed	(114,521)
Total	<u>\$ 990,211</u>

In connection with the acquisition, the Company is recognizing stock-based compensation expense of \$70 million over a period of up to four years. This amount is comprised of assumed unvested stock options and restricted stock units (which had an aggregate fair value of \$29 million at the acquisition date), and Yahoo common stock issued to Tumblr's founder (which had a fair value of \$41 million at the acquisition date). The Yahoo common stock issued to Tumblr's founder is subject to holdback and will be released over four years provided he remains an employee of the Company. In addition, the transaction resulted in cash consideration of \$40 million to be paid to Tumblr's founder over four years, also provided that he remains an employee of the Company. Such cash payments are being recognized as compensation expense over the four-year service period.

The amortizable intangible assets have useful lives not exceeding six years and a weighted average useful life of six years. No amounts have been allocated to in-process research and development and \$749 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. This acquisition brings a community of new users to the Yahoo Network by deploying Yahoo's personalization technology and search infrastructure to deliver relevant content to the Tumblr user base.

Other Acquisitions — Business Combinations. During the nine months ended September 30, 2013, the Company acquired 17 other companies, which were accounted for as business combinations. The total aggregate purchase price for these other acquisitions was \$218 million. The total cash consideration of \$218 million less cash acquired of \$2 million resulted in a net cash outlay of \$216 million. The allocation of the purchase price of the assets and liabilities assumed based on their estimated fair values was \$77 million to amortizable intangible assets, \$2 million to cash acquired, \$42 million to other tangible assets, \$28 million to assumed liabilities, and the remainder of \$125 million to goodwill.

The Company's business combinations completed during the nine months ended September 30, 2013 did not have a material impact on the Company's condensed consolidated revenue or net income, and therefore pro forma disclosures have not been presented.

Transactions completed in 2014

Flurry. On August 25, 2014, the Company completed the acquisition of Flurry, Inc. ("Flurry"), a mobile data analytics company that optimizes mobile experiences for developers, marketers, and consumers. The combined scale of Yahoo and Flurry is expected to create more personalized and inspiring app experiences for users and enable more effective mobile advertising solutions for brands seeking to reach their audiences and gain cross-device insights.

The purchase price of \$270 million exceeded the estimated fair value of the net tangible and identifiable intangible assets and liabilities acquired and, as a result, the Company recorded goodwill of \$194 million in connection with this transaction. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding vested options) in Flurry and Flurry stockholders and vested option holders were paid in cash. Outstanding Flurry unvested options were assumed and converted into equivalent awards for Yahoo common stock valued at \$4 million which is being recognized as stock-based compensation expense as the options vest over periods of up to four years.

[Table of Contents](#)

The total purchase price of approximately \$270 million consisted of cash consideration. The preliminary allocation of the purchase price of the assets acquired and liabilities assumed based on their estimated fair values was as follows (in thousands):

Cash acquired	\$ 12,100
Other tangible assets acquired	52,260
Amortizable intangible assets:	
Developed technology	7,100
Customer contracts and related relationships	47,600
Other	750
Goodwill	193,789
Total assets acquired	313,599
Liabilities assumed	(43,929)
Total	<u>\$269,670</u>

In connection with the acquisition, the Company issued restricted stock units valued at \$23 million, which is being recognized as stock-based compensation expense as the restricted stock units vest over four years.

The amortizable intangible assets have useful lives not exceeding five years and a weighted average useful life of five years. No amounts have been allocated to in-process research and development and \$194 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the estimated fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. Of the goodwill amount, \$146 million was recorded in the Americas segment, \$12 million in the EMEA segment and \$36 million in the Asia Pacific segment.

Other Acquisitions — Business Combinations. During the nine months ended September 30, 2014, the Company acquired 8 companies, all of which were accounted for as business combinations. The total purchase price for these acquisitions was \$60 million less cash acquired of \$4 million, which resulted in a net cash outlay of \$56 million. The preliminary purchase price allocation of the assets acquired and liabilities assumed based on their estimated fair values was \$37 million allocated to goodwill, \$17 million to amortizable intangible assets, \$4 million to cash acquired, \$9 million to other tangible assets, and \$7 million to assumed liabilities.

The Company's business combinations completed during the nine months ended September 30, 2014 did not have a material impact on the Company's condensed consolidated revenue or net income, and therefore pro forma disclosures have not been presented.

Patent Sale and License Agreement

During the second quarter of 2014, the Company entered into a patent sale and license agreement for total cash consideration of \$460 million. The total consideration was allocated based on the estimated relative fair value of each of the elements of the agreement: \$61 million was allocated to the sale of patents ("Sold Patents"), \$135 million to the license to existing patents ("Existing Patents") and \$264 million to the license of patents developed or acquired in the next five years ("Capture Period Patents"). The Company recorded \$60 million as a gain on the Sold Patents during the second quarter of 2014 and recognized the remaining \$1 million gain on the Sold Patents during the third quarter of 2014. The Company recognized \$22 million in revenue related to the Existing Patents and the Capture Period Patents during the three and nine months ended September 30, 2014. The amounts allocated to the license of the Existing Patents is recorded as revenue over the four year payment period under the license when payments are due. The amounts allocated to the Capture Period Patents is recorded as revenue over the five year capture period.

Note 5 GOODWILL

The Company's goodwill balance was \$4.7 billion as of December 31, 2013, of which \$3.8 billion was recorded in the Americas segment, \$0.6 billion was recorded in the EMEA segment, and \$0.3 billion was recorded in the Asia Pacific segment. As of September 30, 2014, the Company's goodwill balance was \$4.9 billion, of which \$4.0 billion was recorded in the Americas segment, \$0.5 billion was recorded in the EMEA segment, and \$0.4 billion was recorded in the Asia Pacific segment. The increase in the carrying amount of goodwill of \$181 million during the nine months ended September 30, 2014 was primarily due to foreign currency translation losses of \$34 million, additions to goodwill of \$231 million related to acquisitions, and \$16 million related to adjustments made to prior year acquisitions.

[Table of Contents](#)**Note 6 INTANGIBLE ASSETS, NET**

The following table summarizes the Company's intangible assets, net (in thousands):

	December 31, 2013	September 30, 2014		
	Net	Gross Carrying Amount	Accumulated Amortization ^(*)	Net
Customer, affiliate, and advertiser related relationships	\$ 205,818	\$ 301,164	\$ (87,664)	\$ 213,500
Developed technology and patents	140,499	244,910	(125,901)	119,009
Trade names, trademarks, and domain names	71,491	106,728	(43,575)	63,153
Total intangible assets, net	<u>\$ 417,808</u>	<u>\$ 652,802</u>	<u>\$ (257,140)</u>	<u>\$ 395,662</u>

^(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities increased total intangible assets by approximately \$19 million as of September 30, 2014.

For the three months ended September 30, 2013 and 2014, the Company recognized amortization expense for intangible assets of \$31 million and \$32 million, respectively, including \$16 million and \$17 million in cost of revenue — other for the three months ended September 30, 2013 and 2014, respectively. For the nine months ended September 30, 2013 and 2014, the Company recognized amortization expense for intangible assets of \$68 million and \$97 million, respectively, including \$38 million and \$48 million in cost of revenue — other for the nine months ended September 30, 2013 and 2014, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2014 and each of the succeeding years is as follows: three months ending December 31, 2014: \$30 million; 2015: \$104 million; 2016: \$78 million; 2017: \$70 million; and thereafter \$97 million.

Note 7 BASIC AND DILUTED NET INCOME ATTRIBUTABLE TO YAHOO! INC. COMMON STOCKHOLDERS PER SHARE

Basic and diluted net income attributable to Yahoo! Inc. common stockholders per share is computed using the weighted average number of common shares outstanding during the period, excluding net income attributable to participating securities (restricted stock units granted under the 1996 Directors' Stock Plan (the "Directors' Plan")). Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares are calculated using the treasury stock method and consist of unvested restricted stock and shares underlying unvested restricted stock units, the incremental common shares issuable upon the exercise of stock options, and shares to be purchased under the 1996 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"). The Company calculates potential tax windfalls and shortfalls by including the impact of pro forma deferred tax assets.

The Company takes into account the effect on consolidated net income per share of dilutive securities of entities in which the Company holds equity interests that are accounted for using the equity method.

Potentially dilutive securities representing approximately 4 million and 12 million shares of common stock for the three and nine months ended September 30, 2013, respectively, and 1 million and 3 million shares of common stock for the three and nine months ended September 30, 2014, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

[Table of Contents](#)

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Basic:				
Numerator:				
Net income attributable to Yahoo! Inc.	\$ 296,656	\$ 6,774,102	\$ 1,018,091	\$ 7,355,387
Less: Net income allocated to participating securities	(6)	(61)	(24)	(66)
Net income attributable to Yahoo! Inc. common stockholders — basic	<u>\$ 296,650</u>	<u>\$ 6,774,041</u>	<u>\$ 1,018,067</u>	<u>\$ 7,355,321</u>
Denominator:				
Weighted average common shares	1,024,289	993,543	1,065,949	1,001,066
Net income attributable to Yahoo! Inc. common stockholders per share — basic	<u>\$ 0.29</u>	<u>\$ 6.82</u>	<u>\$ 0.96</u>	<u>\$ 7.35</u>
Diluted:				
Numerator:				
Net income attributable to Yahoo! Inc.	\$ 296,656	\$ 6,774,102	\$ 1,018,091	\$ 7,355,387
Less: Net income allocated to participating securities	(6)	(60)	(24)	(65)
Less: Effect of dilutive securities issued by equity investees	(5,040)	(20,705)	(10,778)	(42,491)
Net income attributable to Yahoo! Inc. common stockholders — diluted	<u>\$ 291,610</u>	<u>\$ 6,753,337</u>	<u>\$ 1,007,289</u>	<u>\$ 7,312,831</u>
Denominator:				
Denominator for basic calculation	1,024,289	993,543	1,065,949	1,001,066
Weighted average effect of Yahoo! Inc. dilutive securities:				
Restricted stock units	12,689	10,638	12,085	12,388
Stock options and employee stock purchase plan	4,720	3,512	3,461	4,481
Denominator for diluted calculation	<u>1,041,698</u>	<u>1,007,693</u>	<u>1,081,495</u>	<u>1,017,935</u>
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	<u>\$ 0.28</u>	<u>\$ 6.70</u>	<u>\$ 0.93</u>	<u>\$ 7.18</u>

Note 8 INVESTMENTS IN EQUITY INTERESTS

The following table summarizes the Company's investments in equity interests as of December 31, 2013 (dollars in thousands):

	December 31, 2013	Percent Ownership
Alibaba Group	1,018,126	24%
Yahoo Japan	2,399,590	35%
Other	8,631	19%
Total	<u>\$3,426,347</u>	

The following table summarizes the Company's investments in equity interests as of September 30, 2014 (dollars in thousands):

	September 30, 2014	Percent Ownership
Yahoo Japan	2,568,134	36%
Other	7,140	21%
Total	<u>\$2,575,274</u>	

Alibaba Group.

Alibaba Group IPO. On September 24, 2014, Alibaba Group closed its initial public offering (“IPO”) of American Depositary Shares (“ADSs”). Each Alibaba Group ADS represents one ordinary share of Alibaba Group. Yahoo! Hong Kong Holdings Limited (“YHK”), a wholly owned subsidiary of the Company, sold 140,000,000 Alibaba Group ADSs in the IPO at an initial public offering price of \$68.00 per ADS. The Company received \$9.4 billion (net of underwriting discounts, commissions, and fees of approximately \$115 million) in cash for the 140 million Alibaba Group ADSs sold. The Company recorded a pre-tax gain of \$10.3 billion (including a \$1.3 billion gain reflecting the Company’s proportionate share of the IPO proceeds from the IPO) for the three months ended September 30, 2014, which is included in other income, net on the condensed consolidated statements of income. The after-tax gain was approximately \$6.3 billion. Following completion of the sale in the IPO, the Company retained 383,565,416 Alibaba Group ordinary shares, representing approximately 15 percent of Alibaba Group’s outstanding ordinary shares.

As a result of the IPO, the Company no longer accounts for its remaining investment in Alibaba Group using the equity method and will no longer record its proportionate share of Alibaba Group’s financial results in the condensed consolidated financial statements. The Company reflects its remaining investment in Alibaba Group as an available-for-sale equity security on the condensed consolidated balance sheet and adjusts the investment to fair value each quarterly reporting period with changes in fair value recorded within other comprehensive income (loss), net of tax. Also, in connection with the IPO, each of Yahoo and YHK entered into a lock-up agreement with the underwriters restricting the sale of its remaining ordinary shares of Alibaba Group (“Alibaba Group shares”) for a period of one year, subject to certain exceptions.

In connection with the IPO, Yahoo entered into a voting agreement with Alibaba Group, Jack Ma, Joe Tsai, SoftBank Corp. and certain other shareholders of Alibaba Group, pursuant to which Yahoo agreed to certain voting arrangements with respect to all of its Alibaba Group shares, including an agreement to vote for the director nominee of SoftBank Corp. and the director nominees of the Alibaba Partnership (a partnership comprised of members of management of Alibaba Group, one of its affiliates and/or certain companies with which Alibaba Group has a significant relationship). Yahoo also granted a proxy to Jack Ma and Joe Tsai, Alibaba Group’s executive chairman and executive vice chairman, respectively, to vote, subject to certain exceptions, 121.5 million of the Company’s Alibaba Group shares or, if less, the remaining Alibaba Group shares then owned by the Company.

See Note 2 — “Marketable Securities and Investments” for additional information.

Initial Repurchase by Alibaba Group. On September 18, 2012 (the “Repurchase Closing Date”), Alibaba Group repurchased 523 million of the 1,047 million Alibaba Group shares owned by the Company. The repurchase was made pursuant to the terms of the Share Repurchase and Preference Share Sale Agreement entered into by Yahoo! Inc., Alibaba Group and YHK, on May 20, 2012 (as amended on September 11, 2012, October 14, 2013 and July 14, 2014). Yahoo received \$13.54 per Alibaba Group share, or approximately \$7.1 billion in total consideration, for the 523 million Alibaba Group shares sold to Alibaba Group. Approximately \$6.3 billion of the consideration was received in cash and \$800 million was received in Alibaba Group Preference Shares, which Alibaba Group redeemed on May 16, 2013. During the six months ended June 30, 2013, the Company received cash dividends from Alibaba Group of \$58 million related to the Alibaba Group Preference Shares. The Company recorded a pre-tax gain of approximately \$4.6 billion for the year ended December 31, 2012.

Technology and Intellectual Property License Agreement (the “TIPLA”). On the Repurchase Closing Date, the Company and Alibaba Group entered into an amendment of the existing TIPLA pursuant to which Alibaba Group made an initial payment to the Company of \$550 million in satisfaction of certain future royalty payments under the existing TIPLA. As a result of the IPO, the TIPLA will terminate on September 18, 2015 and Alibaba Group’s obligation to make royalty payments under the TIPLA ceased on September 24, 2014. The royalty revenue recognized was approximately \$27 million and \$37 million for the three months ended September 30, 2013 and 2014, respectively, and approximately \$83 million and \$100 million for the nine months ended September 30, 2013 and 2014, respectively. The remaining initial TIPLA deferred revenue of \$268 million is now being recognized ratably over the remaining term of the TIPLA, through September 18, 2015. For the three months ended September 30, 2013 and 2014, the Company recognized approximately \$34 million and \$37 million, respectively, of this deferred revenue. For the nine months ended September 30, 2013 and 2014, the Company recognized approximately \$103 million and \$105 million, respectively, of this deferred revenue.

[Table of Contents](#)

The following table presents Alibaba Group's U.S. GAAP financial information, as derived from the Alibaba Group financial statements (in thousands):

	Three Months Ended		Nine Months Ended	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
Operating data:				
Revenue	\$1,737,180	\$2,560,901	\$4,959,274	\$7,584,932
Gross profit ^(*)	\$1,297,608	\$1,816,330	\$3,694,395	\$5,592,862
Income from operations ^(*)	\$ 873,314	\$ 1,111,249	\$2,385,484	\$3,437,766
Net income	\$ 716,991	\$2,020,076	\$2,046,505	\$4,309,405
Net income attributable to ordinary shareholders of Alibaba Group Holding Limited	\$ 706,708	\$2,004,836	\$2,017,557	\$4,260,067
Balance sheet data:				
Current assets			\$ 7,994,731	\$14,225,068
Long-term assets			\$ 5,959,835	\$11,973,248
Current liabilities			\$ 4,838,510	\$ 7,318,619
Long-term liabilities			\$ 5,319,113	\$ 8,828,663
Convertible preferred shares and other mezzanine equity			\$ 1,688,889	\$ 1,699,714
Noncontrolling interests			\$ 92,127	\$ 747,364

^(*) Certain prior period amounts have been reclassified to conform to the current period presentation with no effect on previously reported net income or stockholders' equity.

Yahoo Japan.

The investment in Yahoo Japan Corporation ("Yahoo Japan") is being accounted for using the equity method and the total investment, including net tangible assets, identifiable intangible assets, and goodwill, is classified as part of the investments in equity interests balance on the Company's condensed consolidated balance sheets. The Company records its share of the results of Yahoo Japan, and any related amortization expense, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income.

The Company makes adjustments to the earnings in equity interests line in the condensed consolidated statements of income for any differences between U.S. GAAP and International Financial Reporting Standards ("IFRS"), the standards by which Yahoo Japan's financial statements are prepared.

The fair value of the Company's ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately \$8 billion as of September 30, 2014.

During the nine months ended September 30, 2013 and 2014, the Company received cash dividends from Yahoo Japan in the amount of \$77 million and \$84 million, net of withholding taxes, respectively, which were recorded as reductions to the Company's investment in Yahoo Japan.

During the nine months ended September 30, 2014, the Company sold data center assets and assigned a data center lease to Yahoo Japan for cash proceeds of \$11 million and recorded a net gain of approximately \$5 million within general and administrative operating expenses.

[Table of Contents](#)

The following tables present summarized financial information derived from Yahoo Japan's consolidated financial statements, which are prepared on the basis of IFRS. The Company has made adjustments to the Yahoo Japan financial information to address differences between IFRS and U.S. GAAP that materially impact the summarized financial information below. Due to these adjustments, the Yahoo Japan summarized financial information presented below is not materially different than such information presented on the basis of U.S. GAAP.

	Three Months Ended		Nine Months Ended	
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014
(in thousands)				
Operating data:				
Revenue	\$992,340	\$963,796	\$3,270,983	\$3,050,516
Gross profit	\$818,441	\$761,802	\$2,733,506	\$2,466,986
Income from operations	\$489,890	\$485,164	\$1,655,870	\$1,452,551
Net income	\$364,612	\$321,534	\$1,056,323	\$ 942,675
Net income attributable to Yahoo Japan	\$362,180	\$318,571	\$1,048,893	\$ 934,098
(In thousands)				
Balance sheet data:				
Current assets			\$ 6,318,156	\$6,132,424
Long-term assets			\$ 1,728,912	\$1,962,092
Current liabilities			\$ 1,992,508	\$1,809,295
Long-term liabilities			\$ 56,762	\$ 36,138
Noncontrolling interests			\$ 74,754	\$ 67,538

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately \$65 million and \$66 million for the three months ended September 30, 2013 and 2014, respectively, and approximately \$199 million and \$197 million for the nine months ended September 30, 2013 and 2014, respectively. As of both December 31, 2013 and September 30, 2014, the Company had net receivable balances from Yahoo Japan of approximately \$42 million.

Note 9 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, primarily forward contracts and option contracts, to mitigate risk associated with adverse movements in foreign currency exchange rates.

The Company records all derivatives in the condensed consolidated balance sheets at fair value with assets included in prepaid expenses and other current assets or other long-term assets and liabilities included in accrued expenses and other current liabilities or capital lease and other long-term liabilities. The Company's accounting treatment for these instruments is based on whether or not the instruments are designated as a hedging instrument. The effective portions of net investment hedges are recorded in other comprehensive income as a part of the cumulative translation adjustment. The effective portions of cash flow hedges are recorded in accumulated other comprehensive income until the hedged item is recognized in revenue on the condensed consolidated statements of income when the underlying hedged revenue is recognized. Any ineffective portions of net investment hedges and cash flow hedges are recorded in other income, net on the Company's condensed consolidated statements of income. For balance sheet hedges, changes in the fair value are recorded in other income, net on the Company's condensed consolidated statements of income.

The Company enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. The Company presents its derivative assets and liabilities at their gross fair values on the condensed consolidated balance sheets. However, under the master netting arrangements with the respective counterparties of the foreign exchange contracts, subject to applicable requirements, the Company is allowed to net settle transactions. The Company is not required to pledge, and is not entitled to receive, cash collateral related to these derivative transactions.

Designated as Hedging Instruments

Net Investment Hedges. The Company hedges, on an after-tax basis, a portion of its net investment in Yahoo Japan with forward contracts and option contracts to reduce the risk that its investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. The total of the after-tax net investment hedge was less than the Yahoo Japan investment balance as of both December 31, 2013 and September 30, 2014. As such, the net investment hedge was considered to be effective.

[Table of Contents](#)

Cash Flow Hedges. The Company entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through December 31, 2014. The cash flow hedges were considered to be effective as of December 31, 2013 and September 30, 2014. The Company expects all of the forward contracts designated as cash flow hedges to be reclassified to revenue within fiscal year 2014, as it expects to recognize the hedged forecasted revenue related to these contracts by December 31, 2014.

Not Designated as Hedging Instruments

Balance Sheet Hedges. The Company hedges certain of its net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that its earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities, including intercompany transactions, which are denominated in foreign currencies.

Notional amounts of the Company's outstanding forward contracts as of December 31, 2013 and September 30, 2014 (in millions) were as follows:

	December 31, 2013	September 30, 2014
Derivatives designated as hedging instruments:		
Net investment hedges	\$ 1,341	\$ 2,827
Cash flow hedges	\$ 56	\$ 84
Derivatives not designated as hedging instruments:		
Balance sheet hedges	\$ 393	\$ 330

Foreign currency forward contracts activity for the nine months ended September 30, 2013 was as follows (in millions):

	Beginning Fair Value	Settlement	Gain (Loss) Recorded in Other Income, Net	Gain (Loss) Recorded in Other Comprehensive Income	Gain (Loss) Recorded in Revenue	Ending Fair Value
Derivatives designated as hedging instruments:						
Net investment hedges	\$ 3	\$ —	\$ —	\$ 409 ^(*)	\$ —	\$ 412
Cash flow hedges	—	—	—	1	—	1
Derivatives not designated as hedging instruments:						
Balance sheet hedges	(5)	6	(7)	—	—	(6)

^(*) This amount does not reflect the tax impact of \$154 million recorded during the nine months ended September 30, 2013. The \$255 million after tax impact of the gain recorded under other comprehensive income was included in accumulated other comprehensive income on the Company's condensed consolidated balance sheets as of September 30, 2013.

Foreign currency forward contracts activity for the nine months ended September 30, 2014 was as follows (in millions):

	Beginning Fair Value	Settlement	Gain (Loss) Recorded in Other Income, Net	Gain (Loss) Recorded in Other Comprehensive Income	Gain (Loss) Recorded in Revenue	Ending Fair Value
Derivatives designated as hedging instruments:						
Net investment hedges	\$ 209	\$ (178)	\$ —	\$ 78 ^(*)	\$ —	\$ 109
Cash flow hedges	4	(2)	(1)	(1)	4	4
Derivatives not designated as hedging instruments:						
Balance sheet hedges	—	(1)	11	—	—	10

^(*) This amount does not reflect the tax impact of \$29 million recorded during the nine months ended September 30, 2014. The \$49 million after tax impact of the loss recorded within other comprehensive income was included in accumulated other comprehensive income on the Company's condensed consolidated balance sheets as of September 30, 2014.

[Table of Contents](#)

Foreign currency forward contracts balance sheet location and ending fair value was as follows (in millions):

	Balance Sheet Location	December 31, 2013	September 30, 2014
Derivatives designated as hedging instruments:			
Net investment hedges	Asset	\$ 209	\$ 116
	Liability	\$ —	\$ (7)
Cash flow hedges	Asset	\$ 4	\$ 4
	Liability	\$ —	\$ —
Derivatives not designated as hedging instruments:			
Balance sheet hedges	Asset	\$ 1	\$ 12
	Liability	\$ (1)	\$ (2)

Note 10 CREDIT AGREEMENT

The Company's credit agreement (the "Credit Agreement") with Citibank, N.A. was scheduled to terminate on October 9, 2014. The Credit Agreement, as amended, provides for a \$750 million unsecured revolving credit facility, subject to increase of up to \$250 million in accordance with its terms. As of September 30, 2014, the Company was in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding. See Note 18 — "Subsequent Events" for additional information regarding an amendment to the Credit Agreement to extend its existing term.

Note 11 CONVERTIBLE NOTES

0.00% Convertible Senior Notes

As of September 30, 2014, the Company had \$1.4 billion principal amount of Notes outstanding. The Notes are senior unsecured obligations of Yahoo, the Notes do not bear regular interest, and the principal amount of the Notes does not accrete. The Notes mature on December 1, 2018, unless previously purchased or converted in accordance with their terms prior to such date. The Company may not redeem Notes prior to maturity. However, holders of the Notes may convert them at certain times and upon the occurrence of certain events in the future, as outlined in the indenture governing the Notes (the "Indenture"). Holders of the Notes who convert in connection with a "make-whole fundamental change," as defined in the Indenture, may require Yahoo to purchase for cash all or any portion of their Notes at a purchase price equal to 100 percent of the principal amount, plus accrued and unpaid special interest as defined in the Indenture, if any. The Notes are convertible, subject to certain conditions, into shares of Yahoo common stock at an initial conversion rate of 18.7161 shares per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$53.43 per share), subject to adjustment upon the occurrence of certain events. Upon conversion of the Notes, holders will receive cash, shares of Yahoo's common stock, or a combination thereof, at Yahoo's election. The Company's intent is to settle the principal amount of the Notes in cash upon conversion. If the conversion value exceeds the principal amount, the Company would deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount (conversion spread). As of September 30, 2014, none of the conditions allowing holders of the Notes to convert had been met.

The Notes consist of the following (in thousands):

	December 31, 2013	September 30, 2014
Liability component:		
Principal	\$1,437,500	\$ 1,437,500
Less: note discount	(326,915)	(282,332)
Net carrying amount	<u>\$1,110,585</u>	<u>\$ 1,155,168</u>
Equity component ^(*)	<u>\$ 305,569</u>	<u>\$ 305,569</u>

^(*) Recorded on the condensed consolidated balance sheets within additional paid-in capital.

[Table of Contents](#)

The following table sets forth total interest expense recognized related to the Notes for the three and nine months ended September 30, 2013 and 2014 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Accretion of convertible note discount	\$ —	\$ 15,056	\$ —	\$ 44,583

The fair value of the Notes, which was determined based on inputs that are observable in the market (Level 2), and the carrying value of debt instruments (the carrying value excludes the equity component of the Notes classified in equity) was as follows (in thousands):

	December 31, 2013		September 30, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible senior notes	\$ 1,111,473	\$ 1,110,585	\$ 1,155,279	\$ 1,155,168

Note 12 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating and capital lease agreements with original lease periods of up to 12 years which expire between 2014 and 2025.

A summary of gross and net lease commitments as of September 30, 2014 was as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Three months ending December 31, 2014	\$ 38	\$ (3)	\$ 35
Years ending December 31,			
2015	133	(9)	124
2016	98	(2)	96
2017	67	—	67
2018	44	—	44
2019	35	—	35
Due after 5 years	98	—	98
Total gross and net lease commitments	\$ 513	\$ (14)	\$ 499

	Capital Lease Commitment
Three months ending December 31, 2014	\$ 4
Years ending December 31,	
2015	12
2016	9
2017	9
2018	9
2019	4
Due after 5 years	—
Gross lease commitment	\$ 47
Less: interest	(11)
Net lease commitment included in capital lease and other long-term liabilities	\$ 36

Affiliate Commitments. The Company is obligated to make payments, which represent traffic acquisition costs (“TAC”), to its Affiliates. As of September 30, 2014, these commitments totaled \$218 million, of which \$29 million will be payable in the remainder of 2014, \$138 million will be payable in 2015, \$26 million will be payable in 2016, and \$25 million will be payable in 2017.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to \$20 million through 2023.

Other Commitments. In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint ventures and business partners, purchasers of assets or subsidiaries, and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company’s breach of agreements or representations and warranties made by the Company; services to be provided by the Company; intellectual property infringement claims made by third parties; or with respect to the sale, lease, or assignment of assets, or the sale of a subsidiary, matters related to the Company’s conduct

[Table of Contents](#)

of the business and tax matters prior to the sale, lease or assignment. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company has also agreed to indemnify certain former officers, directors, and employees of acquired companies in connection with the acquisition of such companies. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its current and former directors and officers, and former directors and officers of acquired companies, in certain circumstances. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements might not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any material liabilities related to such indemnification obligations in the Company's condensed consolidated financial statements.

As of September 30, 2014, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

See Note 17 — “Search Agreement with Microsoft Corporation” for a description of the Company's Search and Advertising Services and Sales Agreement (the “Search Agreement”) and License Agreement with Microsoft Corporation (“Microsoft”).

Legal Contingencies

Intellectual Property and General Matters. From time to time, third parties assert patent infringement claims against the Company. Currently, the Company is engaged in lawsuits regarding patent issues and has been notified of other potential patent disputes. In addition, from time to time, the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights, trade secrets, and other intellectual property rights, claims related to employment matters, and a variety of other claims, including claims alleging defamation, invasion of privacy, or similar claims arising in connection with the Company's e-mail, message boards, photo and video sites, auction sites, shopping services, and other communications and community features.

Stockholder and Securities Matters. Since May 31, 2011, several related stockholder derivative suits were filed in the Santa Clara County Superior Court (“California Derivative Litigation”) and the U.S. District Court for the Northern District of California (“Federal Derivative Litigation”) purportedly on behalf of the Company against certain officers and directors of the Company and third parties. The California Derivative Litigation was filed by plaintiffs Cinotto, Lassoff, Zucker, and Koo, and consolidated under the caption *In re Yahoo! Inc. Derivative Shareholder Litigation* on June 24, 2011 and September 12, 2011. The Federal Derivative Litigation was filed by plaintiffs Salzman, Tawila, and Iron Workers Mid-South Pension Fund and consolidated under the caption *In re Yahoo! Inc. Shareholder Derivative Litigation* on October 3, 2011. The plaintiffs allege breaches of fiduciary duties, corporate waste, mismanagement, abuse of control, unjust enrichment, misappropriation of corporate assets, or contribution, and seek damages, equitable relief, disgorgement, and corporate governance changes in connection with Alibaba Group's restructuring of its subsidiary Alipay.com Co., Ltd. (“Alipay”) and related disclosures. On June 7, 2012, the courts approved stipulations staying the California Derivative Litigation pending resolution of the Federal Derivative Litigation, and deferring the Federal Derivative Litigation pending a ruling on the motion to dismiss filed by the defendants in the related stockholder class actions, which are discussed below. On December 16, 2013, the U.S. District Court for the Northern District of California granted the Company's motion to stay the Federal Derivative Litigation pending resolution of the appeal filed by the plaintiffs in the related stockholder class actions.

Since June 6, 2011, two purported stockholder class actions were filed in the U.S. District Court for the Northern District of California against the Company and certain officers and directors of the Company by plaintiffs Bonato and the Twin Cities Pipe Trades Pension Trust. In October 2011, the District Court consolidated the two actions under the caption *In re Yahoo! Inc. Securities Litigation* and appointed the Pension Trust Fund for Operating Engineers as lead plaintiff. In a consolidated amended complaint filed December 15, 2011, the lead plaintiff purports to represent a class of investors who purchased the Company's common stock between April 19, 2011 and July 29, 2011, and alleges that during that class period, defendants issued statements that were materially false or misleading because they did not disclose information relating to Alibaba Group's restructuring of Alipay. The complaint purports to assert claims for relief for violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and for violation of Rule 10b-5 thereunder, and seeks unspecified damages, injunctive and equitable relief, fees, and costs. On August 10, 2012, the court granted defendants' motion to dismiss the consolidated amended complaint. Plaintiffs have appealed.

On March 14, 2014, a stockholder derivative action captioned *Hughes Trust v. de Castro, et al.* was filed in the Delaware Court of Chancery purportedly on behalf of Yahoo against current and former members of the Board and our former chief operating officer, Henrique de Castro. The plaintiff alleges that the directors who approved Mr. de Castro's employment agreement in 2012 wasted corporate assets and breached their fiduciary duties by failing to adequately inform themselves about how much compensation Mr. de Castro would be entitled to receive. The plaintiff further alleges that the directors failed to provide adequate disclosure regarding Mr. de Castro's compensation. The plaintiff asserts a claim against Mr. de Castro for unjust enrichment. Plaintiff seeks unspecified damages and restitution in favor of Yahoo, an order directing Yahoo to reform its corporate governance and internal procedures, and attorneys' fees and costs. The Company intends to file a motion to dismiss the action.

[Table of Contents](#)

Mexico Matters. On November 16, 2011, plaintiffs Worldwide Directories, S.A. de C.V. (“WWD”), and Ideas Interactivas, S.A. de C.V. (“Ideas”) filed an action in the 49th Civil Court of Mexico against the Company, Yahoo! de Mexico, S.A. de C.V. (“Yahoo! Mexico”), Yahoo International Subsidiary Holdings, Inc., and Yahoo Hispanic Americas LLC. The complaint alleged claims of breach of contract, breach of promise, and lost profits in connection with various commercial contracts entered into among the parties between 2002 and 2004, relating to a business listings service, and alleged total damages of approximately \$2.75 billion. On December 7, 2011, Yahoo! Mexico filed a counterclaim against WWD for payments of approximately \$2.6 million owed to Yahoo! Mexico for services rendered. On April 10, 2012, plaintiffs withdrew their claim filed against Yahoo International Subsidiary Holdings, Inc. and Yahoo Hispanic Americas LLC.

On November 28, 2012, the 49th Civil Court of Mexico entered a non-final judgment against the Company and Yahoo! Mexico in the amount of USD \$2.75 billion and a non-final judgment in favor of Yahoo! Mexico on its counterclaim against WWD in the amount of \$2.6 million. The judgment against the Company and Yahoo! Mexico purported to leave open for determination in future proceedings certain other alleged damages that were not quantified in the judgment. The judgment was issued by a law clerk to the trial court judge who presided over the entire case during the trial court proceedings but stepped down from his position shortly before the judgment was entered.

On December 12, 2012 and December 13, 2012, respectively, Yahoo! Mexico and the Company appealed the judgment to a three-magistrate panel of the Superior Court of Justice for the Federal District (the “Superior Court”). On May 15, 2013, the Superior Court reversed the judgment, overturned all monetary awards against the Company and reduced the monetary award against Yahoo! Mexico to \$172,500. The Superior Court affirmed the award of \$2.6 million in favor of Yahoo! Mexico on its counterclaim.

Plaintiffs have appealed the Superior Court’s decision to the Mexican Federal Civil Collegiate Court for the First Circuit (“Civil Collegiate Court”). The Company has appealed the Superior Court’s decision not to award it statutory costs in the underlying proceeding. Yahoo! Mexico has appealed the Superior Court’s award of \$172,500, the Superior Court’s decision not to award it additional moneys beyond the \$2.6 million award on its counterclaims, and the Superior Court’s decision not to award it statutory costs. In the pending appeals, review is limited to whether the Superior Court’s decision is unconstitutional, unlawful, or both.

The Company believes the plaintiffs’ claims are without merit. First, the plaintiffs’ claims are based on agreements that were either terminated by agreement with releases or had expired or terminated in accordance with their terms, a non-binding letter of intent pursuant to which no definitive agreements were ever entered into by the parties, and correspondence that did not constitute agreements. Second, the loss of profits of the type claimed by plaintiffs are not awardable under Mexico law because they were not a direct and immediate consequence of a breach of contract. Of the \$2.75 billion in total damages alleged by plaintiffs, more than \$2.4 billion were for loss of profits. Third, the plaintiffs’ alleged damages and loss of profits were further precluded by the agreements at issue through, among other things, contractual and legal limitations of liability. Fourth, the plaintiffs’ pleadings in the complaint, as well as documentary evidence filed by the plaintiffs in support of their allegations, were generally deficient to support or establish plaintiffs’ claims. Fifth, the decision failed to consider substantially all of the defenses asserted by the Company and Yahoo! Mexico. Finally, the Company believes that the law clerk who entered the judgment lacked the requisite authority to issue the judgment. The Company has not recorded an accrual for the judgment, which was reversed, as explained above. On September 10, 2014, the plaintiffs in the Mexico litigation above filed an action in U.S. District Court for the Southern District of New York against Yahoo! Inc., Yahoo! Mexico, Baker & McKenzie, and Baker & McKenzie, S.C. Plaintiffs allege that defendants conspired to influence the Mexican courts and “illegally obtain a favorable judgment” in the above litigation (which is still pending on appeal). Plaintiffs advance claims for relief under the Racketeer Influenced and Corrupt Organizations Act of 1970 (“RICO”), which provides for treble damages in certain cases, conspiracy to violate RICO, common-law fraud, and civil conspiracy. The complaint seeks unspecified damages. The Company believes the plaintiffs’ claims in this action are also without merit.

The Company has determined, based on current knowledge, that the amount or range of reasonably possible losses, including reasonably possible losses in excess of amounts already accrued, is not reasonably estimable with respect to certain matters described above. The Company has also determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to the Company’s legal proceedings, including the matters described above other than the Mexico matters, would not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows. Amounts accrued as of December 31, 2013 and September 30, 2014 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty. In the event of a determination adverse to Yahoo, its subsidiaries, directors, or officers in these matters, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these events could have a material adverse effect on the Company’s financial position, results of operations, or cash flows. The Company may also incur substantial legal fees, which are expensed as incurred, in defending against these claims.

[Table of Contents](#)

Note 13 STOCKHOLDERS' EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of September 30, 2014, there was \$1 million of unamortized stock-based compensation expense related to the Company's Employee Stock Purchase Plan, which will be recognized over a weighted average period of 0.1 years.

Stock Options. The Company's Stock Plan, the Directors' Plan, and stock-based awards assumed through acquisitions (including stock-based commitments related to continued service of acquired employees, such as the holdback by Yahoo of shares of Yahoo common stock issued to Tumblr's founder in connection with the Company's acquisition of Tumblr in June 2013) are collectively referred to as the "Plans." Stock option activity under the Company's Plans for the nine months ended September 30, 2014 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2013 ⁽¹⁾	20,968	\$ 20.43
Options granted ⁽²⁾	30	\$ 37.26
Options assumed in acquisitions	178	\$ 11.51
Options exercised ⁽³⁾	(8,194)	\$ 21.60
Options expired	(788)	\$ 21.80
Options cancelled/forfeited	(2,053)	\$ 18.31
Outstanding at September 30, 2014 ⁽¹⁾	<u>10,141</u>	<u>\$ 19.71</u>

⁽¹⁾ Includes shares subject to performance-based stock options for which performance goals had not been set as of the date shown.

⁽²⁾ Excludes tranches of previously granted performance-based stock options for which performance goals were set during the nine months ended September 30, 2014.

⁽³⁾ The Company generally issues new shares to satisfy stock option exercises.

As of September 30, 2014, there was \$16 million of unamortized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 0.7 years.

The fair value of option grants is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Options		Purchase Plan ^(*)	
	Three Months Ended		Three Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.8%	1.1%	0.1%	0.0%
Expected volatility	34.8%	32.7%	32.0%	36.3%
Expected life (in years)	3.17	3.30	0.25	0.25

	Stock Options		Purchase Plan ^(*)	
	Nine Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.6%	1.3%	0.1%	0.1%
Expected volatility	32.4%	35.8%	30.3%	38.1%
Expected life (in years)	3.47	3.77	0.25	0.25

^(*) Assumptions for the Employee Stock Purchase Plan relate to the annual average of the enrollment periods. Enrollment is permitted in February, May, August, and November of each year.

[Table of Contents](#)

Restricted Stock and Restricted Stock Units. Restricted stock and restricted stock unit activity under the Plans for the nine months ended September 30, 2014 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share
Awarded and unvested at December 31, 2013 ⁽¹⁾	49,584	\$ 24.20
Granted ⁽²⁾	14,519	\$ 37.67
Assumed in acquisitions	277	\$ 40.85
Vested	(16,017)	\$ 21.03
Forfeited	(5,740)	\$ 23.71
Awarded and unvested at September 30, 2014 ⁽¹⁾	<u>42,623</u>	\$ 30.15

⁽¹⁾ Includes the maximum number of shares issuable under the Company's performance-based restricted stock unit awards (including future-year tranches for which performance goals had not been set) as of the date shown.

⁽²⁾ Includes the maximum number of shares issuable under the performance-based restricted stock unit awards granted during the nine months ended September 30, 2014 (including future-year tranches for which performance goals had not been set during the period); excludes tranches of previously granted performance-based restricted stock units for which performance goals were set during the nine months ended September 30, 2014.

As of September 30, 2014, there was \$742 million of unamortized stock-based compensation expense related to unvested restricted stock and restricted stock units, which is expected to be recognized over a weighted average period of 2.6 years.

During the nine months ended September 30, 2013 and 2014, 11.8 million shares and 16.0 million shares, respectively, that were subject to previously granted restricted stock units vested. These vested restricted stock units were net share settled. During the nine months ended September 30, 2013 and 2014, the Company withheld 4.3 million shares and 6.0 million shares, respectively, based upon the Company's closing stock price on the vesting date, to satisfy the Company's tax withholding obligation relating to the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were \$106 million and \$226 million, respectively, for the nine months ended September 30, 2013 and 2014, and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units and tax withholding related to the reacquisition of shares of restricted stock. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

Performance-Based Executive Incentive Equity Awards.

Performance Options. The financial performance stock options awarded by the Company in November 2012 to Ms. Mayer and Mr. Goldman include multiple performance periods. The number of stock options that ultimately vest for each performance period will range from 0 percent to 100 percent of the target amount for such period stated in each executive's award agreement based on the Company's performance relative to goals. The financial performance goals are established at the beginning of each performance period and the portion (or "tranche") of the award related to each performance period is treated as a separate grant for accounting purposes. In February 2014, the Compensation and Leadership Development Committee of the Board (the "Compensation Committee") established performance goals under these stock options for the 2014 performance year. The 2014 financial performance metrics (and their weightings) under the performance stock options are GAAP revenue (70 percent) and adjusted EBITDA (30 percent). The grant date fair value of the 2014 tranche of the November 2012 financial performance stock options was \$38 million, and is being recognized over the twelve-month service period. The Company began recording stock-based compensation expense for this tranche in February 2014, when the financial performance goals were established.

Performance RSUs. In February 2014, the Compensation Committee approved additional annual financial performance-based restricted stock unit ("RSU") awards to Ms. Mayer and other senior officers, and established the 2014 annual performance goals for these awards as well as for the similar performance-based RSUs granted in February 2013. The 2013 and 2014 performance-based RSU awards are generally eligible to vest in equal annual target amounts over four years (three years for Ms. Mayer) based on the Company's attainment of annual financial performance goals as well as the executive's continued employment through each vesting date. The number of shares that ultimately vest each year will range from 0 percent to 200 percent of the annual target amount, based on the Company's performance. Annual financial performance metrics and goals are established for these RSU awards at the beginning of each year and the tranche of each RSU award related to that year's performance goal is treated as a separate annual grant for accounting purposes. The 2014 financial performance metrics (and their weightings) established for the performance RSUs are: GAAP revenue (70 percent) and adjusted EBITDA (30 percent). The grant date fair value of the first tranche of the February 2014 performance RSUs was \$9 million, and the grant date fair value of the second tranche of the February 2013 performance RSUs was \$17 million. These values are being recognized over the tranches' twelve-month service periods. The Company began recording stock-based compensation expense for these tranches in February 2014, when the financial performance goals were established.

[Table of Contents](#)

Stock Repurchases. In May 2012, the Board authorized a stock repurchase program allowing the Company to repurchase up to \$5 billion of its outstanding shares of common stock from time to time. That repurchase program was exhausted during the first quarter of 2014. In November 2013, the Board authorized an additional stock repurchase program with an authorized level of \$5 billion. The November 2013 program, according to its terms, will expire in December 2016. The aggregate amount remaining under the November 2013 repurchase authorization was approximately \$2.5 billion at September 30, 2014. Repurchases under the repurchase program may take place in the open market or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions, and may be made under a Rule 10b5-1 plan.

In September 2014, the Company entered into an accelerated share repurchase agreement (“ASR”) with a financial institution to repurchase shares of its common stock. Under the agreement, the Company prepaid \$1.1 billion and approximately 15 million shares were initially delivered to the Company on September 30, 2014 and are included in treasury stock. Final settlement occurred on October 17, 2014, resulting in a total of approximately 23.5 million shares, inclusive of shares initially delivered, repurchased for \$933 million. The Company received a return of cash for the remaining amount not settled in shares of \$167 million. This ASR was entered into pursuant to the Company’s existing share repurchase program.

The Company accounted for the September 2014 ASR as two separate transactions: (i) approximately 15 million shares of common stock initially delivered to the Company, and \$600 million was accounted for as a treasury stock transaction and (ii) the unsettled contract of \$500 million was determined to be a forward contract indexed to the Company’s own common stock. The initial delivery of approximately 15 million shares resulted in an immediate reduction, on the delivery date, of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net income per share. The Company has determined that the forward contract, indexed to its common stock, met all of the applicable criteria for equity classification.

The Company recorded \$600 million as treasury stock and recorded \$500 million, the implied value of the forward contract, in additional paid-in capital on the condensed consolidated balance sheets as of September 30, 2014. As the remainder of the shares are delivered to the Company, in the fourth quarter of 2014, the forward contract will be reclassified from additional paid-in capital to treasury stock and the final number of shares to be repurchased will be based on Yahoo’s volume-weighted average stock price during the term of the transaction, less a discount. See Note 18 — “Subsequent Events” for additional information regarding the final settlement of this ASR.

In addition to the repurchase under this ASR, during the nine months ended September 30, 2014, the Company repurchased approximately 40 million shares of its common stock under its stock repurchase program at an average price of \$36.09 per share for a total of approximately \$1.5 billion.

Note 14 RESTRUCTURING (REVERSALS) CHARGES, NET

Restructuring (reversals) charges, net was comprised of the following (in thousands):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>September 30,</u> <u>2014</u>
Employee severance pay and related costs	\$ 24	\$ 4,086	\$ 6,742	\$ 7,759
Non-cancelable lease, contract termination, and other charges	2,292	4,545	13,485	72,983
Other non-cash charges (credits), net	—	—	547	(7,031)
Changes in estimates and reversals of previous charges	(2,892)	(161)	(24,834)	(3,133)
Restructuring (reversals) charges, net	<u>\$ (576)</u>	<u>\$ 8,470</u>	<u>\$ (4,060)</u>	<u>\$ 70,578</u>

The Company has implemented various restructuring plans to reduce its cost structure, align resources with its product strategy and improve efficiency, which have resulted in workforce reductions and the consolidation of certain real estate facilities and data centers. For the three months ended September 30, 2013, the Company recorded expense of \$2 million related to the Americas segment, and reversals of \$2 million and \$1 million related to the EMEA and Asia Pacific segments, respectively. For the three months ended September 30, 2014, the Company recorded expense of \$4 million, \$1 million, and \$3 million related to Americas, EMEA, and Asia Pacific segments, respectively. For the nine months ended September 30, 2013, the Company recorded reversals of \$3 million and \$1 million related to the EMEA and Asia Pacific segments, respectively. For the nine months ended September 30, 2014, the Company recorded expense of \$59 million, \$8 million, and \$4 million related to the Americas, EMEA, and Asia Pacific segments, respectively. The amounts recorded during the nine months ended September 30, 2014 were primarily related to the consolidation of a data center as the Company ceased use of that facility pursuant to a restructuring plan initiated by the Company in 2011.

[Table of Contents](#)

The Company's restructuring accrual activity for the nine months ended September 30, 2014 is summarized as follows (in thousands):

Accrual balance as of December 31, 2013	\$ 30,096
Restructuring charges	70,578
Cash paid	(32,577)
Foreign currency translation and other adjustments	6,531
Accrual balance as of September 30, 2014	<u>\$ 74,628</u>

The \$75 million restructuring liability as of September 30, 2014 consists of \$4 million for employee severance expenses, which the Company expects to pay out by the end of the fourth quarter of 2014, and \$71 million related to non-cancelable lease costs, which the Company expects to pay over the terms of the related obligations through the fourth quarter of 2021, less estimated sublease income.

Restructuring accruals by segment consisted of the following (in thousands):

	December 31, 2013	September 30, 2014
Americas	\$ 18,078	\$ 64,330
EMEA	11,284	6,405
Asia Pacific	734	3,893
Total restructuring accruals	<u>\$ 30,096</u>	<u>\$ 74,628</u>

Note 15 INCOME TAXES

The Company's effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, the Company's provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, non-deductible acquisition-related costs and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended September 30, 2014 was 38 percent compared to 32 percent for the same period in 2013. The effective tax rate reported for the nine months ended September 30, 2014 was 38 percent compared to 24 percent for the same period in 2013. The effective tax rates for the three and nine months ended September 30, 2014 included current and deferred tax expense of \$4.0 billion associated with the Company's taxable gain from the sale of 140 million Alibaba Group ADSs in the IPO in September 2014. The lower effective tax rates for the three and nine months ended September 30, 2013 were related to a reduction of tax reserves that were recorded as tax audits were favorably settled and a tax benefit from the resolution of certain tax matters associated with a one-time foreign earnings distribution made in 2012.

As of September 30, 2014, the Company does not anticipate repatriating its undistributed foreign earnings of approximately \$2.9 billion. Those earnings are principally related to its equity method investment in Yahoo Japan. If those earnings were to be repatriated in the future, the Company may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated.

The Company's gross amount of unrecognized tax benefits as of September 30, 2014 was \$1.1 billion, of which \$1.0 billion is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2014 increased by \$360 million from the recorded balance as of December 31, 2013 primarily related to tax reserves associated with the sale of the Alibaba Group ADSs and foreign tax credits. The Company believes that it has adequately provided for any reasonably foreseeable adjustments and that any settlement will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

The Company is in various stages of examination and appeal in connection with its taxes both in the U.S. and in foreign jurisdictions. Those audits generally span tax years 2005 through 2012. The IRS Appeals division is currently finalizing the Company's protest of the 2007 and 2008 audit results, while the IRS exam team is finalizing the examination of the Company's 2009 and 2010 U.S. federal income tax returns. The Company has protested the proposed California Franchise Tax Board's adjustments to the 2005 and 2006 returns, but no conclusions have been reached to date. The 2007 and 2008 California tax returns have been examined without any significant adjustment to the Company's financial statement positions. While it is difficult to determine when the examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the Company's unrecognized tax benefits could be reduced by up to approximately \$80 million in the next twelve months.

The Company accrued deferred tax liabilities of \$13.8 billion associated with the Alibaba Group shares that it retained. Such deferred tax liabilities will be subject to periodic adjustments to reflect changes in the fair market value of Alibaba Group shares.

[Table of Contents](#)

The Company may have additional tax liabilities in China related to the sale to Alibaba Group of 523 million Alibaba Group shares that took place during the year ended December 31, 2012 and related to the sale of the 140 million Alibaba Group ADSs sold in the IPO that took place during the three months ended September 30, 2014. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S. through the use of foreign tax credits with respect to the sale in 2012. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S. with respect to the sale in 2014 through the use of foreign tax credits to the extent there is sufficient foreign source income.

During the year ended December 31, 2012, tax authorities from the Brazilian State of Sao Paulo assessed certain indirect taxes against the Company's Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment totaling approximately \$85 million is for calendar years 2008 and 2009. The Company currently believes the assessment is without merit. The Company believes the risk of loss is remote and has not recorded an accrual for the assessment.

Note 16 SEGMENTS

The Company continues to manage its business geographically. The primary areas of measurement and decision-making are Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company's segments.

The following tables present summarized information by segment (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Revenue by segment:				
Americas	\$ 850,935	\$ 873,306	\$ 2,521,667	\$ 2,545,769
EMEA	89,156	89,058	281,367	278,475
Asia Pacific	198,882	185,776	611,551	540,817
Total Revenue	\$ 1,138,973	\$ 1,148,140	\$ 3,414,585	\$ 3,365,061
TAC by segment:				
Americas	\$ 36,435	\$ 42,607	\$ 111,077	\$ 106,997
EMEA	9,929	7,980	32,837	27,385
Asia Pacific	12,100	3,593	44,934	9,533
Total TAC	\$ 58,464	\$ 54,180	\$ 188,848	\$ 143,915
Revenue ex-TAC by segment:				
Americas	\$ 814,500	\$ 830,699	\$ 2,410,590	\$ 2,438,772
EMEA	79,227	81,078	248,530	251,090
Asia Pacific	186,782	182,183	566,617	531,284
Total Revenue ex-TAC	\$ 1,080,509	\$ 1,093,960	\$ 3,225,737	\$ 3,221,146
Direct costs by segment⁽¹⁾:				
Americas	183,436	192,450	545,848	552,569
EMEA	39,594	36,796	120,052	115,062
Asia Pacific	47,312	50,955	151,698	140,538
Global operating costs ⁽²⁾⁽³⁾	479,042	509,477	1,332,177	1,523,451
Depreciation and amortization	158,216	149,144	480,797	453,538
Gains on sales of patents	—	(1,300)	(9,950)	(62,800)
Stock-based compensation expense	80,726	105,796	193,467	317,422
Restructuring (reversals) charges, net	(576)	8,470	(4,060)	70,578
Income from operations	\$ 92,759	\$ 42,172	\$ 415,708	\$ 110,788

⁽¹⁾ Direct costs for each segment include cost of revenue—other as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses.

⁽²⁾ Global operating costs include product development, service engineering and operations, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any segment.

⁽³⁾ The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

[Table of Contents](#)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Capital expenditures, net:				
Americas	\$ 70,044	\$ 105,437	\$ 210,521	\$ 269,754
EMEA	2,817	3,034	8,481	22,070
Asia Pacific	4,792	3,783	10,308	12,443
Total capital expenditures, net	<u>\$ 77,653</u>	<u>\$ 112,254</u>	<u>\$ 229,310</u>	<u>\$ 304,267</u>
			December 31, 2013	September 30, 2014
Property and equipment, net:				
Americas:				
U.S.			\$1,346,889	\$ 1,361,936
Other			1,183	592
Total Americas			<u>\$1,348,072</u>	<u>\$ 1,362,528</u>
EMEA			44,976	46,794
Asia Pacific			95,470	74,475
Total property and equipment, net			<u>\$1,488,518</u>	<u>\$ 1,483,797</u>

See Note 14 — “Restructuring (Reversals) Charges, Net” for additional information regarding segments.

Enterprise Wide Disclosures:

The following table presents revenue for groups of similar services (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Display	\$ 469,932	\$ 446,980	\$ 1,396,745	\$ 1,336,257
Search	435,192	452,355	1,278,081	1,325,540
Other	233,849	248,805	739,759	703,264
Total revenue	<u>\$ 1,138,973</u>	<u>\$ 1,148,140</u>	<u>\$ 3,414,585</u>	<u>\$ 3,365,061</u>
	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Revenue:				
U.S.	\$ 812,048	\$ 839,080	\$ 2,401,527	\$ 2,444,696
International	326,925	309,060	1,013,058	920,365
Total revenue	<u>\$ 1,138,973</u>	<u>\$ 1,148,140</u>	<u>\$ 3,414,585</u>	<u>\$ 3,365,061</u>

Revenue is attributed to individual countries according to the online property that generated the revenue. No single foreign country accounted for more than 10 percent of the Company’s revenue for the three or nine months ended September 30, 2013 and 2014.

Note 17 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

By the end of 2013, the Company had substantially completed the transition of paid search to the Microsoft platform. In the transitioned markets, the Company reports as revenue the 88 percent revenue share it receives from Microsoft under the Search Agreement as the Company is not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft. Approximately 31 percent and 30 percent of the Company’s revenue for the three and nine months ended September 30, 2013, respectively, and approximately 36 percent of the Company’s revenue for both the three and nine months ended September 30, 2014 was attributable to the Search Agreement.

Under the Search Agreement, Microsoft continues to be obligated to guarantee Yahoo’s revenue per search on Yahoo Properties in Taiwan and Hong Kong for 18 months after the transition of paid search services to Microsoft’s platform in those markets, which was completed during the fourth quarter of 2013.

[Table of Contents](#)

The Company's results reflect search operating cost reimbursements from Microsoft under the Search Agreement of \$11 million and \$42 million for the three and nine months ended September 30, 2013, respectively, and nil and less than \$1 million for the three and nine months ended September 30, 2014, respectively. As of December 31, 2013 and September 30, 2014, the Company had collected total amounts of \$21 million and \$45 million, respectively, on behalf of Microsoft and Affiliates, which was included in cash and cash equivalents with a corresponding liability in accrued expenses and other current liabilities on the condensed consolidated balance sheets. The Company's uncollected 88 percent share in connection with the Search Agreement was \$305 million and \$293 million as of December 31, 2013 and September 30, 2014, respectively, which was included in accounts receivable, net on the condensed consolidated balance sheets. The total reimbursements not yet received from Microsoft of \$5 million were classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheet as of December 31, 2013. There were no amounts classified as a part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheet as of September 30, 2014 related to reimbursements not yet received from Microsoft.

Note 18 SUBSEQUENT EVENTS

Stock Repurchase Transactions. From October 1, 2014 through November 7, 2014, the Company repurchased approximately 13 million shares of its common stock at an average price of \$42.15 per share, for a total of \$544 million, excluding any shares received under the ASRs described below.

Final settlement of the September 2014 ASR occurred on October 17, 2014 and resulted in a total of approximately 23.5 million shares of Yahoo common stock, including the initial delivery under this ASR of approximately 15 million shares, being repurchased under this ASR at an average price of \$39.70 per share, for a total of \$933 million. The Company received \$167 million in cash for the remaining amount not settled.

In October 2014, the Company entered into a second ASR with a financial institution to repurchase shares of its common stock. Under the agreement, the Company prepaid the maximum repurchase amount of \$1.0 billion and received approximately 15 million shares on October 30, 2014. The total number of shares that the Company ultimately purchases under this ASR will be determined based on the average of the daily volume-weighted average share price of its common stock over the duration of the ASR, less an agreed discount, and may be subject to adjustments for certain events under the agreement. The agreement contemplates that final settlement is expected to occur in the fourth quarter of 2014. At settlement, if the actual aggregate purchase price is less than \$1.0 billion the Company will receive a cash refund equal to the difference, however, the actual aggregate purchase price will not be less than \$800 million. At settlement, the Company expects to receive additional shares of its common stock, however, under certain circumstances, the Company may be required, at its option, either to deliver shares or to make a cash payment to the financial institution. This ASR was entered into pursuant to the Company's existing share repurchase program.

Amendment to Credit Agreement. On October 9, 2014, the Company entered into Amendment No. 2 to its Credit Agreement. Amendment No. 2 extends the termination date of the Credit Agreement from October 9, 2014 to October 8, 2015. The Credit Agreement, as amended, continues to provide for a \$750 million unsecured revolving credit facility, subject to increase by up to \$250 million in accordance with its terms. There are no borrowings currently outstanding under the Credit Agreement.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

In addition to current and historical information, this Quarterly Report on Form 10-Q (“Report”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments, and business strategies. These statements can, in some cases, be identified by the use of terms such as “may,” “will,” “should,” “could,” “would,” “intend,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” or “continue,” the negative of such terms, or other comparable terminology. This Report includes, among others, forward-looking statements regarding our:

- expectations about revenue, including display, search, and other revenue;
- expectations about growth in users;
- expectations about changes in our earnings in equity interests and net income;
- expectations about changes in operating expenses;
- anticipated capital expenditures;
- expectations about our share repurchase activity;
- expectations about the financial and operational impacts of our Search and Advertising Services and Sales Agreement with Microsoft (the “Search Agreement”);
- impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, intangible assets, and technologies;
- expectations about the growth of, the opportunities for monetization in and revenue from, the mobile industry and mobile devices;
- projections and estimates with respect to our restructuring activities and changes to our organizational structure;
- expectations about the amount of unrecognized tax benefits, the outcome of tax assessment appeals, the adequacy of our existing tax reserves, future tax expenditures, and tax rates;
- expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements; and
- expectations regarding the future outcome of legal proceedings in which we are involved, including the outcome of our efforts to sustain the reversal of a judgment entered against us and one of our subsidiaries in a proceeding in Mexico.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. You are urged to carefully review the disclosures made concerning risks and uncertainties that may affect our business or operating results, which include, among others, those listed in Part II, Item 1A. “Risk Factors” of this Report. We do not intend, and undertake no obligation, to update or revise any of our forward-looking statements after the date of this Report to reflect new information, actual results or future events or circumstances.

Overview

Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo,” the “Company,” “we,” or “us”) is focused on making the world’s daily habits inspiring and entertaining. By creating highly personalized experiences for our users, we keep people connected to what matters most to them, across devices and around the world. We create value for advertisers by connecting them with the audiences that build their businesses. For advertisers, the opportunity to be a part of users’ daily habits across products and platforms is a powerful tool to engage audiences and build brand loyalty. Advertisers can build their businesses by advertising to targeted audiences on our online properties and services (“Yahoo Properties”) or through a distribution network of third-party entities (“Affiliates”) who integrate our advertising offerings into their Websites or other offerings (“Affiliate sites”). Our revenue is generated principally from display and search advertising.

We continue to manage and measure our business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific.

[Table of Contents](#)

In the following Management's Discussion and Analysis, we provide information regarding the following areas:

- Key Financial Metrics;
- Non-GAAP Financial Measures;
- Significant Transactions;
- Results of Operations;
- Liquidity and Capital Resources;
- Critical Accounting Policies and Estimates; and
- Recent Accounting Pronouncements.

Key Financial Metrics

The key financial metrics we use are as follows: revenue; revenue less traffic acquisition costs ("TAC"), or revenue ex-TAC; income from operations; adjusted EBITDA; net income attributable to Yahoo! Inc.; net cash provided by operating activities; and free cash flow. Revenue ex-TAC, adjusted EBITDA, and free cash flow are financial measures that are not defined in accordance with generally accepted accounting principles ("GAAP") in the United States ("U.S."). We use these non-GAAP financial measures for internal managerial purposes and to facilitate period-to-period comparisons. See "Non-GAAP Financial Measures" below for a description of each of these non-GAAP financial measures.

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	(dollars in thousands)			
Revenue	\$ 1,138,973	\$ 1,148,140	\$ 3,414,585	\$ 3,365,061
Revenue ex-TAC	\$ 1,080,509	\$ 1,093,960	\$ 3,225,737	\$ 3,221,146
Income from operations ^(*)	\$ 92,759	\$ 42,172	\$ 415,708	\$ 110,788
Adjusted EBITDA	\$ 331,125	\$ 305,582	\$ 1,085,912	\$ 952,326
Net income attributable to Yahoo! Inc.	\$ 296,656	\$ 6,774,102	\$ 1,018,091	\$ 7,355,387
Net cash provided by operating activities	\$ 288,061	\$ 289,192	\$ 837,570	\$ 785,667
Free cash flow	\$ 239,088	\$ 212,230	\$ 520,395	\$ 512,107
(*) Includes:				
Stock-based compensation expense	\$ 80,726	\$ 105,796	\$ 193,467	\$ 317,422
Restructuring (reversals) charges, net	\$ (576)	\$ 8,470	\$ (4,060)	\$ 70,578

Revenue ex-TAC (a Non-GAAP Financial Measure)

	<u>Three Months Ended September 30,</u>		<u>Percent Change</u>	<u>Nine Months Ended September 30,</u>		<u>Percent Change</u>
	<u>2013</u>	<u>2014</u>		<u>2013</u>	<u>2014</u>	
	(dollars in thousands)					
Revenue	\$ 1,138,973	\$ 1,148,140	1 %	\$ 3,414,585	\$ 3,365,061	(1)%
Less: TAC	58,464	54,180	(7)%	188,848	143,915	(24)%
Revenue ex-TAC	<u>\$ 1,080,509</u>	<u>\$ 1,093,960</u>	1 %	<u>\$ 3,225,737</u>	<u>\$ 3,221,146</u>	0 %

For the three months ended September 30, 2014, revenue ex-TAC increased \$13 million, or 1 percent, compared to the same period of 2013 due to an increase in search revenue ex-TAC and other revenue ex-TAC, partially offset by a decrease in display revenue ex-TAC. For the nine months ended September 30, 2014, revenue ex-TAC was relatively flat, compared to the same period of 2013, due to an increase in search revenue ex-TAC offset by decreases in display revenue ex-TAC and other revenue ex-TAC. The decline in TAC for both the three and nine months ended September 30, 2014 was primarily driven by the impact of the transition of search to the Microsoft platform in the Asia Pacific region, which was substantially completed by the end of 2013.

Table of Contents

Adjusted EBITDA (a Non-GAAP Financial Measure)

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2013	2014		2013	2014	
	(dollars in thousands)					
Net income attributable to Yahoo! Inc.	\$ 296,656	\$ 6,774,102	N/M	\$1,018,091	\$ 7,355,387	N/M
Depreciation and amortization	158,216	149,144	(6)%	480,797	453,538	(6)%
Stock-based compensation expense	80,726	105,796	31 %	193,467	317,422	64 %
Restructuring (reversals) charges, net	(576)	8,470	N/M	(4,060)	70,578	N/M
Other (expense) income, net	(5,370)	(10,308,931)	N/M	(46,048)	(10,281,889)	N/M
Provision for income taxes	31,891	3,973,402	N/M	111,894	3,985,762	N/M
Earnings in equity interests	(232,756)	(398,692)	71 %	(675,034)	(955,946)	42 %
Net income attributable to noncontrolling interests	2,338	2,291	(2)%	6,805	7,474	10 %
Adjusted EBITDA	\$ 331,125	\$ 305,582	(8)%	\$1,085,912	\$ 952,326	(12)%
Percentage of revenue ex-TAC ⁽¹⁾⁽²⁾	31%	28%		34%	30%	

N/M = Not Meaningful

⁽¹⁾ Revenue ex-TAC is calculated as GAAP revenue less TAC.

⁽²⁾ Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue for both the three and nine months ended September 30, 2014 was not meaningful. Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 26 percent and 30 percent, respectively.

For the three and nine months ended September 30, 2014, adjusted EBITDA decreased \$26 million, or 8 percent, and \$134 million, or 12 percent, respectively, compared to the same periods of 2013, mainly due to an increase in global operating costs. During the nine months ended September 30, 2013 and 2014, adjusted EBITDA included benefits of \$10 million and \$63 million, respectively, from patent sales.

Free Cash Flow (a Non-GAAP Financial Measure)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
	(dollars in thousands)			
Net cash provided by operating activities:	\$ 288,061	\$ 289,192	\$ 837,570	\$ 785,667
Acquisition of property and equipment, net	(77,653)	(112,254)	(229,310)	(304,267)
Dividends received from equity investees	—	—	(135,058)	(83,685)
Excess tax benefits from stock-based awards	28,680	35,292	47,193	114,392
Free cash flow	\$ 239,088	\$ 212,230	\$ 520,395	\$ 512,107

For the three and nine months ended September 30, 2014, free cash flow decreased \$27 million, or 11 percent, and \$8 million, or 2 percent, respectively, compared to the same periods of 2013, primarily due to increases in the acquisition of property and equipment to support our growth initiatives.

Non-GAAP Financial Measures

Revenue ex-TAC

Revenue ex-TAC is a non-GAAP financial measure defined as GAAP revenue less TAC. TAC consists of payments made to Affiliates that have integrated our advertising offerings into their sites and payments made to companies that direct consumer and business traffic to Yahoo Properties.

[Table of Contents](#)

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure defined as net income attributable to Yahoo! Inc. before taxes, depreciation, amortization of intangible assets, stock-based compensation expense, other income, net (which includes interest), earnings in equity interests, net income attributable to noncontrolling interests, and certain gains, losses, and expenses that we do not believe are indicative of our ongoing results.

Free Cash Flow

Free cash flow is a non-GAAP financial measure defined as net cash provided by operating activities (adjusted to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net, and dividends received from equity investees.

For additional information about these non-GAAP financial measures, see “Non-GAAP Financial Measures” included in our Annual Report on Form 10-K for the year ended December 31, 2013 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Significant Transactions

Alibaba Group Holding Limited Initial Public Offering

On September 24, 2014, Alibaba Group Holding Limited (“Alibaba Group”) closed its initial public offering (“IPO”) of American Depositary Shares (“ADSs”). Each Alibaba Group ADS represents one ordinary share of Alibaba Group. Yahoo! Hong Kong Holdings Limited (“YHK”), a wholly owned subsidiary of the Company, sold 140,000,000 Alibaba Group ADSs in the IPO at an initial public offering price of \$68.00 per ADS. The Company received \$9.4 billion (net of underwriting discounts, commissions, and fees of approximately \$115 million) in cash for the 140 million Alibaba Group ADSs sold. The Company recorded a pre-tax gain of \$10.3 billion (including a \$1.3 billion gain reflecting the Company’s proportionate share of the IPO proceeds from the IPO) for the three months ended September 30, 2014, which is included in other income, net on the condensed consolidated statements of income. The after-tax gain was approximately \$6.3 billion. Following completion of the sale in the IPO, the Company retained 383,565,416 ordinary shares of Alibaba Group, representing approximately 15 percent of Alibaba Group’s outstanding ordinary shares.

As a result of the IPO, we no longer account for our remaining investment in Alibaba Group using the equity method and will no longer record our proportionate share of Alibaba Group’s financial results in the condensed consolidated financial statements. We reflect our remaining investment in Alibaba Group as an available-for-sale equity security on the condensed consolidated balance sheet and adjust the investment to fair value each quarterly reporting period with changes in fair value recorded within other comprehensive income (loss), net of tax. Also, in connection with the IPO, each of Yahoo and YHK entered into a lock-up agreement with the underwriters restricting the sale of its remaining ordinary shares of Alibaba Group (“Alibaba Group shares”) for a period of one year, subject to certain exceptions.

As a result of the IPO, the Technology and Intellectual License Agreement (“TIPLA”) with Alibaba Group will terminate on September 18, 2015, the remaining initial TIPLA deferred revenue of \$268 million is now being recognized ratably over the remaining term of the TIPLA, and Alibaba Group’s obligation to make royalty payments under the TIPLA ceased on September 24, 2014.

See Note 2 — “Marketable Securities and Investments” and Note 8 — “Investments in Equity Interests” in the Notes to our condensed consolidated financial statements for additional information.

[Table of Contents](#)

Acquisition of Flurry

On August 25, 2014, we completed the acquisition of Flurry, Inc. (“Flurry”), a mobile data analytics company that optimizes mobile experiences for developers, marketers, and consumers, for \$270 million. The combined scale of Yahoo and Flurry is expected to create more personalized and inspiring app experiences for users and enable more effective mobile advertising solutions for brands seeking to reach their audiences and gain cross-device insights.

See Note 4 — “Acquisitions and Dispositions” in the Notes to our condensed consolidated financial statements for additional information.

Patent Sale and License Agreement

During the second quarter of 2014, we entered into a patent sale and license agreement for total cash consideration of \$460 million. The total consideration was allocated based on the estimated relative fair value of each of the elements of the agreement: \$61 million was allocated to the sale of patents (“Sold Patents”), \$135 million to the license to existing patents (“Existing Patents”) and \$264 million to the license of patents developed or acquired in the next five years (“Capture Period Patents”). We recorded \$60 million as a gain on the Sold Patents during the second quarter of 2014. During the third quarter of 2014, we recognized the remaining \$1 million gain on the Sold Patents. We recognized \$22 million in revenue related to the Existing Patents and Capture Period Patents during the three and nine months ended September 30, 2014. The amounts allocated to the license of the Existing Patents will be recorded as revenue over the four year payment period under the license when payments are due. The amounts allocated to the Capture Period Patents will be recorded as revenue over the five year capture period.

See “Operating Costs and Expenses — Gains on Sales of Patents” for additional information on gains recorded for the three and nine months ended September 30, 2014.

Accelerated Share Repurchase

In September 2014, we entered into an accelerated share repurchase agreement (“ASR”) with a financial institution to repurchase shares of our common stock. Under the agreement, we prepaid \$1.1 billion and approximately 15 million shares were initially delivered to us on September 30, 2014 and are included in treasury stock. Final settlement occurred on October 17, 2014, resulting in a total of approximately 23.5 million shares, inclusive of shares initially delivered, repurchased for \$933 million. The Company received a return of cash for the remaining amount not settled in shares of \$167 million. This ASR was entered into pursuant to the Company’s existing share repurchase program.

In October 2014, we entered into a second ASR with a financial institution to repurchase shares of our common stock. Under the agreement, we prepaid the maximum repurchase amount of \$1.0 billion and received approximately 15 million shares on October 30, 2014. The total number of shares that we ultimately purchase under this ASR will be determined based on the average of the daily volume-weighted average share price of our common stock over the duration of the ASR, less an agreed discount, and may be subject to adjustments for certain events under the agreement. The agreement contemplates that final settlement is expected to occur in the fourth quarter of 2014. At settlement, if the actual aggregate purchase price is less than \$1.0 billion we will receive a cash refund equal to the difference, however, the actual aggregate purchase price will not be less than \$800 million. At settlement, we expect to receive additional shares of our common stock, however, under certain circumstances, we may be required, at our option, either to deliver shares or to make a cash payment to the financial institution. This ASR was entered into pursuant to our existing share repurchase program.

See Note 13 — “Stockholders’ Equity and Employee Benefits” and Note 18 — “Subsequent Events” in the Notes to our condensed consolidated financial statements for additional information.

Search Agreement with Microsoft Corporation

By the end of 2013, we had substantially completed the transition of paid search to the Microsoft Corporation (“Microsoft”) platform. For search revenue generated from Microsoft’s services on Yahoo Properties and Affiliate sites, we report as revenue our 88 percent revenue share, as we are not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft. Revenue under our Search Agreement with Microsoft represented approximately 31 percent and 30 percent of our revenue for the three and nine months ended September 30, 2013, respectively, and approximately 36 percent of our revenue for both the three and nine months ended September 30, 2014.

Our results reflect search operating cost reimbursements from Microsoft under the Search Agreement of \$11 million and \$42 million for the three and nine months ended September 30, 2013, respectively, and less than \$1 million for both the three and nine months ended September 30, 2014.

See Note 17 — “Search Agreement with Microsoft Corporation” in the Notes to our condensed consolidated financial statements for additional information.

[Table of Contents](#)

Results of Operations

	<u>Three Months Ended September 30,</u>		<u>Percent</u>	<u>Nine Months Ended September 30,</u>		<u>Percent</u>
	<u>2013</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>2014</u>	<u>Change</u>
(dollars in thousands)						
Revenue for groups of similar services:						
Display						
Yahoo Properties	\$ 421,378	\$ 395,317	(6)%	\$ 1,251,781	\$ 1,191,473	(5)%
Affiliate sites	48,554	51,663	6 %	144,964	144,784	0 %
Total Display revenue	<u>469,932</u>	<u>446,980</u>	(5)%	<u>1,396,745</u>	<u>1,336,257</u>	(4)%
Search						
Yahoo Properties	345,428	381,835	11 %	994,974	1,113,620	12 %
Affiliate sites	89,764	70,520	(21)%	283,107	211,920	(25)%
Total Search revenue	<u>435,192</u>	<u>452,355</u>	4 %	<u>1,278,081</u>	<u>1,325,540</u>	4 %
Other						
Total revenue	<u>1,138,973</u>	<u>1,148,140</u>	1 %	<u>3,414,585</u>	<u>3,365,061</u>	(1)%
Cost of revenue — traffic acquisition costs	58,464	54,180	(7)%	188,848	143,915	(24)%
Cost of revenue — other	271,763	266,820	(2)%	821,032	818,812	0 %
Sales and marketing	282,562	309,618	10 %	819,319	932,281	14 %
Product development	267,444	305,624	14 %	733,222	890,915	22 %
General and administrative	151,304	147,234	(3)%	419,764	411,746	(2)%
Amortization of intangibles	15,253	15,322	0 %	30,702	48,826	59 %
Gains on sales of patents	—	(1,300)	100 %	(9,950)	(62,800)	N/M
Restructuring (reversals) charges, net	(576)	8,470	N/M	(4,060)	70,578	N/M
Total operating expenses	<u>1,046,214</u>	<u>1,105,968</u>	6 %	<u>2,998,877</u>	<u>3,254,273</u>	9 %
Income from operations	<u>\$ 92,759</u>	<u>\$ 42,172</u>	(55)%	<u>\$ 415,708</u>	<u>\$ 110,788</u>	(73)%
Includes:						
Stock-based compensation expense	\$ 80,726	\$ 105,796	31 %	\$ 193,467	\$ 317,422	64 %

N/M = Not Meaningful

[Table of Contents](#)

The following table sets forth selected information concerning our results of operations as a percentage of revenue for the period indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Revenue for groups of similar services:				
Display:				
Yahoo Properties	37%	34%	37%	35 %
Affiliate sites	4%	5%	4%	5 %
Total Display revenue	<u>41%</u>	<u>39%</u>	<u>41%</u>	<u>40 %</u>
Search:				
Yahoo Properties	30%	33%	29%	33 %
Affiliate sites	8%	6%	8%	6 %
Total Search revenue	<u>38%</u>	<u>39%</u>	<u>37%</u>	<u>39 %</u>
Other	21%	22%	22%	21 %
Total revenue	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100 %</u>
Cost of revenue — traffic acquisition costs	5%	4%	6%	4 %
Cost of revenue — other	24%	23%	24%	24 %
Sales and marketing	25%	27%	24%	28 %
Product development	24%	27%	21%	27 %
General and administrative	13%	13%	12%	12 %
Amortization of intangibles	1%	1%	1%	2 %
Gains on sales of patents	—	0%	—	(2)%
Restructuring (reversals) charges, net	—	1%	—	2 %
Total operating expenses	<u>92%</u>	<u>96%</u>	<u>88%</u>	<u>97 %</u>
Income from operations	<u>8%</u>	<u>4%</u>	<u>12%</u>	<u>3 %</u>

Table of Contents

Management Reporting

We continue to manage our business geographically. The primary areas of measurement and decision-making are currently the Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments.

	Three Months Ended		Percent Change	Nine Months Ended		Percent Change
	September 30, 2013	September 30, 2014		September 30, 2013	September 30, 2014	
(dollars in thousands)						
Revenue by segment:						
Americas	\$ 850,935	\$ 873,306	3 %	\$ 2,521,667	\$ 2,545,769	1 %
EMEA	89,156	89,058	0 %	281,367	278,475	(1)%
Asia Pacific	198,882	185,776	(7)%	611,551	540,817	(12)%
Total revenue	\$ 1,138,973	\$ 1,148,140	1 %	\$ 3,414,585	\$ 3,365,061	(1)%
TAC by segment:						
Americas	\$ 36,435	\$ 42,607	17 %	\$ 111,077	\$ 106,997	(4)%
EMEA	9,929	7,980	(20)%	32,837	27,385	(17)%
Asia Pacific	12,100	3,593	(70)%	44,934	9,533	(79)%
Total TAC	\$ 58,464	\$ 54,180	(7)%	\$ 188,848	\$ 143,915	(24)%
Revenue ex-TAC by segment:						
Americas	\$ 814,500	\$ 830,699	2 %	\$ 2,410,590	\$ 2,438,772	1 %
EMEA	79,227	81,078	2 %	248,530	251,090	1 %
Asia Pacific	186,782	182,183	(2)%	566,617	531,284	(6)%
Total revenue ex-TAC	\$ 1,080,509	\$ 1,093,960	1 %	\$ 3,225,737	\$ 3,221,146	0 %
Direct costs by segment⁽¹⁾:						
Americas	183,436	192,450	5 %	545,848	552,569	1 %
EMEA	39,594	36,796	(7)%	120,052	115,062	(4)%
Asia Pacific	47,312	50,955	8 %	151,698	140,538	(7)%
Global operating costs ⁽²⁾⁽³⁾	479,042	509,477	6 %	1,332,177	1,523,451	14 %
Depreciation and amortization	158,216	149,144	(6)%	480,797	453,538	(6)%
Stock-based compensation expense	80,726	105,796	31 %	193,467	317,422	64 %
Gains on sales of patents	—	(1,300)	100 %	(9,950)	(62,800)	N/M
Restructuring (reversals) charges, net	(576)	8,470	N/M	(4,060)	70,578	N/M
Income from operations	\$ 92,759	\$ 42,172	(55)%	\$ 415,708	\$ 110,788	(73)%

N/M = Not Meaningful

- (1) Direct costs for each segment include cost of revenue — other, as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses.
- (2) Global operating costs include product development, service engineering and operations, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment.
- (3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

Revenue

We generate revenue principally from display and search advertising on Yahoo Properties and Affiliate sites with the majority of our revenue coming from advertising on Yahoo Properties. Our margins on revenue from Yahoo Properties advertising are higher than our margins on revenue from display and search advertising on Affiliate sites, as we pay TAC to our Affiliates. Additionally, we generate revenue from other sources including listings-based services, facilitating commercial transactions, royalties, and consumer and business fee-based services.

For additional information about how we generate and recognize revenue, see “Results of Operations — Revenue — Display Revenue,” “— Search Revenue,” and “— Other Revenue” included in our Annual Report on Form 10-K for the year ended December 31, 2013 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

[Table of Contents](#)

Mobile Revenue

With the significant platform shift to mobile devices, including smartphones and tablets, we have increased our strategic focus on mobile products and mobile ad formats. We have hired engineering and technical talent to help us accelerate our efforts in mobile development, and introduced new mobile apps and refreshed the user experience on mobile across a number of Yahoo Properties, including News, Sports (including Fantasy Sports), Mail, Finance, Weather, and Screen. We are seeing an increase in the number of our daily and monthly mobile users as a result of these product improvements. During the quarter ended September 30, 2014, we reached more than 550 million monthly mobile users (including Tumblr).

GAAP mobile revenue for the three and nine months ended September 30, 2014 was more than \$200 million and more than \$500 million, respectively. These GAAP mobile revenue amounts are included within Display, Search, and Other revenue we have reported.

We expect GAAP mobile revenue to be more than \$700 million for the year ended December 31, 2014.

Display Revenue

Display revenue for the three and nine months ended September 30, 2014 decreased \$23 million, or 5 percent, and \$60 million, or 4 percent, respectively, as compared to the same periods of 2013. The decline in display revenue was attributable to a mix shift from premium ad units to lower monetizing native ad units.

The decline for the three months ended September 30, 2014 was primarily attributable to a decline in advertising revenue on Yahoo Properties in the Americas and Asia Pacific regions of \$20 million and \$8 million, respectively, and a decline in advertising revenue on Affiliate sites in the EMEA region of \$4 million. This decline was partially offset by an increase in advertising revenue on Affiliate sites in the Americas and Asia Pacific regions of \$3 million and \$4 million, respectively, and an increase in advertising revenue on Yahoo Properties in the EMEA region of \$2 million.

The decline for the nine months ended September 30, 2014 was primarily attributable to a decline in advertising revenue on Yahoo Properties in the Americas, EMEA, and Asia Pacific regions of \$27 million, \$5 million, and \$29 million, respectively, and a decline in advertising revenue on Affiliate sites in the Americas and EMEA regions of \$4 million and \$7 million, respectively, partially offset by an increase in advertising revenue on Affiliate sites in the Asia Pacific region of \$11 million.

Search Revenue

Search revenue for the three and nine months ended September 30, 2014 increased \$17 million, or 4 percent, and \$47 million, or 4 percent, respectively, as compared to the same periods of 2013. The growth in search revenue was primarily attributable to click yield improvements resulting from an increase in contribution of higher monetizing clicks from the Americas region and on Yahoo Properties, partially offset by the impact of the Microsoft transition in the Asia Pacific region. Additionally, for the three months ended September 30, 2014, search revenue increased due in part to growth in advertising revenue from mobile. For the three and nine months ended September 30, 2014, search revenue increased as compared to the same periods of 2013 despite the expiration of Microsoft's guarantee of Yahoo revenue per search under the Search Agreement (the "RPS Guarantee") in the U.S.

The increase in search revenue for the three months ended September 30, 2014 was primarily attributable to an increase in advertising revenue on Yahoo Properties in the Americas, EMEA, and Asia Pacific regions of \$23 million, \$9 million, and \$5 million, respectively, partially offset by a decline in advertising revenue on Affiliate sites in the Asia Pacific and EMEA regions of \$17 million and \$2 million, respectively.

The increase in search revenue for the nine months ended September 30, 2014 was primarily attributable to an increase in advertising revenue on Yahoo Properties in the Americas, EMEA, and Asia Pacific regions of \$83 million, \$24 million, and \$11 million, respectively, partially offset by a decline in advertising revenue on Affiliate sites in the Americas and Asia Pacific regions of \$9 million and \$61 million, respectively.

Other Revenue

Other revenue for the three and nine months ended September 30, 2014 increased \$15 million, or 6 percent, and decreased \$36 million, or 5 percent, respectively, as compared to the same periods of 2013. The increase for the three months ended September 30, 2014 was primarily due to an increase in fees revenue in the Americas and Asia Pacific regions of \$27 million and \$3 million, respectively, partially offset by a decline in listings-based revenue in the Americas and EMEA regions of \$11 million and \$4 million, respectively. The decrease for the nine months ended September 30, 2014 was primarily attributable to a decline in listings-based revenue in the Americas, EMEA and Asia Pacific regions of \$41 million, \$12 million, and \$3 million, respectively, and a decline in fees revenue in the EMEA region of \$2 million. These declines were partially offset by an increase in fees revenue in the Americas

[Table of Contents](#)

region of \$22 million. The increase in fees revenue in the Americas region for the three and nine months ended September 30, 2014 was primarily attributable to royalty revenue associated with the patent sale and license agreement that we entered into in the second quarter of 2014.

As a result of the patent sale and license agreement entered into in the second quarter of 2014, beginning in the third quarter of 2014, other revenue was recognized and will continue to be recognized over four years and five years related to the Existing Patents and Capture Period Patents, respectively. We recognized \$22 million of other revenue in the three and nine months ended September 30, 2014. For the remaining period, we expect to recognize approximately \$126 million of other revenue related to the Existing Patents and \$251 million of other revenue related to the Capture Period Patents.

Display and Search Metrics

We present information below regarding the number of “Ads Sold” and “Price-per-Ad” for display and the number of “Paid Clicks” and “Price-per-Click” for search. This information is derived from internal data.

“Ads Sold” consist of display ad impressions for paying advertisers on Yahoo Properties. “Price-per-Ad” is defined as display revenue from Yahoo Properties divided by our total number of Ads Sold. Our price and volume metrics for display are based on display revenue, which we report on a gross basis (before TAC), and include data for graphical, sponsorship, and native ad units on Yahoo Properties (including mobile). Our price and volume metrics for display exclude both the number of Ads Sold and the related revenue for certain regions and acquired companies where historical data was not retained in a manner that would support period-to-period comparison on these metrics. The countries and regions included in our display metrics are: the U.S., the United Kingdom, France, Germany, Spain, Italy, Taiwan, Hong Kong, Southeast Asia, and India. For periods prior to the third quarter of 2014, Tumblr, Inc. (“Tumblr”) data in our display metrics is limited to our new native ad units (which are included commencing with the first quarter of 2014).

“Paid Clicks” are defined as clicks by end-users on sponsored search listings (excluding native ad units) on Yahoo Properties and Affiliate sites. Advertisers generally pay for sponsored search listings on a per-click basis. “Search click-driven revenue” is gross search revenue (before TAC), excluding the RPS Guarantee. “Price-per-Click” is defined as search click-driven revenue divided by our total number of Paid Clicks.

We periodically review, refine and update our methodologies for monitoring, gathering, and counting number of Ads Sold and Paid Clicks and for calculating search click-driven revenue, Price-per-Click, and Price-per-Ad. Prior period amounts have been updated to conform to the current presentation.

Display Metrics

For the three and nine months ended September 30, 2014, number of Ads Sold increased 24 percent and 19 percent, respectively, and Price-per-Ad decreased 24 percent and 18 percent, respectively, as compared to the same periods of 2013. The increase in number of Ads Sold for the three and nine months ended September 30, 2014 was attributable to an increase in native ad units sold, partially offset by a decline in premium ad units sold. Native ad units represented approximately 44 percent and 36 percent of total Ads Sold for the three and nine months ended September 30, 2014, respectively. The decrease in Price-per-Ad for the three and nine months ended September 30, 2014 was due to a mix shift toward lower monetizing native ad units in the Americas region as well as a decline in pricing of native ad units compared to prior periods.

Search Metrics

For the three and nine months ended September 30, 2014, Paid Clicks was flat and increased 3 percent, respectively, and Price-per-Click increased 17 percent and 13 percent, respectively, as compared to the same periods of 2013. The increase in Paid Clicks for the nine months ended September 30, 2014 was attributable to an increase in Paid Clicks on Yahoo Properties from distribution partners primarily in the Americas region, partially offset by a decline in Paid Clicks on Affiliate sites primarily in the Asia Pacific region driven by the transition of paid search to Microsoft. The increase in Price-per-Click for the three and nine months ended September 30, 2014 was primarily due to improved traffic quality in the Asia Pacific region resulting in higher Price-per-Click. Improvements in Price-per-Click resulted in year-over-year growth in search click-driven revenue for both the three and nine months ended September 30, 2014 of 17 percent.

Revenue ex-TAC by Segment

Americas

Americas revenue ex-TAC for the three and nine months ended September 30, 2014 increased \$16 million, or 2 percent, and \$28 million, or 1 percent, respectively, as compared to the same periods of 2013. The increase in Americas revenue ex-TAC for the three months ended September 30, 2014 reflects increases in search revenue ex-TAC of \$21 million and other revenue ex-TAC of \$16 million, partially offset by a decline in display revenue ex-TAC of \$21 million. The increase in Americas revenue ex-TAC for the nine months ended September 30, 2014 was attributable to an increase in search revenue ex-TAC of \$75 million, partially offset by declines in other revenue ex-TAC of \$24 million and display revenue ex-TAC of \$23 million.

The decline in display revenue ex-TAC for the three and nine months ended September 30, 2014 was due to a decline in premium ads sold on Yahoo Properties, partially offset by an increase in native advertising.

[Table of Contents](#)

Search revenue ex-TAC in the Americas region increased 6 percent and 8 percent for the three and nine months ended September 30, 2014, respectively, as compared to the same periods of 2013, as Paid Clicks increased 9 percent and 11 percent, respectively, and Price-per-Click increased 8 percent and 5 percent, respectively, in the region. The increase in search revenue ex-TAC for the three and nine months ended September 30, 2014 was attributable to an increase in search revenue on Yahoo Properties driven by higher revenue-per-search from a change in the design of the search results page and an increase in search advertising from mobile devices. Additionally, search revenue ex-TAC increased despite the expiration of the RPS Guarantee in the U.S. For the nine months ended September 30, 2014, the search revenue ex-TAC increase on Yahoo Properties was partially offset by a decline in Affiliate search revenue in the region.

The increase in other revenue ex-TAC for the three months ended September 30, 2014 was primarily attributable to an increase in fees revenue, as a result of the patent license revenue, partially offset by a decline in listings-based revenue. The decline in other revenue ex-TAC for the nine months ended September 30, 2014 was primarily attributable to a decline in listings-based revenue, partially offset by an increase in fees revenue.

Revenue ex-TAC in the Americas segment accounted for approximately 76 percent of total revenue ex-TAC for both the three and nine months ended September 30, 2014, compared to 75 percent for both the three and nine months ended September 30, 2013.

EMEA

EMEA revenue ex-TAC for the three and nine months ended September 30, 2014 increased \$2 million, or 2 percent, and \$3 million, or 1 percent, respectively, as compared to the same periods of 2013. The increase in EMEA revenue ex-TAC for the three and nine months ended September 30, 2014 was primarily attributable to an increase in search revenue ex-TAC, partially offset by declines in display and other revenue ex-TAC. The increase in search revenue ex-TAC for the three and nine months ended September 30, 2014 was due to an increase in search advertising on Yahoo Properties driven by distribution deals that contributed to improved revenue-per-search. The decline in display revenue ex-TAC for the three and nine months ended September 30, 2014 was due to a decline in premium Ads Sold on Yahoo Properties, primarily Homepage. This decline was partially offset by an increase in non-premium advertising due to the launch of native advertising in the region.

Revenue ex-TAC in the EMEA segment accounted for approximately 7 percent and 8 percent of total revenue ex-TAC for both the three and nine months ended September 30, 2014, and 2013, respectively.

Asia Pacific

Asia Pacific revenue ex-TAC for the three and nine months ended September 30, 2014 decreased \$5 million, or 2 percent, and \$35 million, or 6 percent, respectively, as compared to the same periods of 2013. The decline for the three months ended September 30, 2014 was attributable to declines in display and search revenue ex-TAC, partially offset by an increase in other revenue ex-TAC. The decline for the nine months ended September 30, 2014 was attributable to declines in display and search revenue ex-TAC of \$15 million and \$17 million, respectively. The decline in display revenue ex-TAC for the three and nine months ended September 30, 2014 was primarily attributable to a decline in premium advertising on Yahoo Properties due to a decline in supply, and a decline in content match partially offset by an increase in display revenue from Affiliate sites. The decline in search revenue ex-TAC for the three and nine months ended September 30, 2014 was primarily attributable to the revenue share with Microsoft associated with the Search Agreement. Revenue ex-TAC in the Asia Pacific region was also impacted by unfavorable foreign exchange fluctuations of \$1 million and \$20 million for the three and nine months ended September 30, 2014, respectively.

Revenue ex-TAC in the Asia Pacific segment accounted for approximately 17 percent and 16 percent of total revenue ex-TAC for the three and nine months ended September 30, 2014, respectively, compared to 17 percent and 18 percent for the three and nine months ended September 30, 2013, respectively.

Direct Costs by Segment

Americas

For the three and nine months ended September 30, 2014, direct costs attributable to the Americas segment increased \$9 million, or 5 percent, and \$7 million, or 1 percent, respectively, as compared to the same periods of 2013. For the three months ended September 30, 2014, the increase in direct costs reflected increases in marketing and public relations expenses of \$18 million and content and other costs of \$8 million. This increase was partially offset by a decline in compensation costs of \$17 million. For the nine months

[Table of Contents](#)

ended September 30, 2014, the increase in direct costs was primarily due to increases in marketing and public relations expenses of \$25 million, content and other costs of \$7 million, outside service provider expenses of \$4 million, and bandwidth and other cost of revenue of \$2 million. This increase was partially offset by a decline in compensation costs of \$28 million and travel and entertainment expense of \$4 million. The increase in marketing and public relations expense is primarily attributable to increased advertising for Fantasy Football, Shopping, Mail and News.

Direct costs attributable to the Americas segment represented approximately 23 percent of Americas revenue ex-TAC for both the three and nine months ended September 30, 2014 and 2013.

EMEA

For the three and nine months ended September 30, 2014, direct costs attributable to the EMEA segment decreased \$3 million, or 7 percent, and \$5 million, or 4 percent, respectively, compared to the same periods of 2013.

Direct costs attributable to the EMEA segment represented approximately 45 percent and 46 percent of EMEA revenue ex-TAC for the three and nine months ended September 30, 2014, respectively, compared to 50 percent and 48 percent for the three and nine months ended September 30, 2013, respectively.

Asia Pacific

For the three and nine months ended September 30, 2014, direct costs attributable to the Asia Pacific segment increased \$4 million, or 8 percent, and decreased \$11 million, or 7 percent, respectively, as compared to the same periods of 2013. For the nine months ended September 30, 2014, the decrease was primarily attributable to declines in compensation costs of \$6 million, outside service provider expense of \$3 million, and travel and entertainment expense of \$1 million.

Direct costs attributable to the Asia Pacific segment represented approximately 28 percent and 26 percent of Asia Pacific revenue ex-TAC for the three and nine months ended September 30, 2014, respectively, compared to 25 percent and 27 percent for the three and nine months ended September 30, 2013, respectively.

Operating Costs and Expenses

Traffic Acquisition Costs

TAC consists of payments made to third-party entities that have integrated our advertising offerings into their Websites or other offerings and payments made to companies that direct consumer and business traffic to Yahoo Properties. We enter into agreements of varying durations that involve TAC. There are generally two economic structures of the Affiliate agreements: fixed payments based on a guaranteed minimum amount of traffic delivered, which often carry reciprocal performance guarantees from the Affiliate, or variable payments based on a percentage of our revenue or based on a certain metric, such as number of searches or paid clicks. We expense TAC under two different methods. Agreements with fixed payments are expensed ratably over the term the fixed payment covers, and agreements based on a percentage of revenue, number of searches, or other metrics are expensed based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

TAC for the three and nine months ended September 30, 2014 decreased \$4 million, or 7 percent, and \$45 million, or 24 percent, respectively, as compared to the same periods of 2013. The decrease for the three months ended September 30, 2014, compared to 2013, was primarily attributable to a decline in TAC in the Asia Pacific region of \$9 million primarily related to search, partially offset by an increase in TAC in the Americas region of \$6 million primarily related to display. The decrease for the nine months ended September 30, 2014, compared to 2013, was primarily attributable to declines in the Asia Pacific, EMEA, and Americas regions of \$35 million, \$5 million and \$4 million, respectively. The decline for the three and nine months ended September 30, 2014 was primarily due to the required change in revenue presentation for transitioned markets from a gross (before TAC) basis to a net (after TAC) basis in the Asia Pacific region.

TAC represented approximately 4 percent of GAAP revenue for both the three and nine months ended September 30, 2014, compared to 5 percent and 6 percent for the three and nine months ended September 30, 2013, respectively.

Cost of Revenue — Other

Cost of revenue — other consists of bandwidth costs, content costs, and other expenses associated with the production and usage of Yahoo Properties, including amortization of developed technology and patents. Cost of revenue — other also includes costs for Yahoo's technology platforms and infrastructure, including depreciation expense and other operating costs, directly related to revenue generating activities.

Cost of revenue — other for the three and nine months ended September 30, 2014 decreased \$5 million, or 2 percent, and \$2 million, or less than 1 percent, respectively, as compared to the same periods of 2013. The three months ended September 30, 2014, compared to 2013, reflected a decline in depreciation and amortization of \$7 million and a decline in bandwidth costs of \$8 million, partially offset

[Table of Contents](#)

by an increase in content and other costs of \$8 million. The nine months ended September 30, 2014, compared to 2013, reflected declines in depreciation and amortization of \$30 million, maintenance contracts and other of \$8 million, and facilities and equipment expense of \$3 million, partially offset by increases in stock-based compensation expense of \$20 million, bandwidth costs of \$13 million and content costs of \$9 million.

Cost of revenue — other represented approximately 23 percent and 24 percent of GAAP revenue for the three and nine months ended September 30, 2014, respectively, compared to 24 percent for both the three and nine months ended September 30, 2013.

Sales and Marketing

Sales and marketing expenses consist primarily of advertising and other marketing-related expenses, compensation-related expenses (including stock-based compensation expense), sales commissions, and travel costs.

Sales and marketing expenses for the three and nine months ended September 30, 2014 increased \$27 million, or 10 percent, and \$113 million, or 14 percent, respectively, as compared to the same periods of 2013. For the three months ended September 30, 2014, marketing and public relations and other expenses increased \$20 million and stock-based compensation expense increased \$5 million. For the nine months ended September 30, 2014, compensation costs increased \$48 million, stock-based compensation expense increased \$51 million, and marketing and public relations expense increased \$16 million. The increase in marketing and public relations expense for both the three and nine months ended September 30, 2014 was primarily due to increased advertising for Fantasy Football, Shopping, Mail and News. The increase in stock-based compensation expense for both the three and nine months ended September 30, 2014 was attributable to an increase in the number of awards granted at a higher fair value. The increase in compensation costs for the nine months ended September 30, 2014 was attributable to merit-based increases in salaries, as well as increases in incentive compensation, benefits, and sales commissions.

Sales and marketing expenses represented approximately 27 percent and 28 percent of GAAP revenue for the three and nine months ended September 30, 2014, respectively, compared to 25 percent and 24 percent for the three and nine months ended September 30, 2013, respectively.

Product Development

Product development expenses consist primarily of compensation-related expenses (including stock-based compensation expense) incurred for the development of, enhancements to and maintenance of Yahoo Properties, classification and organization of listings within Yahoo Properties, research and development, and Yahoo's technology platforms and infrastructure. Depreciation expense and other operating costs are also included in product development.

Product development expenses for the three and nine months ended September 30, 2014 increased \$38 million, or 14 percent, and \$158 million, or 22 percent, respectively, as compared to the same periods of 2013. For the three months ended September 30, 2014, the increase was primarily attributable to increases in compensation costs of \$22 million, and stock-based compensation expense of \$12 million, a decrease in capitalized labor projects resulting in an increase in expense of \$4 million, and an increase in facilities and equipment expense of \$4 million, partially offset by a decline in travel and entertainment expense of \$4 million. For the nine months ended September 30, 2014, the increase was primarily attributable to increases in compensation costs of \$118 million, stock-based compensation expense of \$37 million, a decrease in capitalized labor projects resulting in an increase in expense of \$29 million, partially offset by declines in depreciation and amortization expense of \$10 million, outside service provider expense of \$9 million, and travel and entertainment expense of \$9 million. The increase in compensation costs for both the three and nine months ended September 30, 2014 was primarily attributable to a 5 percent increase in headcount year-over-year, including incremental headcount for mobile and search. The increase in compensation costs for the three months ended September 30, 2014 was also attributable to increases in compensation costs due to a shift in location of employees, increases in benefits, and increases in incentive compensation. The increase in compensation costs for the nine months ended September 30, 2014 was also attributable to increases in compensation costs due to merit-based increases in salaries, as well as increases in costs from a shift in location of employees, increases in benefits, and increases in incentive compensation. The increase in stock-based compensation expense for both the three and nine months ended September 30, 2014 was attributable to an increase in the number of awards granted at a higher fair value and an increase in expense related to equity assumed from acquisitions.

Product development expenses represented approximately 27 percent of GAAP revenue for both the three and nine months ended September 30, 2014, compared to 24 percent and 21 percent for the three and nine months ended September 30, 2013, respectively. The increase in this percentage for the nine months ended September 30, 2014 was primarily driven by increases in compensation costs, stock-based compensation expense, and a decline in capitalizable projects as discussed above and reflected increased investments in product development.

General and Administrative

General and administrative expenses consist primarily of compensation-related expenses (including stock-based compensation expense) related to other corporate departments and fees for professional services.

General and administrative expenses for the three and nine months ended September 30, 2014 decreased \$4 million, or 3 percent, and \$8 million, or 2 percent, respectively, as compared to the same periods of 2013. For the three months ended September 30, 2014, the decline was due to a decrease in compensation costs of \$5 million and a decrease in travel and entertainment, depreciation and other expenses of \$5 million. This was partially offset by an increase in stock-based compensation expense of \$7 million. For the nine

[Table of Contents](#)

months ended September 30, 2014, the decline was due to a decrease in outside service provider expense of \$10 million, as well as benefits related to net gains on disposal of assets of \$9 million and business tax refunds received of \$7 million. This was partially offset by an increase in stock-based compensation expense of \$16 million and facilities and equipment expense of \$5 million. The decrease in compensation costs for the three months ended September 30, 2014 was primarily attributable to a 3 percent decline in headcount year-over-year, particularly in human resources, as well as decreases in discretionary recruiting expenses. The increase in stock-based compensation expense for both the three and nine months ended September 30, 2014 was attributable to an increase in the number of awards granted at a higher fair value.

General and administrative expenses represented approximately 13 percent and 12 percent of GAAP revenue for both the three and nine months ended September 30, 2014, and 2013, respectively.

Amortization of Intangibles

We have purchased, and expect to continue purchasing, assets and/or businesses, which may include the purchase of intangible assets. Intangible assets include customer, affiliate, and advertiser-related relationships and tradenames, trademarks and domain names. Amortization of developed technology and patents is included in the cost of revenue — other and not in amortization of intangibles.

Amortization of intangibles for the three months ended September 30, 2014 was flat, as compared to the same period of 2013. Amortization of intangibles for the nine months ended September 30, 2014 increased \$18 million, or 59 percent, as compared to the same period of 2013, primarily driven by amortization of intangible assets related to Tumblr, which we acquired in the second quarter of 2013.

Amortization of intangibles represented approximately 1 percent and 2 percent of GAAP revenue for the three and nine months ended September 30, 2014, respectively, compared to 1 percent for both the three and nine months ended September 30, 2013.

Gains on Sales of Patents

For the three months ended September 30, 2014, we recorded gains on sales of patents of approximately \$1 million. For the nine months ended September 30, 2014 and 2013, we sold certain patents and recorded gains on sales of patents of approximately \$63 million and \$10 million, respectively. See “Significant Transactions — Patent Sale and License Agreement” for additional information on the patents sold during the second quarter of 2014.

Restructuring (Reversals) Charges, Net

Restructuring (reversals) charges, net was comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Employee severance pay and related costs	\$ 24	\$ 4,086	\$ 6,742	\$ 7,759
Non-cancelable lease, contract termination, and other charges	2,292	4,545	13,485	72,983
Other non-cash charges (credits), net	—	—	547	(7,031)
Changes in estimates and reversals of previous charges	(2,892)	(161)	(24,834)	(3,133)
Restructuring (reversals) charges, net	<u>\$ (576)</u>	<u>\$ 8,470</u>	<u>\$ (4,060)</u>	<u>\$ 70,578</u>

We have implemented various restructuring plans to reduce our cost structure, align resources with our product strategy and improve efficiency, which have resulted in workforce reductions and the consolidation of certain real estate facilities and data centers. For the three months ended September 30, 2013, we recorded expense of \$2 million related to the Americas segment, and reversals of \$2 million and \$1 million related to the EMEA and Asia Pacific segments, respectively. For the three months ended September 30, 2014, we recorded expense of \$4 million, \$1 million, and \$3 million related to Americas, EMEA, and Asia Pacific segments, respectively. For the nine months ended September 30, 2013, we recorded reversals of \$3 million and \$1 million related to the EMEA and Asia Pacific segments, respectively. For the nine months ended September 30, 2014, we recorded expense of \$59 million, \$8 million, and \$4 million related to the Americas, EMEA, and Asia Pacific segments, respectively. The amounts recorded during the nine months ended September 30, 2014 were primarily related to the consolidation of a data center as we ceased use of that facility pursuant to a restructuring plan we initiated in 2011.

The \$75 million restructuring liability as of September 30, 2014 primarily related to non-cancelable lease costs, which we expect to pay over the terms of the related obligations through the fourth quarter of 2021, less estimated sublease income.

See Note 14 — “Restructuring (Reversals) Charges, Net” in the Notes to our condensed consolidated financial statements for additional information.

[Table of Contents](#)

Other Income, Net

Other income, net was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2014	September 30, 2013	September 30, 2014
Interest, dividend, and investment income	\$ 5,362	\$ 5,148	\$ 53,214	\$ 16,180
Interest expense	(2,593)	(17,292)	(7,084)	(51,461)
Gain on sale of Alibaba Group ADSs	—	10,319,437	—	10,319,437
Other income (expense), net	2,601	1,638	(82)	(2,267)
Total other income, net	<u>\$ 5,370</u>	<u>\$10,308,931</u>	<u>\$ 46,048</u>	<u>\$10,281,889</u>

For the three months ended September 30, 2014, interest, dividend and investment income was relatively flat, compared to the same period of 2013. For the nine months ended September 30, 2014, interest, dividend and investment income decreased \$37 million, compared to the same period of 2013, primarily due to dividend income on the Alibaba Group Preference Shares received during the nine months ended September 30, 2013 for which there was no similar income for the nine months ended September 30, 2014.

Interest expense increased \$15 million and \$44 million for the three and nine months ended September 30, 2014, respectively, compared to the same periods of 2013, primarily due to the accreted non-cash interest expense related to the 0.00% Convertible Senior Notes due 2018 that we issued in November 2013.

We recorded a pre-tax gain of approximately \$10 billion in the three months ended September 30, 2014 related to the sale of Alibaba Group ADSs. See “Significant Transactions — Alibaba Group Holding Limited Initial Public Offering” above and Note 8 — “Investments in Equity Interests” in the Notes to our condensed consolidated financial statements for additional information.

For the three and nine months ended September 30, 2014, other income (expense), net decreased \$1 million and \$2 million, respectively, compared to the same periods of 2013, primarily due to unrealized and realized foreign exchange currency transaction losses.

Income Taxes

Our effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, our provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, non-deductible acquisition-related costs and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended September 30, 2014 was 38 percent compared to 32 percent for the same period in 2013. The effective tax rate reported for the nine months ended September 30, 2014 was 38 percent compared to 24 percent for the same period in 2013. The effective tax rates for the three and nine months ended September 30, 2014 included current and deferred tax expense of \$4.0 billion associated with our taxable gain from the sale of 140 million Alibaba Group ADSs during the three months ended September 30, 2014. The lower effective tax rates for the three and nine months ended September 30, 2013 were related to a reduction of tax reserves that were recorded as tax audits were favorably settled and a tax benefit from the resolution of certain tax matters associated with a one-time foreign earnings distribution made in 2012.

As of September 30, 2014, we do not anticipate repatriating our undistributed foreign earnings of approximately \$2.9 billion. Those earnings are principally related to our equity method investment in Yahoo Japan Corporation (“Yahoo Japan”). If those earnings were to be repatriated in the future, we may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated.

Our gross amount of unrecognized tax benefits as of September 30, 2014 was \$1.1 billion, of which \$1.0 billion is recorded on our condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2014 increased by \$360 million from the recorded balance as of December 31, 2013 primarily related to tax reserves associated with the sale of the Alibaba Group ADSs and foreign tax credits. We believe that we have adequately provided for any reasonably foreseeable adjustments and that any settlement will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

We are in various stages of examination and appeal in connection with our taxes both in the U.S. and in foreign jurisdictions. Those audits generally span tax years 2005 through 2012. The IRS Appeals division is currently finalizing our protest of the 2007 and 2008 audit results, while the IRS exam team is finalizing the examination of our 2009 and 2010 U.S. federal income tax returns. We have protested the proposed California Franchise Tax Board’s adjustments to the 2005 and 2006 returns, but no conclusions have been reached to date. The 2007 and 2008 California tax returns have been examined without any significant adjustment to our financial statement positions. While it is difficult to determine when the examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that our unrecognized tax benefits could be reduced by up to approximately \$80 million in the next twelve months.

We estimate that we will pay approximately \$3.3 billion in the three months ended March 31, 2015 related to YHK’s sale of Alibaba Group ADSs in the IPO on September 24, 2014. We also accrued deferred tax liabilities of \$13.8 billion associated with the Alibaba Group shares that we retained. Such deferred tax liabilities will be subject to periodic adjustments due to changes in the fair market value of the Alibaba Group shares.

[Table of Contents](#)

We may have additional tax liabilities in China related to the sale to Alibaba Group of 523 million Alibaba Group shares that took place during the year ended December 31, 2012 and related to the sale of the 140 million Alibaba Group ADSs sold in the IPO that took place during the three months ended September 30, 2014. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S. through the use of foreign tax credits with respect to the sale in 2012. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S. with respect to the sale in 2014 through the use of foreign tax credits to the extent there is sufficient foreign source income.

During the year ended December 31, 2012, tax authorities from the Brazilian State of Sao Paulo assessed certain indirect taxes against our Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment totaling approximately \$85 million is for calendar years 2008 and 2009. We currently believe the assessment is without merit. We believe the risk of loss is remote and have not recorded an accrual for the assessment.

Earnings in Equity Interests

Earnings in equity interests for the three and nine months ended September 30, 2014 was \$399 million and \$956 million, respectively, compared to \$233 million and \$675 million, respectively, in the same periods of 2013. The increases for the three and nine months ended September 30, 2014 were due primarily to improved financial performance for Alibaba Group. We record earnings in equity interests one quarter in arrears. Beginning in the fourth quarter of 2014, we expect earnings in equity interests and net income in future periods to be materially lower as we will no longer account for our interest in Alibaba Group using the equity method. Excluding Alibaba Group earnings in equity interests for the three months ended September 30, 2014, earnings in equity interests was approximately \$117 million.

See “Significant Transactions — Alibaba Group Holding Limited Initial Public Offering” above and Note 8 — “Investments in Equity Interests” in the Notes to our condensed consolidated financial statements for additional information.

Noncontrolling Interests

Noncontrolling interests represent the noncontrolling holders’ percentage share of income or losses from the subsidiaries in which we hold a majority, but less than 100 percent, ownership interest and the results of which are consolidated in our condensed consolidated financial statements.

Liquidity and Capital Resources

	December 31, 2013	September 30, 2014
	(Dollars in thousands)	
Cash and cash equivalents	\$2,077,590	\$10,345,285
Short-term marketable securities	1,330,304	848,558
Long-term marketable securities	1,589,500	1,056,992
Investment in Alibaba Group	—	34,079,787
Total cash, cash equivalents, and marketable securities	<u>\$4,997,394</u>	<u>\$46,330,622</u>
Percentage of total assets	<u>30%</u>	<u>81%</u>

Cash Flow Highlights

	Nine Months Ended September 30,	
	2013	2014
	(In thousands)	
Net cash provided by operating activities	\$ 837,570	\$ 785,667
Net cash provided by investing activities	\$ 332,887	\$ 9,956,994
Net cash used in financing activities	\$(2,974,548)	\$(2,446,281)

Our operating activities for the nine months ended September 30, 2014 generated adequate cash to meet our operating needs.

On September 24, 2014, Alibaba Group closed its IPO. We received cash proceeds of \$9.4 billion (net of underwriting discounts, commissions, and fees of approximately \$115 million) from the sale of 140 million Alibaba Group ADSs and recorded a pre-tax gain of \$10.3 billion. We intend to return to our stockholders at least half of the after-tax proceeds we received from YHK’s sale of the Alibaba Group ADSs in the IPO. From the closing of the IPO to November 7, 2014, we have repurchased shares of our common stock for a total of approximately \$2.6 billion as a part of our commitment to return at least half of the after-tax IPO proceeds.

As of September 30, 2014, we had cash, cash equivalents, and marketable securities totaling \$46 billion compared to \$5 billion at December 31, 2013. The increase was due to the net cash proceeds of \$9.4 billion received from the sale of 140 million Alibaba Group ADSs in the IPO, as well as reflecting \$34 billion of Alibaba Group equity securities as an available-for-sale marketable security. This was partially offset by \$1.1 billion prepaid to a financial institution for the September 2014 ASR (including an initial delivery of approximately 15 million shares) described above, the repurchase of approximately 40 million shares of our outstanding common stock for approximately \$1.5 billion and \$314 million used for acquisitions.

[Table of Contents](#)

Our foreign subsidiaries held \$10 billion of our total \$12 billion of cash and cash equivalents, and marketable securities (excluding Alibaba Group equity securities) as of September 30, 2014. The cumulative earnings remaining in our consolidated foreign subsidiaries, if repatriated to the U.S., under current law, would be subject to U.S. income taxes with an adjustment for foreign tax credits. For the earnings that are considered indefinitely reinvested outside the U.S., principally related to our equity method investment in Yahoo Japan, we do not anticipate a need to repatriate these earnings for use in our U.S. operations.

On October 9, 2014, we entered into Amendment No. 2 to the credit agreement (the "Credit Agreement") with Citibank, N.A., which extended the termination date of the Credit Agreement from October 9, 2014 to October 8, 2015. As of September 30, 2014, we were in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding. See Note 10 — "Credit Agreement" and Note 18 — "Subsequent Events" in the Notes to our condensed consolidated financial statements for additional information regarding our Credit Agreement.

We currently hedge a portion of our net investment in Yahoo Japan with forward and option contracts to reduce the risk that our investment in Yahoo Japan will be adversely affected by foreign currency translation exchange rate fluctuations. The forward contracts are required to be settled in cash and the amount of cash payment we receive or could be required to pay upon settlement could be material. The amount of cash paid or received on the option contracts would only be required if the exchange rate is outside a predetermined range.

We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products, and technologies that are complementary to our business, which acquisitions and investments may require the use of cash.

We expect to generate positive cash flows from operations in the fourth quarter of 2014. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable securities, together with any cash generated from operations, and borrowings under the Credit Agreement, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months, as well as additional stock repurchases we expect to make under our stock repurchase program.

Cash Flow Changes

Net cash provided by operating activities.

For the nine months ended September 30, 2014, operating activities provided \$786 million in cash. Net income for the nine months ended September 30, 2014 was \$7,363 million, which was adjusted for the following increases related to non-cash items: depreciation, amortization of intangibles and accretion of convertible notes discount of \$498 million, stock-based compensation expense of \$317 million, tax benefits from stock-based awards of \$111 million, deferred income tax expense of \$397 million, and losses from sales of investments, assets and other of \$28 million, offset by the gain on sale of Alibaba Group ADSs of \$10.3 billion and other reductions for non-cash items including: earnings in equity interests of \$956 million, excess tax benefits from stock-based awards of \$114 million, restructuring reversals of \$7 million, and gains on sales of patents of \$63 million. Additionally, we received dividends of \$84 million from Yahoo Japan and working capital sources of cash of \$3,566 million, which were partially offset by working capital uses of cash of \$119 million.

For the nine months ended September 30, 2013, operating activities provided \$838 million in cash. Net income for the nine months ended September 30, 2013 was \$1,025 million, which was adjusted for the following increases related to non-cash items: depreciation and amortization of intangibles of \$481 million, stock-based compensation expense of \$193 million, tax benefits from stock-based awards of \$34 million, and losses from sales of investments, assets and other of \$22 million, offset by reductions related to the following non-cash items: earnings in equity interests of \$675 million, excess tax benefits from stock-based awards of \$47 million, deferred income tax benefits of \$75 million, dividend income related to Alibaba Group Preference Shares of \$36 million, and gains on sales of patents of \$10 million. Additionally, we received dividends of \$135 million from equity investees and working capital sources of cash of \$161 million, which were offset by working capital uses of cash of \$370 million.

Net cash provided by investing activities.

In the nine months ended September 30, 2014, the \$9,957 million provided by investing activities was due to \$9,405 million in cash proceeds from the sale of Alibaba Group ADSs in the IPO, net of underwriting discounts, commissions, and fees, net proceeds from sales of marketable debt securities of \$988 million, \$186 million in proceeds received from settlement of derivative hedge contracts and \$63 million in proceeds from sales of patents, partially offset by \$304 million used for capital expenditures, \$314 million used for acquisitions, \$60 million used for additional equity investments, \$5 million used to settle derivative hedge contracts, and \$2 million used for the purchase of intangibles and other activities.

In the nine months ended September 30, 2013, the \$333 million provided by investing activities was due to net proceeds from sales and maturities of marketable securities of \$3,200 million, \$800 million received from the redemption of the Alibaba Group Preference Shares, \$10 million in proceeds from sales of patents, and \$6 million in proceeds received from settlement of derivative hedge

[Table of Contents](#)

contracts, offset by purchases of marketable securities of \$2,247 million, \$229 million used for capital expenditures, \$1,187 million used for acquisitions, \$12 million used to settle derivative hedge contracts, \$4 million used for additional equity investments, and \$4 million used for purchases of intangible assets and other activities.

Net cash used in financing activities.

In the nine months ended September 30, 2014, the \$2,446 million used in financing activities was due to \$2,550 million used for the repurchase of 55 million shares of common stock (including \$1.1 billion prepaid in the September 2014 ASR, which included an initial delivery of approximately 15 million shares), \$22 million used for distributions to noncontrolling interests, and \$236 million used for tax withholding payments related to net share settlements of restricted stock units and other financing activities. This use of cash was partially offset by \$248 million in cash proceeds received from employee stock option exercises and employee stock purchases made through our employee stock purchase plan, and an excess tax benefit from stock-based awards of \$114 million.

In the nine months ended September 30, 2013, the \$2,975 million used in financing activities was due to \$3,113 million used for the repurchase of 123 million shares of common stock at an average price of \$25.41 per share, and \$112 million used for tax withholding payments related to net share settlements of restricted stock units and other financing activities. This use of cash was partially offset by \$203 million in cash proceeds received from employee stock option exercises and employee stock purchases made through our employee stock purchase plan, and an excess tax benefit from stock-based awards of \$47 million.

Capital Expenditures, Net

Capital expenditures are generally comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, real estate, and capitalized software and labor. Capital expenditures, net of disposals, were \$304 million for the nine months ended September 30, 2014 compared to \$229 million in the same period of 2013. The increase in capital expenditures was primarily due to incremental investment in hardware to support Company initiatives, facilities expansions and improvements, partially offset by a decline in capitalizable software projects.

We expect capital expenditures to increase in the fourth quarter of 2014 from the amount recorded during the three months ended September 30, 2014, as a result of increased investment initiatives.

Stock Repurchases

During the nine months ended September 30, 2014, we repurchased approximately 40 million shares of our common stock at an average price of \$36.09 per share for a total of \$1.5 billion. Additionally, we prepaid \$1.1 billion under an ASR in September 2014 and received an initial delivery of approximately 15 million shares. The amount prepaid in this ASR is included in the “Total repurchases in the third quarter”, below. The following table provides the remaining authorization and repurchases by program:

	<u>May 2012</u> <u>Program</u>	<u>November 2013</u> <u>Program</u>	<u>Total</u>
		(Dollars in millions)	
Remaining authorization as of December 31, 2013	\$ 93	\$ 5,000	\$ 5,093
Total repurchases in the first quarter	(93)	(357)	(450)
Total repurchases in the second quarter	—	(719)	(719)
Total repurchases in the third quarter	—	(1,382)	(1,382)
Remaining authorization as of September 30, 2014*	<u>\$ —</u>	<u>\$ 2,542</u>	<u>\$ 2,542</u>

* Final settlement of this ASR occurred on October 17, 2014, resulting in a total of approximately 23.5 million shares, inclusive of shares initially delivered, repurchased for \$933 million. The Company received return of cash for the remaining amount not settled in shares of \$167 million. The \$167 million will be added back to the remaining authorization amount in the fourth quarter of 2014.

See “Significant Transactions — Accelerated Share Repurchase” above, Note 13 — “Stockholders’ Equity and Employee Benefits” and Note 18 — “Subsequent Events” in the Notes to our condensed consolidated financial statements for additional information.

Contractual Obligations and Commitments

Leases. We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 12 years, expiring between 2014 and 2025.

[Table of Contents](#)

A summary of lease commitments as of September 30, 2014 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Three months ending December 31, 2014	\$ 38	\$ 4
Years ending December 31,		
2015	133	12
2016	98	9
2017	67	9
2018	44	9
2019	35	4
Due after 5 years	98	—
Total gross lease commitments	<u>\$ 513</u>	<u>\$ 47</u>
Less: interest	—	(11)
Net lease commitments	<u>\$ 513</u>	<u>\$ 36</u>

Affiliate Commitments. We are obligated to make payments, which represent TAC, to our Affiliates. As of September 30, 2014, these commitments totaled \$218 million, of which \$29 million will be payable in the remainder of 2014, \$138 million will be payable in 2015, \$26 million will be payable in 2016, and \$25 million will be payable in 2017.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to \$20 million through 2023.

Income Taxes. As of September 30, 2014, unrecognized tax benefits of approximately \$1.2 billion, including interest and penalties, are recorded on our condensed consolidated balance sheets. Of this amount, we currently expect approximately \$20 million to be paid by us in cash in the next 12 months for settlements of tax audits. The settlement period for the remaining balance cannot be determined.

We also estimate that we will pay approximately \$3.3 billion in cash taxes in the three months ended March 31, 2015 related to YHK's sale of Alibaba Group ADSs in the IPO on September 24, 2014.

Other Commitments and Off-Balance Sheet Arrangements. In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint ventures and business partners, purchasers of assets or subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us, services to be provided by us, intellectual property infringement claims made by third parties or, with respect to the sale, lease, or assignment of assets or a subsidiary, matters related to our conduct of the business and tax matters prior to the sale. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers, directors, and employees of acquired companies in connection with the acquisition of such companies. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our current and former directors and officers, and former directors and officers of acquired companies, in certain circumstances. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements might not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements and we have not accrued any liabilities related to such indemnification obligations in our condensed consolidated financial statements.

As of September 30, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly we are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships. In addition, we identified no variable interests currently held in entities for which we are the primary beneficiary. In addition, as of September 30, 2014, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

[Table of Contents](#)

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the condensed consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

Goodwill. For the Europe reporting unit, the percentage by which the estimated fair value exceeded the carrying value as of October 31, 2013 was 20 percent and the amount of goodwill allocated to the Europe reporting unit was \$466 million.

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2013 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Recent Accounting Pronouncements

See Note 1 — “The Company and Summary of Significant Accounting Policies” in the Notes to our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates and changes in the market values of our investments. We may use derivative financial instruments to mitigate certain risks in accordance with our investment and foreign exchange policies.

We enter into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. We present our derivative assets and liabilities at their gross fair values on the condensed consolidated balance sheets.

Interest Rate Exposure

Our exposure to market risk for changes in interest rates impacts our costs associated with hedging, and primarily relates to our cash and marketable securities portfolio. We invest excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, U.S. municipalities, and high-credit corporate issuers which are classified as marketable securities and cash equivalents.

In November 2013, we issued \$1.4375 billion of 0.00% Convertible Senior Notes due 2018 (the “Notes”). We carry the Notes at face value less unamortized discount on our condensed consolidated balance sheet. The fair value of the Notes changes when the market price of our stock fluctuates.

Investments in fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in a \$15 million and \$11 million decrease in the fair value of our available-for-sale securities as of December 31, 2013 and September 30, 2014, respectively.

Foreign Currency Exposure

The objective of our foreign exchange risk management program is to identify material foreign currency exposures and identify methods to manage these exposures to minimize the potential effects of currency fluctuations on our reported condensed consolidated cash flows and results of operations. All counterparties to our derivative contracts are major financial institutions. See Note 9 — “Derivative Financial Instruments” in the Notes to our condensed consolidated financial statements for additional information on our hedging programs.

We transact business in various foreign currencies and have international revenue, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates.

Net realized and unrealized foreign currency transaction gains were immaterial for the three months ended September 30, 2013. Net realized and unrealized foreign currency transaction losses were \$6 million for the nine months ended September 30, 2013. Net realized and unrealized foreign currency transaction losses were \$2 million and \$9 million for the three and nine months ended September 30, 2014, respectively.

Translation Exposure. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries’ financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders’ equity.

[Table of Contents](#)

A Value-at-Risk (“VaR”) sensitivity analysis was performed on all of our foreign currency derivative positions as of September 30, 2014 and December 31, 2013 to assess the potential impact of fluctuations in exchange rates. The VaR model uses a Monte Carlo simulation to generate thousands of random price paths assuming normal market conditions. The VaR is the maximum expected one day loss in fair value, for a given statistical confidence level, to our foreign currency derivative positions due to adverse movements in rates. The VaR model is used as a risk management tool and is not intended to represent either actual or forecasted losses. Based on the results of the model using a 99 percent confidence interval, we estimate the maximum one-day loss in the net investment hedge portfolio was \$16 million and \$12 million at September 30, 2014 and December 31, 2013, respectively. The maximum one-day loss in the cash flow hedge portfolio was less than \$1 million at both September 30, 2014 and December 31, 2013. The maximum one-day loss in the balance sheet hedge portfolio was \$2 million at both September 30, 2014 and December 31, 2013. Actual future gains and losses associated with our derivative positions may differ materially from the sensitivity analysis performed as of September 30, 2014 due to the inherent limitations associated with predicting the timing and amount of changes in foreign currency exchange rates and our actual exposures and positions. In addition, the VaR sensitivity analysis may not reflect the complex market reactions that may arise from the market shifts modeled within this VaR sensitivity analysis.

Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese yen, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced consolidated revenue and operating expenses. Conversely, our consolidated revenue and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and nine months ended September 30, 2013, revenue ex-TAC for the Americas segment for the three and nine months ended September 30, 2014 would have been higher than we reported by \$1 million and \$7 million, respectively; revenue ex-TAC for the EMEA segment would have been lower than we reported by \$4 million and \$12 million, respectively; and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by \$1 million and \$20 million, respectively. Using the foreign currency exchange rates from the three and nine months ended September 30, 2013, direct costs for the Americas segment for the three and nine months ended September 30, 2014 would have been higher than we reported by less than \$1 million and \$3 million, respectively; direct costs for the EMEA segment would have been lower than we reported by \$2 million and \$6 million, respectively; and direct costs for the Asia Pacific segment would have been lower than we reported by less than \$1 million and higher than we reported by \$5 million, respectively.

Investment Exposure

We are exposed to investment risk as it relates to changes in the market value of our investments. We have investments in marketable securities and equity instruments of public and private companies. The change in the classification of our investment in Alibaba Group from an equity method investment to an available-for-sale marketable security exposes our investment portfolio to increased equity price risk. The fair value of the equity investment in Alibaba Group will vary over time and is subject to a variety of market risks including: macro-economic, regulatory, industry, company performance, and systemic risks of the equity markets overall.

Our cash and marketable securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of December 31, 2013 and September 30, 2014, net unrealized gains and losses on these investments were not material.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s principal executive officer and principal financial officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Report. Based on such evaluation, the Company’s principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective.

Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see the section captioned “Contingencies” included in Note 12 — “Commitments and Contingencies” in the Notes to our condensed consolidated financial statements, which is incorporated by reference herein.

Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission on February 28, 2014 (“2013 Annual Report”), as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in our 2013 Annual Report, as updated in our subsequent Quarterly Reports on Form 10-Q.

We face significant competition for users, advertisers, publishers, developers, and distributors.

We face significant competition from online media companies, social media and networking sites, traditional print and broadcast media, search engines, and various e-commerce sites. In a number of international markets, especially those in Asia, Europe, the Middle East and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services.

Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo. We compete against these and other companies to attract and retain users, advertisers, developers, and third-party Website publishers as participants in our Affiliate network, and to obtain agreements with third parties to promote or distribute our services. We also compete with social media and networking sites which are increasingly used to communicate and share information, and which are attracting a substantial and increasing share of users, users’ online time, and online advertising dollars.

A key element of our strategy is focusing on mobile products and mobile advertising formats, as well as increasing our revenue from mobile. A number of our competitors have devoted significant resources to the development of products and services for mobile devices. Several of our competitors have mobile revenue significantly greater than ours. If we are unable to develop products for mobile devices that users find engaging and that help us grow our mobile revenue, our competitive position, our financial condition and operating results could be harmed.

In addition, a number of competitors offer products and services that directly compete for users with our offerings, including e-mail, search, sports, news and finance. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer advertising exchanges, ad networks, demand side platforms, ad serving technologies, sponsored search offerings, and other services that directly compete for advertisers with our offerings. We also compete with traditional print and broadcast media companies to attract domestic and international advertising spending. Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in particular market segments, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate or collaborate with each other, and new competitors may enter the market. Some of our competitors in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, have greater local brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

We generate the majority of our revenue from display and search advertising, and the reduction in spending by or loss of current or potential advertisers would cause our revenue and operating results to decline.

For the three and nine months ended September 30, 2014, 78 percent and 79 percent, respectively, of our total revenue came from display and search advertising. Our ability to retain and grow display and search revenue depends upon:

- maintaining and growing our user base and popularity as an Internet destination site;
- maintaining the popularity of our existing products, introducing engaging new products and making our new and existing products popular and distributable on mobile and other alternative devices and platforms;
- maintaining and expanding our advertiser base on PCs and mobile devices;
- broadening our relationships with advertisers to small- and medium-sized businesses;

[Table of Contents](#)

- successfully implementing innovative changes and improvements to our advertising management platforms and formats and obtaining the acceptance of our new advertising management platforms and formats by advertisers, Website publishers, and online advertising networks;
- successfully acquiring, investing in, and implementing new technologies and strategic partnerships;
- successfully implementing changes in our sales force, sales development teams, and sales strategy;
- continuing to innovate and improve the monetization capabilities of our display advertising and mobile products;
- effectively monetizing mobile and other search queries;
- continuing to innovate and improve users' search experiences;
- maintaining and expanding our Affiliate program for search and display advertising services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

In most cases, our agreements with advertisers have a term of one year or less, and may be terminated at any time by the advertiser or by us. Search marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast display and search revenue accurately. In addition, our expense levels are based in part on expectations of future revenue, including occasional guaranteed minimum payments to our Affiliates in connection with search and/or display advertising, and are fixed over the short-term in some categories. The state of the global economy, growth rate of the online advertising market, and availability of capital has impacted and could further impact the advertising spending patterns of our existing and potential advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

If we do not manage our operating expenses effectively, our profitability could decline.

We plan to continue to manage costs to better and more efficiently manage our business. However, our operating expenses might increase as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo brand, fund product development, build or expand data centers, acquire additional office space, and continue to make talent acquisitions and to acquire and integrate complementary businesses and technologies. If our expenses increase at a greater pace than our revenue, or if we fail to effectively manage costs, our profitability will decline.

If we are unable to provide innovative search experiences and other products and services that generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. Even though we have substantially completed the transition to Microsoft's platform, we still need to continue to invest and innovate to improve our users' search experience to continue to attract, retain, and expand our user base and paid search advertiser base. We also need to continue to invest in and innovate on the mobile search experience. Pursuant to the Search Agreement with Microsoft, we are also dependent on Microsoft to continue to invest and innovate to maintain and improve its algorithmic and paid search services.

We also generate revenue through other online products and services, such as Yahoo Mail, and continue to innovate the products and services that we offer. The research and development of new, technologically advanced products is a complex process that requires significant levels of innovation and investment, as well as accurate anticipation of technology, market and consumer trends. If we are unable to provide innovative products and services which gain user acceptance and generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

Risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. Approximately 31 percent, 36 percent and 36 percent of our revenue for 2013, the three months and nine months ended September 30, 2014, respectively, were attributable to the Search Agreement. Our business and operating results would be adversely affected by a significant decline in or loss of this revenue.

Implementation of our Search Agreement with Microsoft commenced on February 23, 2010. We have completed the transition of our algorithmic search platform to the Microsoft platform and have substantially completed transition of paid search.

Pursuant to the Search Agreement with Microsoft, to maintain and grow search revenue, we are dependent on Microsoft continuing to invest and innovate to maintain and improve its algorithmic and paid search services and to be competitive with other search providers. If Microsoft fails to do this, our revenue and profitability could decline and our ability to maintain and expand our relationships with Affiliates for search and paid search advertising could be negatively impacted. Further, our competitors may continue to increase revenue, profitability, and market share at a higher rate than we do.

[Table of Contents](#)

As mobile advertising continues to evolve and people increasingly access our products via mobile devices rather than PCs, our financial results may be adversely impacted if our mobile offerings are not widely adopted by users, advertisers and device manufacturers or if we do not generate adequate revenue from our mobile offerings.

The number of people who access the Internet through mobile devices rather than a PC, including mobile telephones, smartphones and tablets, is increasing and will likely continue to increase dramatically. Over 550 million (including Tumblr) of our monthly users are now joining us on mobile. In addition, search queries are increasingly being undertaken through mobile devices. We expect our ability to grow advertising revenue will become increasingly dependent on our ability to generate revenue from ads displayed on mobile devices.

A key element of our strategy is focusing on mobile devices and we expect to continue to devote significant resources to the creation and support of developing new and innovative mobile products and services. However, if our new mobile products and services, including new forms of Internet advertising for mobile devices, are not more attractive and successful in attracting and retaining users, advertisers and device manufacturers than those of our competitors and fail to generate and grow revenue, our operating and financial results will be adversely impacted.

To the extent that an access provider or device manufacturer enters into a distribution arrangement with one of our competitors, or as our competitors design, develop, or acquire control of alternative devices or their operating systems, we face an increased risk that our users will favor the services or properties of that competitor. We are dependent on the interoperability of our products and services with mobile operating systems we do not control. The manufacturer or access provider might promote a competitor's services or might impair users' access to our services by blocking access through their devices or by not making our services or apps available in a readily-discoverable manner on their devices. If distributors impair access to or refuse to distribute our services or apps, then our user engagement and revenue could decline.

If we are unable to license or acquire compelling content and services at reasonable cost or if we do not develop or commission compelling content of our own, the number of users of our services may not grow as anticipated, or may decline, or users' level of engagement with our services may decline, all or any of which could harm our operating results.

Our future success depends in part on our ability to aggregate compelling content and deliver that content through our online properties. We license from third parties much of the content and services on our online properties, such as news items, stock quotes, weather reports, video, and maps. We believe that users will increasingly demand high-quality content and services. We may need to make substantial payments to third parties from whom we license or acquire such content or services. Our ability to maintain and build relationships with such third-party providers is critical to our success. In addition, as users increasingly access the Internet via mobile and other alternative devices, we may need to enter into amended agreements with existing third-party providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content or services we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our third-party providers may increase the prices at which they offer their content and services to us, and potential providers may not offer their content or services to us at all, or may offer them on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers could harm our operating results and financial condition. Further, because many of our content and services licenses with third parties are non-exclusive, other media providers may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate Yahoo from other businesses. If we are unable to license or acquire compelling content at reasonable cost, if other companies distribute content or services that are similar to or the same as that provided by us, or if we do not develop or commission compelling editorial content or personalization services, the number of users of our services may not grow as anticipated, or may decline, or users' level of engagement with our services may decline, all or any of which could harm our operating results.

Acquisitions and strategic investments could result in adverse impacts on our operations and in unanticipated liabilities.

We have acquired, and have made strategic investments in, a number of companies (including through joint ventures) in the past, and we expect to make additional acquisitions and strategic investments in the future. Such transactions may result in dilutive issuances of our equity securities, use of our cash resources, and incurrence of debt and amortization expenses related to intangible assets. Our acquisitions and strategic investments to date were accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and operating expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;

Table of Contents

- the failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected or to meet financial projections;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

We are likely to experience similar risks in connection with our future acquisitions and strategic investments. Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions and strategic investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

We may be required to record a significant charge to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity method investees, or other investments become impaired.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets, investments in equity interests (including investments held by our equity method investees), and our other investments, for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill, amortizable intangible assets (including goodwill or assets acquired via acquisitions) and other investments include significant adverse changes in the business climate and actual or projected operating results (affecting our company as a whole or affecting any particular reporting unit) and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, the companies in which we invested or the investments held by those companies. Factors that could lead to an impairment of U.S. government securities, which constitute a significant portion of our assets, include any downgrade of U.S. government debt or concern about the creditworthiness of the U.S. government. We have recorded and may be required in the future to record additional charges to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity investees, or other investments become impaired. Any such charge would adversely impact our financial results.

Fluctuations in foreign currency exchange rates may adversely affect our operating results and financial condition.

Revenue generated and expenses incurred by our international subsidiaries and equity method investees are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries and equity method investees are translated from local currencies into U.S. dollars. Our financial results are also subject to changes in exchange rates that impact the settlement of transactions in non-local currencies. The carrying values of our equity investments in our equity investees are also subject to fluctuations in the exchange rates of foreign currencies.

We use derivative instruments, such as foreign currency forward contracts, to partially offset certain exposures to fluctuations in foreign currency exchange rates. The use of such instruments may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign currency exchange rates. Any losses on these instruments that we experience may adversely impact our financial results, cash flows and financial condition. Further, we hedge a portion of our net investment in Yahoo Japan with currency forward and option contracts. If the Japanese yen appreciated at maturity beyond the forward contract execution rates, or beyond the range of the option bands, we would be required to settle the contract by making a cash payment which could be material and could adversely impact our cash flows and financial condition. See Part I, Item 3 — “Quantitative and Qualitative Disclosures About Market Risk” of this Report.

Our business depends on a strong brand, and failing to maintain or enhance the Yahoo brands in a cost-effective manner could harm our operating results.

Maintaining and enhancing our brands is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We believe that the importance of brand recognition will increase due to the relatively low barriers to entry in certain portions of the Internet market. Maintaining and enhancing our brands will depend largely on our ability to provide high-quality, innovative products and services, which we might not do successfully. We have spent and expect to spend considerable money and resources on the establishment and maintenance of our brands, as well as advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors such as service outages, product malfunctions, data protection and security issues, exploitation of our trademarks by others without permission, and poor presentation or integration of our search marketing offerings by Affiliates on their sites or in their software and services.

Further, while we attempt to ensure that the quality of our brands is maintained by our licensees, our licensees might take actions that could impair the value of our brands, our proprietary rights, or the reputation of our products and media properties. If we are unable to maintain or enhance our brands in a cost-effective manner, or if we incur excessive expenses in these efforts, our business, operating results and financial condition could be harmed.

We are regularly involved in claims, suits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly involved in claims, suits, government investigations, and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, privacy, consumer protection, information security, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, as well as actions involving content generated by our users, stockholder derivative actions, purported class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in reputational harm, liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results, and financial condition. See Note 12 — “Commitments and Contingencies” in the Notes to our condensed consolidated financial statements.

On May 15, 2013, the Superior Court of Justice for the Federal District of Mexico reversed a judgment of U.S. \$2.75 billion that had been entered against us and our subsidiary, Yahoo! Mexico, in a lawsuit brought by plaintiffs Worldwide Directories S.A. de C.V. and Ideas Interactivas, S.A. de C.V. The plaintiffs have appealed. We believe the plaintiffs’ claims are without merit. We do not believe that it is probable the judgment will be reinstated on appeal, however we cannot predict the timing of a decision or assure the ultimate outcome of the pending or further appeals. If we are ultimately required to pay all or a significant portion of the judgment, together with any potential additional damages, interests and costs, it would have a material adverse effect on our financial condition, results of operations and cash flows. We will also be required to record an accrual for the judgment if we should determine in the future that it is probable that we will be required to pay the judgment.

Our intellectual property rights are valuable, and any failure or inability to sufficiently protect them could harm our business and our operating results.

We create, own, and maintain a wide array of copyrights, patents, trademarks, trade dress, trade secrets, rights to domain names and other intellectual property assets which we believe are collectively among our most valuable assets. We seek to protect our intellectual property assets through patent, copyright, trade secret, trademark, and other laws of the U.S. and other countries of the world, and through contractual provisions. However, the efforts we have taken to protect our intellectual property and proprietary rights might not be sufficient or effective at stopping unauthorized use of those rights. Protection of the distinctive elements of Yahoo might not always be available under copyright law or trademark law, or we might not discover or determine the full extent of any unauthorized use of our copyrights and trademarks in order to protect our rights. In addition, effective trademark, patent, copyright, and trade secret protection might not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. Changes in patent law, such as changes in the law regarding patentable subject matter, could also impact our ability to obtain patent protection for our innovations. In particular, recent amendments to the U.S. patent law may affect our ability to protect our innovations and defend against claims of patent infringement. Further, given the costs of obtaining patent protection, we might choose not to protect (or not to protect in some jurisdictions) certain innovations that later turn out to be important. There is also a risk that the scope of protection under our patents may not be sufficient in some cases or that existing patents may be deemed invalid or unenforceable. To help maintain our trade secrets, we have entered into confidentiality agreements with most of our employees and contractors, and confidentiality agreements with many of the parties with whom we conduct business, in order to limit access to and disclosure of our proprietary information. If these confidentiality agreements are breached it could compromise our trade secrets and cause us to lose any competitive advantage provided by those trade secrets.

If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. In addition, protecting our intellectual property and other proprietary rights is expensive and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results.

[Table of Contents](#)

We are, and may in the future be, subject to intellectual property infringement or other third-party claims, which are costly to defend, could result in significant damage awards, and could limit our ability to provide certain content or use certain technologies in the future.

Internet, technology, media, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other Internet-related technologies, as well as a variety of online business models and methods.

We believe that these parties will continue to take steps such as seeking patent protection to protect these technologies. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As a result, disputes regarding the ownership of technologies and rights associated with online businesses are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in a number of lawsuits regarding patent issues and have been notified of a number of other potential disputes.

In addition to patent claims, third parties have asserted, and are likely in the future to assert, claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition, violation of federal or state statutes or other claims, including alleged violation of international statutory and common law. In addition, third parties have made, and may continue to make, infringement and related claims against us over the display of content or search results triggered by search terms, including the display of advertising, that include trademark terms.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement and other claims, including those that may arise under international laws. In the event that there is a determination that we have infringed third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights, or other third-party rights such as publicity and privacy rights, we could incur substantial monetary liability, or be required to enter into costly royalty or licensing agreements or be prevented from using such rights, which could require us to change our business practices in the future, hinder us from offering certain features, functionalities, products or services, require us to develop non-infringing products or technologies, and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party claims regardless of the merit of such claims. In addition, many of our agreements with our customers or Affiliates require us to indemnify them for some types of third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. Furthermore, such customers and Affiliates may discontinue the use of our products, services, and technologies either as a result of injunctions or otherwise. The occurrence of any of these results could harm our brands or have an adverse effect on our business, financial position, operating results, and cash flows.

A variety of new and existing U.S. and foreign government laws and regulations could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.

We are subject to numerous U.S. and foreign laws and regulations covering a wide variety of subject matters. New laws and regulations, changes in existing laws and regulations or the interpretation of them, our introduction of new products, or an extension of our business into new areas, could increase our future compliance costs, make our products and services less attractive to our users, or cause us to change or limit our business practices. We may incur substantial expenses to comply with laws and regulations or defend against a claim that we have not complied with them. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal liabilities, penalties, and negative publicity.

The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, security, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, law enforcement demands, telecommunications, mobile, television, and intellectual property ownership and infringement in many instances is unclear or unsettled. Further, the application to us or our subsidiaries of existing laws regulating or requiring licenses for certain businesses of our advertisers can be unclear. U.S. export control laws and regulations also impose requirements and restrictions on exports to certain nations and persons and on our business. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country.

The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for caching, hosting, listing or linking to, third-party Websites or user content that include materials that give rise to copyright infringement. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business, and may be adversely impacted by future legislation and future judicial decisions altering these safe harbors or if international jurisdictions refuse to apply similar protections.

The Children’s Online Privacy Protection Act and rule, as amended in December 2012 (“COPPA”), impose restrictions on the ability of online services to collect some types of information from children under the age of 13. In addition, Providing Resources, Officers,

[Table of Contents](#)

and Technology to Eradicate Cyber Threats to Our Children Act of 2008 (“PROTECT”) requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. COPPA and PROTECT currently impose restrictions and requirements on our business, and other federal, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us.

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect our business.

Federal, state, and international laws and regulations govern the collection, use, retention, disclosure, sharing and security of data that we receive from and about our users. The use of consumer data by online service providers and advertising networks is a topic of active interest among federal, state, and international regulatory bodies, and the regulatory environment is unsettled. Many states have passed laws requiring notification to users where there is a security breach for personal data, such as California’s Information Practices Act. We face similar risks in international markets where our products and services are offered. Any failure, or perceived failure, by us to comply with or make effective modifications to our policies, or to comply with any federal, state, or international privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, a loss of user confidence, damage to the Yahoo brands, and a loss of users, advertising partners, or Affiliates, any of which could potentially have an adverse effect on our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. For example, some countries are considering laws mandating that user data regarding users in their country be maintained in their country. Having to maintain local data centers in individual countries could increase our operating costs significantly. The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain and in flux in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business and operating results.

If our security measures are breached, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of Yahoo’s users’ and customers’ personal and proprietary information in our facilities and on our equipment, networks and corporate systems. Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability. Security breaches or unauthorized access have resulted in and may in the future result in a combination of significant legal and financial exposure, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could have an adverse effect on our business. We take steps to prevent unauthorized access to our corporate systems, however, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a triggering event, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

Interruptions, delays, or failures in the provision of our services could damage our reputation and harm our operating results.

Delays or disruptions to our service, or the loss or compromise of data, could result from a variety of causes, including the following:

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, tsunami, other natural disasters, power loss, equipment or telecommunications failures, cyber attacks, terrorist attacks, political or social unrest, and other events over which we have little or no control. We do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of delays or disruptions to service, so some data or systems may not be fully recoverable after such events.
- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced when we make modifications, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.
- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, malware, worms, hacking, physical and electronic break-ins, router disruption, sabotage or espionage, and other disruptions from unauthorized access and tampering, as well as coordinated denial-of-service attacks. We may not be in a position to promptly address attacks or to implement adequate preventative measures if we are unable to immediately detect such attacks. Such events could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, including changes to security measures, to deploy additional personnel, to defend litigation or to protect against similar future events, and may cause damage to our reputation or loss of revenue.

[Table of Contents](#)

- We rely on third-party providers over which we have little or no control for our principal Internet connections and co-location of a significant portion of our data servers, as well as for our payment processing capabilities and key components or features of certain of our products and services. Any disruption of the services they provide us or any failure of these third-party providers to handle higher volumes of use could, in turn, cause delays or disruptions in our services and loss of revenue. In addition, if our agreements with these third-party providers are terminated for any reason, we might not have a readily available alternative.

Prolonged delays or disruptions to our service could result in a loss of users, damage to our brands, legal costs or liability, and harm to our operating results.

Our international operations expose us to additional risks that could harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to continue to generate revenue from our foreign operations and expand our international market position, there are additional risks inherent in doing business internationally (including through our international joint ventures), including:

- tariffs, trade barriers, customs classifications and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting bribery and corrupt payments to government officials;
- antitrust and competition regulations;
- potentially adverse tax developments;
- seasonal volatility in business activity and local economic conditions;
- economic uncertainties relating to volatility in emerging markets and global economic uncertainty;
- laws, regulations, licensing requirements, and business practices that favor local competitors or prohibit foreign ownership or investments;
- different, uncertain or more stringent user protection, content, data protection, privacy, intellectual property and other laws; and
- risks related to other government regulation, required compliance with local laws or lack of legal precedent.

We are subject to numerous and sometimes conflicting U.S. and foreign laws and regulations which increase our cost of doing business. Violations of these complex laws and regulations that apply to our international operations could result in damage awards, fines, criminal actions, sanctions, or penalties against us, our officers or our employees, prohibitions on the conduct of our business and our ability to offer products and services, and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results, and financial condition.

We may be subject to legal liability associated with providing online services or content.

We host and provide a wide variety of services and technology products that enable and encourage individuals and businesses to exchange information; upload or otherwise generate photos, videos, text, and other content; advertise products and services; conduct business; and engage in various online activities both domestically and internationally. The law relating to the liability of providers of online services and products for activities of their users is currently unsettled both within the U.S. and internationally. As a publisher and producer of original content, we may be subject to claims such as copyright, libel, defamation or improper use of publicity rights, as well as other infringement claims such as plagiarism. Claims have been threatened and brought against us for defamation,

[Table of Contents](#)

negligence, breaches of contract, plagiarism, copyright and trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information which we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, we have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates laws in domestic and international jurisdictions. We arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content, such as stock quotes and trading information, under the Yahoo brand or via distribution on Yahoo Properties. We may be subject to claims concerning these products, services, or content by virtue of our involvement in marketing, branding, broadcasting, or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services, or content. While our agreements with respect to these products, services, and content may provide that we will be indemnified against such liabilities, the ability to receive such indemnification may be disputed, could result in substantial costs to enforce or defend, and depends on the financial resources of the other party to the agreement, and any amounts received might not be adequate to cover our liabilities or the costs associated with defense of such proceedings. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

It is also possible that if any information provided directly by us contains errors or is otherwise wrongfully provided to users, third parties could make claims against us. For example, we offer Web-based e-mail services, which expose us to potential risks, such as liabilities or claims, by our users and third parties, resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, alleged violations of policies, property interests, or privacy protections, including civil or criminal laws, or interruptions or delays in e-mail service. We may also face purported consumer class actions or state actions relating to our online services, including our fee-based services (particularly in connection with any decision to discontinue a fee-based service). In addition, our customers, third parties, or government entities may assert claims or actions against us if our online services or technologies are used to spread or facilitate malicious or harmful code or applications.

Investigating and defending these types of claims are expensive, even if the claims are without merit or do not ultimately result in liability, and could subject us to significant monetary liability or cause a change in business practices that could negatively impact our ability to compete.

If we are unable to recruit, hire, motivate, and retain key personnel, we may not be able to execute our business plan.

Our business is dependent on our ability to recruit, hire, motivate, and retain talented, highly skilled personnel. Achieving this objective may be difficult due to many factors, including the intense competition for such highly skilled personnel in the San Francisco Bay Area and other metropolitan areas where our offices are located; fluctuations in global economic and industry conditions; competitors' hiring practices; and the effectiveness of our compensation programs. If we do not succeed in retaining and motivating our existing key employees, and in attracting new key personnel, we may be unable to meet our business plan and as a result, our revenue and profitability may decline.

Certain of our metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.

We present key metrics such as number of users, number of Ads Sold, number of Paid Clicks, Price-per-Click and Price-per-Ad that are calculated using internal company data. We periodically review, refine, and update our methodologies for monitoring, gathering, and calculating these metrics. Based on this process, from time to time we update our methodologies.

While our metrics are based on what we believe to be reasonable measurements and methodologies, there are inherent challenges in deriving our metrics across large online and mobile populations around the world. In addition, our user metrics may differ from estimates published by third parties or from similar metrics of our competitors due to differences in methodology.

If advertisers or publishers do not perceive our metrics to be accurate, or if we discover material inaccuracies in our metrics, it could negatively affect our reputation, business and financial results.

Any failure to scale and adapt our existing technology architecture to manage expansion of user-facing services and to respond to rapid technological change could adversely affect our business.

As some of the most visited sites on the Internet, Yahoo Properties deliver a significant number of products, services, page views, and advertising impressions to users around the world. We expect our products and services to continue to expand and change significantly and rapidly in the future to accommodate new technologies, new devices, new Internet advertising solutions, and new means of content delivery.

In addition, widespread adoption of new Internet, networking or telecommunications technologies, or other technological changes, could require substantial expenditures to modify or adapt our services or infrastructure. The technology architectures and platforms utilized for our services are highly complex and may not provide satisfactory security features or support in the future, as usage

[Table of Contents](#)

increases and products and services expand, change, and become more complex. In the future, we may make additional changes to our existing, or move to completely new, architectures, platforms and systems, such as the changes we have made in response to the increased use of tablets and smartphones. Such changes may be technologically challenging to develop and implement, may take time to test and deploy, may cause us to incur substantial costs or data loss, and may cause changes, delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising platform participants to become dissatisfied with our service or to move to competing providers or seek remedial actions or compensation. Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store, and integrate data that will enable us to track each user's preferences. Any difficulties experienced in adapting our architectures, platforms and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

We rely on third parties to provide the technologies necessary to deliver content, advertising, and services to our users, and any change in the licensing terms, costs, availability, or acceptance of these formats and technologies could adversely affect our business.

We rely on third parties to provide the technologies that we use to deliver content, advertising, and services to our users. There can be no assurance that these providers will continue to license their technologies or intellectual property to us on reasonable terms, or at all. Providers may change the fees they charge users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. In order for our services to be successful, there must be a large base of users of the technologies necessary to deliver our content, advertising, and services. We have limited or no control over the availability or acceptance of those technologies, and any change in the licensing terms, costs, availability, or user acceptance of these technologies could adversely affect our business.

Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers may be able to block, degrade, or charge for access to certain of our products and services, which could lead to additional expenses and the loss of users and advertisers.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies, and government-owned service providers. Some of these providers have taken, or have stated that they may take, measures that could degrade, disrupt, or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. Such interference could result in a loss of existing users and advertisers, and increased costs, and could impair our ability to attract new users and advertisers, thereby harming our revenues and growth.

If we are unable to attract, sustain, and renew distribution arrangements on favorable terms, our revenue may decline.

We enter into distribution arrangements with third parties such as operators of third-party Websites, online networks, software companies, electronics companies, computer manufacturers, Internet service providers and others to promote or supply our services to their users. For example:

- We maintain search and display advertising relationships with Affiliate sites, which integrate our advertising offerings into their Websites.
- We enter into distribution alliances with Internet service providers (including providers of cable and broadband Internet access) and software distributors to promote our services to their users.
- We enter into agreements with mobile phone, tablet, television, and other device manufacturers, electronics companies and carriers to promote our software and services on their devices.

In some markets, we depend on a limited number of distribution arrangements for a significant percentage of our user activity. A failure by our distributors to attract or retain their user bases would negatively impact our user activity and, in turn, reduce our revenue. In some cases, device manufacturers may be unwilling to pay fees to Yahoo in order to distribute Yahoo services or may be unwilling to distribute Yahoo services.

In the future, as new methods for accessing the Internet and our services become available, including through alternative devices, we may need to enter into amended distribution agreements with existing access providers, distributors, and manufacturers to cover the new devices and new arrangements. We face a risk that existing and potential new access providers, distributors, and manufacturers may decide not to offer distribution of our services on reasonable terms, or at all.

[Table of Contents](#)

Distribution agreements often involve revenue sharing. Over time competition to enter into distribution arrangements may cause our traffic acquisition costs to increase. In some cases, we guarantee distributors a minimum level of revenue and, as a result, run a risk that the distributors' performance (in terms of ad impressions, toolbar installations, etc.) might not be sufficient to otherwise earn their minimum payments. In other cases, we agree that if the distributor does not realize specified minimum revenue we will adjust the distributor's revenue-share percentage or provide make-whole arrangements.

Some of our distribution agreements are not exclusive, have a short term, are terminable at will, or are subject to early termination provisions. The loss of distributors, increased distribution costs, or the renewal of distribution agreements on significantly less favorable terms may cause our revenue to decline.

Technologies, tools, software, and applications could block our advertisements, impair our ability to deliver interest-based advertising, or shift the location in which advertising appears, which could harm our operating results.

Technologies, tools, software, and applications (including new and enhanced Web browsers) have been developed and are likely to continue to be developed that can block or allow users to opt out of display, search, and interest-based advertising and content, delete or block the cookies used to deliver such advertising, or shift the location in which advertising appears on pages so that our advertisements do not show up in the most monetizable places on our pages or are obscured. Most of our revenue is derived from fees paid by advertisers in connection with the display of graphical and non-graphical advertisements or clicks on search advertisements on Web pages. As a result, the adoption of such technologies, tools, software, and applications could reduce the number of display and search advertisements that we are able to deliver and/or our ability to deliver interest-based advertising and this, in turn, could reduce our advertising revenue and operating results.

Any failure to manage expansion and changes to our business could adversely affect our operating results.

If we are unable to effectively manage a large and geographically dispersed group of employees or to anticipate our future growth and personnel needs, our business may be adversely affected. As we expand our business, we must also expand and adapt our operational infrastructure. Our business relies on data systems, billing systems, and financial reporting and control systems, among others. All of these systems have become increasingly complex in the recent past due to the growing complexity of our business, acquisitions of new businesses with different systems, and increased regulation over controls and procedures. To manage our business in a cost-effective manner, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures, and controls. In some cases, we are outsourcing administrative functions to lower-cost providers. These upgrades, improvements and outsourcing changes will require a dedication of resources and in some cases are likely to be complex. If we are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In particular, sustained failures of our billing systems to accommodate increasing numbers of transactions, to accurately bill users and advertisers, or to accurately compensate Affiliates could adversely affect the viability of our business model.

Proprietary document formats may limit the effectiveness of our search technology by preventing our technology from accessing the content of documents in such formats, which could limit the effectiveness of our products and services.

A large amount of information on the Internet is provided in proprietary document formats. These proprietary document formats may limit the effectiveness of search technology by preventing the technology from accessing the content of such documents. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with the process of indexing the document contents with search technology. This would mean that the document contents would not be included in search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If the search platform technology we employ is unable to index proprietary format Web documents as effectively as our competitors' technology, usage of our search services might decline, which could cause our revenue to fall.

We have dedicated resources to provide a variety of premium enhancements to our products and services, which might not prove to be successful in generating significant revenue for us.

We offer fee-based enhancements for many of our free services. The development cycles for these technologies are long and generally require investment by us. We have invested and will continue to invest in premium products and services. Some of these premium products and services might not generate anticipated revenue or might not meet anticipated user adoption rates. We have previously discontinued some non-profitable premium services and may discontinue others. General economic conditions as well as the rapidly evolving competitive landscape may affect users' willingness to pay for such premium services. If we cannot generate revenue from our premium services that are greater than the cost of providing such services, our operating results could be harmed.

We may have exposure to additional tax liabilities which could negatively impact our income tax provision, net income, and cash flow.

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. As a U.S. multinational corporation, we are subject to changing tax laws both within and outside of the U.S. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax expense and cash flow. For example, several jurisdictions have sought to increase revenues by imposing new taxes on internet advertising or increasing general business taxes.

[Table of Contents](#)

We earn a material amount of our income from outside the U.S. As of September 30, 2014, we had undistributed foreign earnings of approximately \$2.9 billion, principally related to our equity method investment in Yahoo Japan. While we do not currently anticipate repatriating these earnings, any repatriation of funds in foreign jurisdictions to the U.S. could result in higher effective tax rates for us and subject us to significant additional U.S. income tax liabilities.

We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our condensed consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination and settlement is made.

Adverse macroeconomic conditions could cause decreases or delays in spending by our advertisers and could harm our ability to generate revenue and our results of operations.

Advertising expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive most of our revenue from advertising, adverse macroeconomic conditions have caused, and future adverse macroeconomic conditions could cause, decreases or delays in advertising spending and negatively impact our advertising revenue and short-term ability to grow our revenue. Further, any decreased collectability of accounts receivable or early termination of agreements, whether resulting from customer bankruptcies or otherwise due to adverse macroeconomic conditions, could negatively impact our results of operations.

Our stock price has been volatile historically and may continue to be volatile regardless of our operating performance.

The trading price of our common stock has been and may continue to be subject to broad fluctuations. During the three months ended September 30, 2014, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from \$33.21 to \$42.88 per share and the closing sale price on October 31, 2014 was \$46.05 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results or announcements of technological innovations, significant transactions, or new features, products or services by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; trends in our industry; general economic conditions; and the current and anticipated future operating performance and market valuation of Alibaba Group and Yahoo Japan Corporation in which we have investments, including changes in equity valuation of our investment in Yahoo Japan Corporation due to fluctuations in foreign currency exchange rates.

In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. A decrease in the market price of our common stock would likely adversely impact the trading price of the Notes we issued in November 2013. Volatility or a lack of positive performance in our stock price may also adversely affect our ability to retain key employees who have been granted stock options or other stock-based awards. A sustained decline in our stock price and market capitalization could lead to an impairment charge to our long-lived assets.

Delaware statutes and certain provisions in our charter documents could make it more difficult for a third-party to acquire us.

Our Board has the authority to issue up to 10 million shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of Yahoo without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Some provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or changes in our management, which could have an adverse effect on the market price of our stock and the value of the \$1.4375 billion aggregate principal amount of the Notes we issued in November 2013. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third-party to gain control of our Board. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control of us.

Any of these provisions could, under certain circumstances, depress the market price of our common stock and the Notes.

Risks Relating to the Notes

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefore, or pay cash with respect to Notes being converted if we elect not to issue shares, which could harm our reputation and affect the trading price of our common stock.

The note hedge and warrant transactions may affect the value of the Notes and our common stock.

In connection with the pricing of the Notes, we entered into note hedge transactions with the option counterparties. The note hedge transactions are generally expected to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. We also entered into warrant transactions with the option counterparties. However, the warrant transactions could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

In connection with establishing their initial hedge of the note hedge and warrant transactions, the option counterparties or their respective affiliates have purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Notes. In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental repurchase date or otherwise). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the Notes.

Any adverse change in the rating of the Notes may cause their trading price to decline.

While we did not seek a rating on the Notes, one rating service has rated the Notes. If that rating service announces its intention to put the Notes on credit watch or lowers its rating on the Notes below any rating initially assigned to the Notes, the trading price of the Notes could decline.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification (“ASC”) 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet, and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include the current period’s amortization of the debt discount, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the

[Table of Contents](#)

Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

[Table of Contents](#)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Equity Securities

Share repurchase activity during the three months ended September 30, 2014 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased⁽¹⁾</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) ⁽¹⁾</u>
July 1 — July 31, 2014	3,860,087	\$ 34.68	3,860,087	\$ 3,791,055
August 1 — August 31, 2014	414,495	\$ 36.05	414,495	\$ 3,776,111
September 1 — September 30, 2014	3,398,073	\$ 39.21	3,398,073	\$ 3,642,878
September 1 — September 30, 2014 ⁽²⁾	15,045,135	\$ TBD ⁽²⁾	15,045,135	\$ 2,542,878
Total	<u>22,717,790</u>	<u>\$ 36.76</u>	<u>22,717,790</u>	

⁽¹⁾ The share repurchases in the three months ended September 30, 2014 were made under our stock repurchase program announced in November 2013, which authorizes the repurchase of up to \$5 billion of our outstanding shares of common stock. This program, according to its terms, will expire in December 2016. Repurchases under this program may take place in open market or privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

⁽²⁾ Final settlement of the September 2014 ASR occurred on October 17, 2014, resulting in a total of approximately 23.5 million shares, inclusive of shares initially delivered, repurchased for \$933 million. The Company received return of cash for the remaining amount not settled in shares of \$167 million. The \$167 million, in addition to the amount reflected in the table, is available under the program.

See “Significant Transactions” above, Note 13 — “Stockholders’ Equity and Employee Benefits” and Note 18 — “Subsequent Events” in the Notes to our condensed consolidated financial statements for additional information.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the Index to Exhibits (following the signatures page of this Report) are filed with, or incorporated by reference in, this Report.

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 thereunto duly authorized.

YAHOO! INC.

Dated: November 7, 2014

By: _____ /s/ **MARISSA A. MAYER**
Marissa A. Mayer
Chief Executive Officer
(Principal Executive Officer)

Dated: November 7, 2014

By: _____ /s/ **KEN GOLDMAN**
Ken Goldman
Chief Financial Officer
(Principal Financial Officer)

YAHOO! INC.
Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.4	Third Amendment to Share Repurchase and Preference Share Sale Agreement, by and among Alibaba Group Holding Limited, Yahoo! Inc., and Yahoo! Hong Kong Holdings Limited, dated as of July 14, 2014 (previously filed as Exhibit 2.4 to the Registrant's Current Report on Form 8-K filed July 15, 2014 and incorporated herein by reference).
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (previously filed as Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q filed May 4, 2001 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed June 27, 2014 and incorporated herein by reference).
10.4(A)+*	Yahoo! Inc. Directors' Stock Plan, as amended and restated on October 16, 2014 (and effective January 1, 2015) (previously referred to as the "1996 Directors' Stock Plan").
10.15(D)*	Share and Asset Purchase Agreement, dated August 12, 2014, by and among the Registrant, Alibaba Group Holding Limited, Alipay.com Co., Ltd, Zhejiang Ant Small and Micro Financial Services Company, Ltd. (formerly known as Zhejiang Alibaba E-Commerce Co., Ltd.), SoftBank Corp., APN Ltd., Jack Ma Yun, Joseph Chung Tsai and certain of their affiliates.
10.20(C)	Amendment No. 2 to Credit Agreement, dated as of October 10, 2014, by and among the Registrant, the lenders named therein, and Citibank, N.A. as Administrative Agent (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 15, 2014 and incorporated herein by reference).
10.25	Underwriting Agreement, dated September 18, 2014, by and among Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Goldman Sachs (Asia) L.L.C., J.P. Morgan Securities LLC, Morgan Stanley & Co. International plc, Citigroup Global Markets Inc., as representatives of the several underwriters named therein, Alibaba Group Holding Limited, Yahoo! Hong Kong Holdings Limited and the other selling shareholders listed therein (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 24, 2014 and incorporated herein by reference).
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2014.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 7, 2014.
32**	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 7, 2014.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

[Table of Contents](#)

- * Filed herewith.
- ** Furnished herewith.
- + Indicates a management contract or compensatory plan or arrangement.

YAHOO! INC.

DIRECTORS' STOCK PLAN

(as amended and restated on October 16, 2014)

1. *Purposes of the Plan.* The purposes of this Directors' Stock Plan are to attract and retain the best available personnel for service as Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

Awards granted on or after the Effective Date shall be made under this version of the Plan and not under the Plan as previously in effect. For the terms and conditions of the Plan applicable to Awards granted under the Plan before the Effective Date (except as expressly provided herein), refer to the version of the Plan in effect as of the date such Award was granted. Notwithstanding the foregoing, the April 2012 amendments to the Plan apply as to all Awards then outstanding, and all Awards granted thereafter, under the Plan.
2. *Definitions.* As used herein, the following definitions shall apply:

"Annual Meeting" means the annual meeting of the Company's stockholders for the applicable year. If more than one such meeting occurs for a particular year, the Annual Meeting for that year means only the first such meeting for that year. In the event that an Annual Meeting for a particular year is adjourned, the date of the Annual Meeting for that year for purposes of the Plan shall be the date that corresponds to the portion of Annual Meeting at which Directors were elected.

"Applicable Laws" means any legal requirements of all state and federal laws, including without limitation securities laws and the Code, relating to the administration of stock incentive plans such as the Plan.

"Award" means an award of Options or Restricted Stock Units (each as defined below).

"Board" means the Board of Directors of the Company.

"Code" means the U.S. Internal Revenue Code of 1986, as amended.

"Common Stock" means the common stock of the Company.

"Company" means Yahoo! Inc., a Delaware corporation.

"Continuous Service as a Director" means the absence of any interruption or termination of service as a Director.

"Director" means a member of the Board.

“Director Fees” means the amount of all compensation payable to a Director for services as a member of the Board (including service on any Board committee) that, but for any election made by such Director to receive such compensation in the form of an Award under Section 11 of the Plan, would have been payable in cash to such Director.

“Effective Date” means January 1, 2015.

“Employee” means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of compensation by the Company for service as a Director does not, alone, constitute “employment” of the Director by the Company.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Fair Market Value” means, as of any date, the fair market value of Common Stock determined as follows:

- (i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the Nasdaq Global Market and Nasdaq Global Select Market, its Fair Market Value shall be the closing sales price for such stock as quoted on such exchange or system on the date of determination (if for a given day no sales were reported, the closing sales price for a share of Common Stock for the next preceding day on which sales of Common Stock were reported shall be used), as such price is reported in The Wall Street Journal or such other source as the Board deems reliable;
- (ii) If the Common Stock is listed on the Nasdaq Stock Market (but not on the Nasdaq Global Market or Nasdaq Global Select Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the bid and asked prices for the Common Stock on the date of determination, as reported in The Wall Street Journal or such other source as the Board deems reliable; or
- (iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

“Option” means a stock option granted pursuant to the Plan. All Options shall be nonstatutory stock options (i.e., options that are not intended to qualify as incentive stock options under Section 422 of the Code).

“Outside Director” means a Director who is not an Employee.

“Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

“Participant” means an Outside Director who receives an Award.

“Plan” means this Directors’ Stock Plan (formerly known as the “1996 Directors’ Stock Plan”).

“Restricted Stock Unit” means the right to receive one Share, subject to the terms and conditions hereof.

“Share” means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

“Stock Exchange” means any stock exchange or consolidated stock price reporting system on which prices for the Common Stock are quoted at any given time.

“Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

“Total Disability” means a total and permanent disability within the meaning of Section 22(e)(3) of the Code.

“Vesting Date” with respect to a particular Award granted pursuant to Section 4(b)(ii) means the last day of each of the four three-month periods following the date on which the Award is granted; provided, however, that the fourth such “Vesting Date” as to the Award shall be the first to occur of the first anniversary of the date of grant of the Award or the day before the Annual Meeting for the calendar year following the year in which the Award is granted.

3. *Stock Subject to the Plan.*

- (a) *Share Limits.* Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares which may be issued under the Plan (including Shares issued before the Effective Date) is 8,800,000 Shares (the “Pool”) of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock. Shares issued in payment of any Restricted Stock Units granted under the Plan shall be counted against the Pool as 1.75 shares for every one Share actually issued in payment of such Restricted Stock Units. (For example, if 100 Shares were issued in payment of Restricted Stock Units granted under the Plan, 175 Shares shall be charged against the Pool in connection with that payment.)
- (b) *Reissue of Shares.* To the extent that an Award is settled in cash or a form other than Shares, the Shares that would have been delivered had there been no such cash or other settlement shall not be counted against the Shares available for issuance under the Plan. In the event that shares of Common Stock are delivered in respect of a Dividend Equivalent right granted under the Plan, only the actual number of shares delivered with respect to the Award shall be counted against the share limits of the Plan. (For purposes of clarity, if 1,000 Dividend Equivalent rights are granted and outstanding when the Company pays a dividend, and 50 shares are delivered in payment of those rights with respect to that dividend, 50 shares shall be counted against the Pool.) In connection with the exercise of an Option, the number of underlying Shares as to which the exercise relates shall be counted against the applicable Share limits under Section 3(a), as opposed to only counting the Shares actually issued. (For purposes of clarity, if an Option relates to 100,000

Shares and is exercised in full at a time when the net number of Shares due to the Participant (after any netting of Shares to cover the exercise price and/or tax withholding) is 15,000 Shares, 100,000 Shares shall be counted against the Pool with respect to such exercise.) Shares that are exchanged by a Participant or withheld by the Company as full or partial payment in connection with any Award under the Plan, as well as any Shares exchanged by a Participant or withheld by the Company or one of its Subsidiaries to satisfy the tax withholding obligations related to any Award, shall not be available for subsequent Awards under the Plan. Shares that are subject to or underlie Awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the Plan shall again be available for subsequent Awards under the Plan.

4. *Administration of and Grants of Awards Under the Plan.*

(a) *Administrator.* Except as otherwise required herein, the Plan shall be administered by the Board.

(b) *Procedure for Grants.* Except as provided in Section 11, all grants of Awards hereunder shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

- (i) Subject to the Board's amendment authority pursuant to Section 15(a), no person shall have any discretion to select which Outside Directors shall be granted Awards or to determine the number of Shares to be covered by Awards granted to Outside Directors.
- (ii) On the date of each Annual Meeting of the Company's Stockholders which occurs on or after the Effective Date and immediately following which an Outside Director is serving on the Board, such Outside Director shall be automatically granted an Award of a number of Restricted Stock Units determined by dividing (A) \$240,000 by (B) the Fair Market Value of the Common Stock on the date of grant, such number to be rounded down to the nearest whole number of Restricted Stock Units.
- (iii) In addition, each Outside Director who first becomes an Outside Director at any time on or after the Effective Date and other than in connection with an Annual Meeting shall be automatically granted, on the date he or she first becomes an Outside Director, an Award of a number of Restricted Stock Units determined by multiplying (A) the quotient obtained by dividing \$240,000 by the Fair Market Value of the Common Stock on the date of grant, by (B) a fraction, the numerator of which shall be the number of days remaining in the 365-day period following the most recent Annual Meeting, and the denominator of which shall be 365 (but in no event shall such fraction be greater than one (1)), such number to be rounded down to the nearest whole number of Restricted Stock Units; provided, however, that an Outside Director shall not be eligible to receive an Award pursuant to this Section 4(b)(iii) if he or she was an Employee at any time during the six (6) month period ending with the date on which he or she first became an Outside Director.

- (iv) Notwithstanding the provisions of subsections (ii) and (iii), in the event that the automatic grant of one or more Awards on any given date pursuant to either such subsection would cause the number of Shares subject to outstanding Awards plus the number of Shares previously delivered in respect of Awards granted under the Plan to exceed the Pool, then the number of Shares to be subject to any Award granted on such date shall be determined by multiplying (A) the total number of Shares remaining available under the Plan before giving effect to any Award grants on such date, by (B) a fraction, the numerator of which shall be the number of Shares that would otherwise be subject to such Award pursuant to subsection (ii) or (iii) hereof, as applicable, and the denominator of which shall be the number of Shares that would otherwise be subject to all Awards automatically granted on such date pursuant to such subsection. Any further automatic grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan through action of the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Awards previously granted hereunder.
- (v) Any Restricted Stock Unit Award granted under subsection (ii) shall become non-forfeitable in installments as to one-fourth of the Restricted Stock Units subject to the Award on each Vesting Date applicable to the Award. Any Restricted Stock Unit Award granted under subsection (iii) shall become non-forfeitable in a number of installments equal to the number of Vesting Dates (determined with reference to the Awards granted under subsection (ii) at the last Annual Meeting to occur) from the date of grant of such Award through and including the next Annual Meeting, with a portion of the Award (determined by dividing the total number of Restricted Stock Units subject to the Award by the number of such installments) to become non-forfeitable on each such Vesting Date. All Restricted Stock Unit Awards granted hereunder shall be paid in accordance with Section 10 of the Plan.
- (vi) The Board may at any time prospectively change the timing, grant levels, vesting and other provisions of the automatic grants provided in this Section 4(b) without stockholder approval. For avoidance of doubt, the Board may provide on a prospective basis for such automatic grants to consist of Options only, Restricted Stock Unit Awards only, or a combination of Options and Restricted Stock Unit Awards on such terms and conditions, subject to the share limits of Section 3 and the other express limits of the Plan, as may be established by the Board.

- (c) *Powers of the Board.* Subject to the provisions and restrictions of the Plan, the Board shall have the authority, in its discretion: (i) to determine, upon review of relevant information and in accordance with the provisions hereof, the Fair Market Value of the Common Stock; (ii) to determine the exercise price per share of Options to be granted, which exercise price shall be determined in accordance with Section 8(a) of the Plan; (iii) to interpret the Plan; (iv) to prescribe, amend and rescind rules and regulations relating to the Plan; (v) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Award previously granted hereunder; and (vi) to make all other determinations deemed necessary or advisable for the administration of the Plan. The Board has discretion to accelerate the vesting of any or all Awards granted under the Plan in such circumstances as it, in its discretion, deems appropriate.
 - (d) *Effect of Board's Decision.* All decisions, determinations and interpretations of the Board shall be final and binding on all Participants and any other holders of any Awards granted under the Plan.
 - (e) *Suspension or Termination of Award.* If the Board reasonably believes that a Participant has committed an act of misconduct, the Board may suspend the Participant's right to exercise any Option or otherwise receive any Shares or other payment in respect of any Award granted to such Participant pending a determination by the Board. If the Board (excluding the Participant accused of such misconduct) determines a Participant has committed an act of embezzlement, fraud, dishonesty, nonpayment of an obligation owed to the Company, breach of fiduciary duty or deliberate disregard of the Company rules resulting in loss, damage or injury to the Company, or if a Participant makes an unauthorized disclosure of any Company trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Company customer to breach a contract with the Company or induces any principal for whom the Company acts as agent to terminate such agency relationship, neither the Participant nor his or her estate shall be entitled to exercise or receive payment of any Award whatsoever. In making such determination, the Board shall act fairly and shall give the Participant an opportunity to appear and present evidence on the Participant's behalf at a hearing before the Board or a committee of the Board.
5. *Eligibility.* Awards may be granted only to Outside Directors. Except as provided in Section 11, all Awards shall be automatically granted in accordance with the terms set forth in Section 4(b) hereof. An Outside Director who has been granted an Award may, if he or she is otherwise eligible, be granted an additional Award or Awards in accordance with such provisions. The Plan shall not confer upon any Outside Director any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate his or her directorship at any time.
6. *Term of Plan.* The Plan shall continue in effect until September 1, 2019 unless sooner terminated under Section 15 of the Plan.

7. *Term of Options.* The term of each Option shall be seven (7) years from the date of grant thereof.
8. *Option Exercise Price and Consideration.*
 - (a) *Exercise Price.* The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be 100% of the Fair Market Value per Share on the date of grant of the Option.
 - (b) *Form of Consideration.* The consideration to be paid for the Shares to be issued upon exercise of an Option shall consist entirely of cash, check, other Shares of Common Stock having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised (which, if acquired from the Company, shall have been held for at least six months), delivery of a properly executed notice of exercise 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, or any combination of such methods of payment and/or any other consideration or method of payment as shall be permitted under applicable corporate law.
9. *Exercise of Option.*
 - (a) *Procedure for Exercise; Rights as a Stockholder.* Except as provided in Section 11(a), any Option granted hereunder shall be exercisable at such times as are set forth in Section 4(b) hereof. An Option may not be exercised for a fraction of a Share. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company (or such other administrative exercise procedures as the Board may implement from time to time have been completed) by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 8(b) hereof. Until such Shares are actually issued to and held of record by the Participant, the Participant shall have no right to vote or receive dividends or any other rights as a stockholder with respect to such Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date such Shares are issued, except as provided in Section 13. Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.
 - (b) *Accelerated Vesting on Death or Disability.* If the Outside Director ceases to serve as a Director due to the Director's death or Total Disability, his or her Options, to the extent then outstanding and unvested, shall be fully vested and exercisable as of the date of such cessation of service.

- (b) *Termination of Status as a Director.* If an Outside Director ceases to serve as a Director for any reason, he or she may, but only within one (1) year after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination (after giving effect to any acceleration of vesting that may apply in the circumstances). Notwithstanding the foregoing, in no event may the Option be exercised after its term set forth in Section 7 has expired. To the extent that an Outside Director was not entitled to exercise an Option at the date of such termination, or does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

10. *Restricted Stock Units.*

- (a) *Lapse of Restrictions; Termination of Service.* Subject to this Section 10(a) and except as otherwise provided in Section 11(b), any Award of Restricted Stock Units granted hereunder shall become non-forfeitable at such times as are set forth in Section 4(b) hereof. In the event of the termination of a Participant's Continuous Service as a Director for any reason, any Restricted Stock Units held by such Participant as to which the restrictions in accordance with Section 4(b) hereof have not lapsed prior to the termination of the Participant's Continuous Service as a Director shall be automatically forfeited by the Participant as of the date of such termination; provided, however, that if such termination is due to the Participant's death or Total Disability, his or her Restricted Stock Units, to the extent then outstanding and unvested, shall be fully vested as of the date of such termination. Neither the Participant nor any of the Participant's successors, heirs, assigns or personal representatives shall have any rights or interests in any Restricted Stock Units that are so forfeited.
- (b) *No Rights as a Stockholder.* Restricted Stock Units are bookkeeping entries only. A Participant who is awarded Restricted Stock Units shall possess no incidents of ownership with respect to such Restricted Stock Units, except as expressly provided in Section 10(c) with respect to dividend equivalent rights.
- (c) *Dividend Equivalent Rights.* As of any date that the Company pays an ordinary cash dividend on its Common Stock, each Participant shall automatically be granted under the Plan a number of additional Restricted Stock Units equal to (i) the per share cash dividend paid by the Company on its Common Stock on such date, multiplied by (ii) the number of outstanding and unpaid Restricted Stock Units (whether or not non-forfeitable) held by such Participant under the Plan as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. Any Restricted Stock Units granted pursuant to the foregoing provisions of this Section 10(c) shall be subject to the same vesting, payment (including, without limitation, any election by the Participant to defer payment pursuant to Section 10(e)) and other terms, conditions and restrictions as the original Restricted Stock Units to which they relate.

- (d) *Timing and Manner of Payment of Restricted Stock Units.* Subject to Sections 10(e) and 13(b) hereof, with respect to any Restricted Stock Units granted to a Participant that become non-forfeitable pursuant to the terms hereof, such Restricted Stock Units shall be paid on or as soon as practicable after (and in all events within two and one-half months after) the earlier of (i) the date such Participant's Continuous Service as a Director terminates, or (ii) the last Vesting Date applicable to the Award of such Restricted Stock Units (the earlier of such dates, the "Payment Date"), such payment to be made by the Company delivering to the Participant a number of Shares equal to the number of the Restricted Stock Units being paid on the Payment Date. The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Participant. Delivery of any certificates will be made to the Participant's last address reflected on the books of the Company unless the Company is otherwise instructed in writing. Neither the Participant nor any of the Participant's successors, heirs, assigns or personal representatives shall have any further rights or interests in any Restricted Stock Units that are so paid.
- (e) *Deferral of Payment of Restricted Stock Units.* Notwithstanding any provision of Section 10(d) or 11(b) to the contrary, a Participant granted an Award of Restricted Stock Units under the Plan may irrevocably elect, not later than the December 31 that precedes the calendar year in which such Award is granted (or, in the case of an Outside Director who is newly elected or appointed to the Board during the calendar year in which such Award is granted, not later than the commencement of such Outside Director's service as a Board member) and on a form and in a manner prescribed by the Company, that such Restricted Stock Units shall be paid on (i) the date such Participant's Continuous Service as a Director terminates, (ii) any date elected by the Participant that is not earlier than January 1 of the second year following the year in which the Award is granted, or (iii) the first to occur of the dates referred to in the foregoing clauses (i) and (ii). In the event of any such election, the payment date timely elected by the Participant shall be the "Payment Date" with respect to the Restricted Stock Units covered by the election.
11. *Awards in Lieu of Cash Payment of Fees.* Prior to the December 31 that precedes the calendar year during which any Director Fees are earned by an Outside Director (or such earlier date as may be prescribed by the Company), or, in the case of Director Fees earned by an Outside Director during the calendar year in which such Outside Director is newly elected or appointed to the Board, prior to the date of such Outside Director's first day of service as a Board member, the Outside Director may elect, on a form and in a manner prescribed by the Company, to exchange the right to receive payment of such Director Fees in cash for the grant of an Award under the Plan pursuant to either Section 11(a) or 11(b) below. Notwithstanding any other provision herein, unless and until otherwise provided by the Board, Director Fees earned by an Outside Director during calendar year 2015 and thereafter may be exchanged for an Award of Restricted Stock Units pursuant to Section 11(b) but may not be exchanged for an Option pursuant to Section 11(a).

- (a) *Stock Option.* The Outside Director may elect to be granted an Option with respect to the number of Shares determined by dividing (i) three (3) times the amount of the Director Fees being exchanged for the Option, by (ii) the Fair Market Value of a Share as of the date of such exchange, and rounding down to the nearest whole share. The Option shall be granted on the last day of the calendar quarter for which the applicable Director Fees would have otherwise been paid (or such other date as the Board may determine appropriate) and shall be exercisable immediately upon the date of grant. Except as expressly provided herein, any Option granted pursuant to this Section 11(a) shall be subject to all of the provisions of the Plan applicable to Options granted under the Plan.
- (b) *Restricted Stock Unit Award.* The Outside Director may elect to be granted an Award of Restricted Stock Units. The number of Restricted Stock Units to be covered by such Award shall be determined by dividing (i) the amount of the Director Fees being exchanged for the Award, by (ii) the Fair Market Value of a Share as of the date of grant of such Restricted Stock Units, and rounding down to the nearest whole unit. Unless otherwise provided by the Board, the Restricted Stock Units shall be granted on the last day of the calendar quarter for which the applicable Director Fees would have otherwise been paid (or, if the Outside Director ceases to serve as a Director during such quarter, on the date of such cessation of service). Such Restricted Stock Units shall be fully non-forfeitable as of the date of grant. Subject to Sections 10(e) and 13(b) hereof, such Restricted Stock Units shall be paid on or as soon as practicable after (and in all events within two and one-half months after) the earlier of (i) the date such Participant's Continuous Service as a Director terminates, or (ii) the first anniversary of the date such Restricted Stock Units are granted (the earlier of such dates, the "Payment Date"), such payment to be made by the Company delivering to the Participant a number of Shares equal to the number of the Restricted Stock Units being paid on the Payment Date. Except as expressly provided herein, any Restricted Stock Units granted pursuant to this Section 11(b) shall be subject to all of the provisions of the Plan applicable to Awards of Restricted Stock Units granted under the Plan.
12. *Nontransferability of Awards.* Awards granted under the Plan may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution or pursuant to a qualified domestic relations order (as defined by the Code or the rules thereunder). The designation of a beneficiary by a Participant does not constitute a transfer. An Option may be exercised during the lifetime of a Participant only by the Participant or a transferee permitted by this Section 12.
13. *Adjustments upon Changes in Capitalization; Corporate Transactions.*
- (a) *Adjustments.* Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Award, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per share of Common Stock covered by each outstanding Option, shall,

in each case to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding Awards, be equitably and proportionately adjusted for any dividend of stock or other property, or extraordinary cash dividend, by the Company, any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to any Award.

(b) *Corporate Transactions.* In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company’s assets, (iii) a merger or consolidation in which the Company is not the surviving corporation, or (iv) any other capital reorganization in which more than fifty percent (50%) of the shares of the Company entitled to vote are exchanged (a “Corporate Transaction”), at the time of adoption of the plan for such Corporate Transaction, the Company shall:

- in the case of outstanding Options, provide for either a reasonable time thereafter within which to exercise the Option, including Shares as to which the Option would not be otherwise exercisable, prior to the effectiveness of such Corporate Transaction, at the end of which time the Option shall terminate, or the right to exercise the Option, including Shares as to which the Option would not be otherwise exercisable (or receive a substitute option with comparable terms), as to an equivalent number of shares of stock of the corporation succeeding the Company or acquiring its business by reason of such Corporate Transaction; and
- in the case of outstanding Restricted Stock Units, provide that, immediately prior to the effectiveness of such Corporate Transaction, all such Restricted Stock Units (A) to the extent that such Restricted Stock Units are not then non-forfeitable, shall become non-forfeitable, and (B) shall be paid in an equivalent number of Shares; provided, however, that payment shall be made in respect of a Corporate Transaction pursuant to the foregoing clause (B) only if such Corporate Transaction constitutes a “change in the ownership or effective control” of the Company or a “change in the ownership of a substantial portion of the assets” of the Company within the meaning of Section 409A(a)(2)(A)(v) of the Code; and provided further, that in the event the foregoing proviso is not satisfied, payment shall be made at the time otherwise provided herein.

14. *Time of Granting Awards.* The date of grant of an Award shall, for all purposes, be the date determined in accordance with Section 4(b) or Section 11 hereof, as applicable. Notice of the determination shall be given to each Outside Director to whom an Award is so granted within a reasonable time after the date of such grant.
15. *Amendment and Termination of the Plan.*
- (a) *Amendment and Termination.* The Board may amend, alter, suspend, discontinue, or terminate the Plan or any portion thereof at any time; provided, that no such amendment, alteration, suspension, discontinuation or termination shall be made without stockholder approval if such approval is necessary to comply with any tax, securities or regulatory law or requirement or any applicable Stock Exchange requirement with which the Board intends the Plan to comply or if such amendment constitutes a “material amendment.” For purposes of the Plan, a “material amendment” shall mean an amendment that (i) materially increases the benefits accruing to Participants under the Plan, (ii) materially increases the number of securities that may be issued under the Plan, (iii) materially modifies the requirements for participation in the Plan, or (iv) is otherwise deemed a material amendment by the Board pursuant to any Applicable Law or applicable accounting or Stock Exchange rules; provided, however, that the Board may, in its sole discretion but subject to the share limits of Section 3 and the other express limits of the Plan, at any time prospectively make any of the changes contemplated by Section 4(b)(vi) above without the approval of the Company’s stockholders, and any such change shall not be considered a “material amendment” for purposes of this Section 15(a).
- (b) *Amendments to Awards.* Without limiting any other express authority of the Board under (but subject to) the express limits of the Plan, the Board may waive conditions of or limitations on Awards that the Board in the prior exercise of its discretion has imposed, without the consent of the Award recipient, and (subject to the requirements of Section 15(c)) may make other changes to the terms and conditions of Awards. Notwithstanding the foregoing and except for an adjustment pursuant to Section 13(a) or a repricing approved by stockholders, in no case may the Board (1) amend an outstanding Option to reduce the exercise price or grant price of the Award, (2) provide for the cancellation, exchange, or surrender of an outstanding Option in exchange for cash or other awards for the purpose of repricing the Award, or (3) provide for the cancellation, exchange, or surrender an outstanding Option in exchange for an Option with an exercise or grant price that is less than the exercise or grant price of the original Award.
- (c) *Limitations on Amendments to Plan and Awards.* No amendment, suspension or termination of the Plan or change of or affecting any outstanding Award shall, without written consent of the Award recipient, affect in any manner materially adverse to such recipient any rights or benefits of such recipient or obligations of the Company under any Award granted under the Plan prior to the effective date of such change. Changes, settlements and other actions contemplated by Section 13 shall not be deemed to constitute changes or amendments for purposes of this Section 15(c).

16. *Conditions upon Issuance of Shares.* Shares shall not be issued pursuant to the exercise or payment of any Award granted under the Plan unless the exercise or payment of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any Stock Exchange, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise or payment of any Award, the Company may require the person exercising or receiving payment of such Award to represent and warrant at the time of any such exercise or payment that the Shares are being acquired only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.
17. *Reservation of Shares.* The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.
18. *Award Agreement.* Awards shall be evidenced by written award agreements in such form as the Board shall approve.
19. *Unfunded Status of Plan.* The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a participant by the Company, nothing contained herein shall give any such participant any rights that are greater than those of a general creditor of the Company.
20. *Governing Law.* The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Delaware, without giving effect to the conflict of laws principles thereof.
21. *Construction.* The Plan and any agreement evidencing any Award granted hereunder shall be construed and interpreted to comply with Section 409A of the Code. The Company reserves the right to amend the Plan and any such agreement to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of Awards granted hereunder in light of Section 409A of the Code and any regulations or other guidance promulgated thereunder.
22. *Recoupment.* Each Award, and any Shares issued or other payment in respect of an Award, is subject to the recoupment or "clawback" policies adopted by the Board and applicable to the Award as such policies are in effect from time to time.

SHARE AND ASSET PURCHASE AGREEMENT

by and among

ALIBABA GROUP HOLDING LIMITED,

浙江蚂蚁小微金融服务集团有限公司

(ZHEJIANG ANT SMALL AND MICRO FINANCIAL SERVICES GROUP CO., LTD.),

and

THE OTHER PARTIES NAMED HEREIN

Dated as of August 12, 2014

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS AND TERMS	
Section 1.1	General 4
Section 1.2	Cross-Reference of Other Definitions 12
Section 1.3	Construction 15
Section 1.4	Schedules, Annexes and Exhibits 16
ARTICLE II TRANSACTION	
Section 2.1	Equity Transfers 16
Section 2.2	Asset Transfers 17
Section 2.3	Issuance of Purchaser Equity Securities 20
Section 2.4	Payments by the Purchaser for Transferred Equities 22
Section 2.5	Liquidity Event Payment 22
Section 2.6	Timing and Method of Other Payments 25
Section 2.7	Accrued Profit Share 27
Section 2.8	SME Fees 28
Section 2.9	Termination of Framework Agreement 28
ARTICLE III CLOSING	
Section 3.1	Closing 28
Section 3.2	Closing Deliverables 29
Section 3.3	Withholding Rights 30
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF THE SELLER	
Section 4.1	Organization and Qualification; Subsidiaries 30
Section 4.2	Authority; Binding Effect 30
Section 4.3	No Conflicts; Required Filings and Consents 31
Section 4.4	Capitalization 31
Section 4.5	Title to Transferred Equities 32
Section 4.6	Title to Transferred Intellectual Property 32
Section 4.7	Purchaser Business 32
Section 4.8	Exclusivity of Representations 32
ARTICLE V REPRESENTATIONS AND WARRANTIES OF THE PURCHASER	
Section 5.1	Organization and Qualification 33
Section 5.2	Authority; Binding Effect 33
Section 5.3	No Conflicts; Required Filings and Consents 33
Section 5.4	Capitalization 34

Section 5.5	Purchaser Business	34
Section 5.6	Exclusivity of Representations	34
ARTICLE VI		
REPRESENTATIONS AND WARRANTIES OF THE MANAGEMENT HOLDCOS		
Section 6.1	Organization and Qualification	35
Section 6.2	Authority; Binding Effect	35
Section 6.3	No Conflicts; Required Filings and Consents	35
Section 6.4	Purchaser Business	36
Section 6.5	Exclusivity of Representations	36
ARTICLE VII		
COVENANTS		
Section 7.1	Confidentiality	36
Section 7.2	Appropriate Action; Consents; Filings	37
Section 7.3	Notification of Certain Matters	38
Section 7.4	Public Announcement and Filings	38
Section 7.5	Conduct of Business Pending the Closing	39
Section 7.6	Seller Parties	39
Section 7.7	No Control of the Transferred Entities and the Transferred IP	39
ARTICLE VIII		
CONDITIONS TO CLOSING		
Section 8.1	General Conditions	39
Section 8.2	Conditions to Obligations of the Seller and the Seller Parties	40
Section 8.3	Conditions to Obligations of the Purchaser	40
ARTICLE IX		
ADDITIONAL COVENANTS		
Section 9.1	Board Representation of the Seller	41
Section 9.2	Information Rights	43
Section 9.3	Preemptive Rights	46
Section 9.4	Certain Transactions	50
Section 9.5	Change of Control	51
Section 9.6	Cross-ownership of Equity Securities by Employees of the Seller and the Purchaser	51
Section 9.7	Transfer Restrictions	52
Section 9.8	IPO	54
Section 9.9	Business Scope	55
Section 9.10	Alibaba Independent Committee	59
Section 9.11	Further Assurances	59
Section 9.12	Dividends	60
Section 9.13	Further Covenants	60

ARTICLE X
TERMINATION

Section 10.1	Termination of Transactions	61
Section 10.2	Effect of Termination	62

ARTICLE XI
INDEMNIFICATION

Section 11.1	Indemnification by the Seller	62
Section 11.2	Indemnification by the Purchaser	62
Section 11.3	Indemnification by the Management Holdcos	62
Section 11.4	Procedures	63
Section 11.5	Limits on Indemnification and Liability	64

ARTICLE XII
MISCELLANEOUS

Section 12.1	Notices	64
Section 12.2	Amendment; Waiver	66
Section 12.3	Assignment	67
Section 12.4	Entire Agreement	67
Section 12.5	Parties in Interest	67
Section 12.6	Expenses	67
Section 12.7	Governing Laws; Jurisdiction	67
Section 12.8	Arbitration	67
Section 12.9	Severability	69
Section 12.10	Counterparts	70
Section 12.11	Rules of Construction	70

SHARE AND ASSET PURCHASE AGREEMENT

THIS SHARE AND ASSET PURCHASE AGREEMENT (this "Agreement"), dated as of August 12, 2014, is entered into by and between:

- (1) Alibaba Group Holding Limited, a Cayman Islands company (the "Seller");
- (2) 浙江蚂蚁小微金融服务集团有限公司 (Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.), a limited liability company organized under the Laws of the PRC (the "Purchaser");
- (3) Alibaba.com China Limited, a limited liability company organized under the Laws of Hong Kong ("Alibaba.com China (B58)"); 浙江淘宝网络有限公司 (Zhejiang Taobao Network Co., Ltd.), a limited liability company organized under the Laws of the PRC ("Zhejiang Taobao (T51)"); 杭州阿里创业投资有限公司 (Hangzhou Ali Venture Capital Co., Ltd.) ("Hangzhou Ali Venture Capital (A54)"); Silverworld Technology Limited, a limited liability company organized under the Laws of the British Virgin Islands ("Silverworld Technology (B17)") and collectively with the other entities listed above in this clause (3), the "Subsidiary Seller Parties" and the Subsidiary Seller Parties together with the Seller, the "Seller Parties";
- (4) SoftBank Corp., a Japanese corporation and shareholder of the Seller ("SoftBank"); Yahoo! Inc., a Delaware corporation and a direct and indirect shareholder of the Seller ("Yahoo!"); 支付宝(中国)网络技术有限公司 (Alipay.com Co., Ltd.), a limited liability company organized under the Laws of the PRC ("Alipay"); APN Ltd., a company organized under the Laws of the Cayman Islands ("IPCo"); Jack Ma ("JM"); Xie Shihuang; and Joseph Chung Tsai ("JT," and together with the Seller and the other entities and individuals listed above in this clause (4), the "Framework Agreement Parties");
- (5) Solely with respect to the Sections referred to in Section 12.5, PMH Holding Limited, a company incorporated under the Laws of the British Virgin Islands ("PMH"); and
- (6) Solely with respect to the Sections referred to in Section 12.5, 杭州君傲股权投资合伙企业(有限合伙) (Hangzhou Junao Equity Investment Partnership (Limited Partnership)), a limited partnership organized under the Laws of the PRC ("Junao Management Holdco") and 杭州君瀚股权投资合伙企业(有限合伙) (Hangzhou Junhan Equity Investment Partnership (Limited Partnership)), a limited partnership organized under the Laws of the PRC ("Junhan Management Holdco" and together with Junao Management Holdco, the "Management Holdcos").

The parties hereto are referred to collectively as the "Parties."

RECITALS

WHEREAS, the Seller Parties wish to transfer certain assets and securities to the Purchaser as specified herein;

WHEREAS, the Purchaser wishes to make certain payments, as specified herein, to the Seller, in consideration of such transfer;

WHEREAS, the Parties intend that that certain Framework Agreement, dated as of July 29, 2011, by and among the Framework Agreement Parties (the "Framework Agreement"), be terminated on the date hereof as set forth herein;

WHEREAS, concurrently herewith, (A) the Legal Mortgage of Alibaba Shares, dated October 21, 2011, by IPCo in favour of Wilmington Trust (Cayman), Ltd., (B) the Legal Mortgage of IPCo Shares, dated October 21, 2011, by JM and JT in favour of Wilmington Trust (Cayman), Ltd. (the "Original Legal Mortgage of IPCo Shares"), as assigned and novated by a Deed of Assignment and Novation, dated August 12, 2014 pursuant to which JT (as assignor) has assigned and transferred to PMH (as assignee) absolutely all of his rights and title to, and interest and benefit in, to and under the Original Legal Mortgage of IPCo Shares and novated to PMH all of his obligations and liabilities under the Original Legal Mortgage of IPCo Shares, (C) the Fixed and Floating Charge, dated October 21, 2011, between IPCo and Wilmington Trust (Cayman), Ltd. and (D) the Amended and Restated Collateral Agency Agreement, dated June 2, 2014, by and between Seller and Wilmington Trust (Cayman), Ltd., have been amended (collectively, as amended, the "Amended IPCo Security Documents") to secure the Liquidity Event Payment provided for herein and to reflect the continuing obligations under this Agreement and the Amended IPCo Security Documents following the termination of the Framework Agreement, and the Memorandum and Articles of Association of IPCo have been duly amended to reflect the termination of the Framework Agreement and the powers and authority of IPCo to enter into and perform its obligations under this Agreement;

WHEREAS, the Seller has received a Cayman Islands opinion and a BVI opinion of Maples and Calder, addressed to Seller, Yahoo and SoftBank in the agreed form dated the date hereof addressing, among others, the enforceability, validity and due authorization of (A) the Amended IPCo Security Documents to secure the Liquidity Event Payment provided for herein and to reflect the continuing obligations under this Agreement and the Amended IPCo Security Documents following the termination of the Framework Agreement and (B) the amendments to the Memorandum and Articles of Association of IPCo to reflect the termination of the Framework Agreement and the powers and authority of IPCo to enter into and perform its obligations under this Agreement;

WHEREAS, the Seller has received an opinion of Fangda Partners, addressed to Seller in the agreed form dated the date hereof addressing, among others, (A) the enforceability and validity of this Agreement under the Laws of the PRC against the Parties hereto and (B) the due authorization of this Agreement by the Parties hereto organized under the Laws of the PRC or domiciled in the PRC;

WHEREAS, the Parties intend that the Commercial Agreement, dated as of July 29, 2011, currently in place among the Seller, the Purchaser and Alipay, as amended (the "2011 Commercial Agreement"), shall continue in effect;

WHEREAS, concurrently herewith, 阿里巴巴(中国)有限公司 (Alibaba (China) Co., Ltd.), a corporation organized under the Laws of the PRC and a wholly-owned Subsidiary of the Seller (“Alibaba China Co. (A50)”) has entered into a Software System Use and Service Agreement with each of 浙江阿里巴巴小额贷款有限公司 (Zhejiang Alibaba Small Loan Co., Ltd.) (“Alibaba Small Loan Company (F50)”) and the Chongqing Loan Company (F51) (together, and including any analogous agreements entered into by Purchaser’s Subsidiaries pursuant to Section 2.8, the “SME Loan Know-How License Agreements”);

WHEREAS, the Parties intend that, concurrently herewith, the Intellectual Property License and Software Technology Services Agreement, dated as of July 29, 2011, by and between the Seller and Alipay (the “IPLA”), has been amended and restated (the “Amended IPLA”), and shall continue in effect as so amended and restated, and the Seller wishes to receive the right to certain payments from Purchaser under the Amended IPLA;

WHEREAS, concurrently herewith, the Shared Services Agreement, dated as of July 29, 2011, by and between the Seller and the Purchaser, has been amended and restated (the “Amended Shared Services Agreement”), and shall continue in effect as so amended and restated;

WHEREAS, concurrently herewith, the Seller and the Purchaser have entered into an agreement governing access to data and other related cooperation between the Parties (the “Data Sharing Agreement”);

WHEREAS, concurrently herewith, the Seller and the Purchaser have entered into a binding term sheet, whereby the Seller shall provide the Purchaser with certain cloud computing services to enable the Purchaser to process and analyze data solely in connection with its permitted businesses from time to time (the “Technology Services Agreement”);

WHEREAS, concurrently herewith, the Seller and the Purchaser have entered into an agreement providing for mutual cooperation on a list of activities to be developed and agreed upon with respect to the loan business for small and medium enterprises (the “Cooperation Agreement”);

WHEREAS, concurrently herewith, the Seller and the Purchaser have entered into an agreement regarding the use by each party and its respective subsidiaries of trademarks incorporating the “Ali” [] name or prefix or the “ecommerce”/ “ ”, “ ”, or “ ” name, prefix or logo (the “Trademark Agreement,” and together with this Agreement, the Amended IPLA, the Amended Shared Services Agreement, the 2011 Commercial Agreement, the Data Sharing Agreement, the Technology Services Agreement and the Cooperation Agreement, as may be amended from time to time and with the schedules, annexes and exhibits thereto, the “Transaction Documents”); and

WHEREAS, the Parties desire to provide for the affairs of the Seller and the Purchaser and the rights and obligations of the Parties on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS AND TERMS

Section 1.1 General. As used herein, the following terms shall have the following meanings:

“Affiliate” means, with respect to any specified Person, any other Person who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such specified Person; provided, that, for the purposes of this definition, “control” (including with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by Contract or otherwise. For the avoidance of doubt, (a) the Affiliates of a Person shall include the Subsidiaries of such Person, and (b) the Seller shall not be an Affiliate of SoftBank or of Yahoo!, or vice versa, for purposes of this Agreement.

“Alipay-Exclusive IP” shall have the meaning ascribed to such term in the Amended IPLA.

“Alipay Qualified IPO” means an underwritten initial public offering of Equity Securities of Alipay (i) at an implied equity value of Alipay exceeding twenty-five billion U.S. Dollars (US\$25,000,000,000), (ii) in which, immediately following the offering, the Equity Securities of Alipay sold in the offering are listed on a Recognized Stock Exchange, and (iii) which results in gross proceeds of at least two billion U.S. Dollars (US\$2,000,000,000).

“Alipay Royalty” shall have the meaning ascribed to that term in the Amended IPLA.

“Beneficial Owner” of any security means any Person who, directly or indirectly, through any Contract, arrangement, understanding, relationship or otherwise has or shares (i) voting power, which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct the disposition of, such security. “Beneficially Own” and “Beneficial Ownership” shall have correlative meanings.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions located in Beijing, Hong Kong or New York are authorized or obligated by Laws to close.

“Business Scope Period” means the period commencing on the date of this Agreement and terminating upon the earlier of (i) the first date following the first occurrence of any Issuance on which the Seller and its Subsidiaries do not collectively own at least fifty percent (50%) of the aggregate Ownership Interests in the Purchaser issued, on or prior to such date, to the Seller and its Subsidiaries collectively pursuant to this Agreement; provided, that if the Seller and/or any of its Subsidiaries is required by Law to sell or otherwise transfer or dispose of Purchaser Equity or equivalent equity interests of the Purchaser, such sale shall not terminate the Business Scope Period unless the Seller and/or any of its Subsidiaries subsequently voluntarily sells any Purchaser Equity or equivalent equity interests of the Purchaser and immediately following such sale the Seller and its Subsidiaries collectively own less than fifty percent (50%) of the aggregate Ownership Interests in the Purchaser issued, on or prior to the date of such sale, to the Seller and its Subsidiaries collectively pursuant to this Agreement, and (ii) the expiration of the Total Term (as defined in the Data Sharing Agreement).

“Collateral” means, collectively, all the property (whether personal, real, mixed or otherwise) which is subject or is intended to become subject to the security interests or Liens granted by any of the Amended IPCo Security Documents.

“Confidential Information” means information delivered by or on behalf of a Party to another Party or its Representatives pursuant to, in connection with, or related to this Agreement or any of the transactions, rights or obligations contemplated by this Agreement; provided, that such term does not include information that (a) was publicly known prior to the time of such disclosure; (b) was otherwise known to such receiving Party and not subject to a duty to keep such information confidential prior to the time of such disclosure; (c) subsequently becomes publicly known through no act or omission by such receiving Party or any of its Representatives in breach of this Agreement; (d) otherwise becomes known to such receiving Party other than through disclosure by the delivering Party or any Person that such receiving Party knows to have a duty to keep such information confidential; or (e) is subject to the Data Sharing Agreement.

“Connected Person” means, with respect to any Person, such Persons as would be “connected persons” as defined in Rule 1.01 and expanded in Rule 14A.11 of the Hong Kong Stock Exchange listing rules as in effect as of the date hereof.

“Contract” means any loan or credit agreement, bond, debenture, note, mortgage, indenture, lease, supply agreement, license agreement, development agreement or other contract, agreement, obligation, commitment or instrument, including all amendments thereto.

“Encumbrance” means any charge, claim, mortgage, lien, option, pledge, title defect, security interest or other restriction or limitation of any kind (other than those created under applicable securities Laws).

“Equity Securities” means, with respect to any entity, any equity interests of such entity, however described or whether voting or nonvoting, and any securities convertible or exchangeable into, and options, warrants or other rights to acquire, any equity interests or equity-linked interests of such entity, including, for the avoidance of doubt, Purchaser Equity where the subject entity is the Purchaser.

“Family Member” means, with respect to any Person, any child, grandchild, parent, grandparent, spouse or sibling, of such Person, and shall include adoptive relationships of the same type.

“GAAP” means U.S. GAAP or IFRS, in each case, applied on a consistent basis.

“Governmental Approval” means any consent, approval, authorization, waiver, permit, grant, franchise, concession, agreement, license, certificate, exemption, Order, registration, declaration, filing, report or notice of any Governmental Authority.

“Governmental Authority” means any instrumentality, subdivision, court, administrative agency, commission, official or other authority of any country, state, province, prefect, municipality, locality or other government or political subdivision thereof, or any stock or securities exchange, or any multi-national, quasi-governmental or self-regulatory or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority.

“Highly Sensitive Information” means any competitively sensitive business, marketing, technical and other information that the Purchaser does not otherwise intend to publicly disclose other than information as to which the Seller certifies, through a certificate duly executed by an authorized executive officer of the Seller, SoftBank or Yahoo!, that it or SoftBank or Yahoo!, as applicable, requires such information in order to comply with public reporting requirements under the applicable securities Laws and rules of any stock exchange on which the Equity Securities of the Seller are admitted to trading or for the purpose of complying with applicable Law.

“IFRS” means International Financial Reporting Standards.

“Income Share Buyout Amount” means the Income Share Buyout Amount payable by the Purchaser to the Seller under Section 5.8 of the Amended IPLA in the relevant circumstance, net of any Taxes arising therefrom.

“Intellectual Property” means:

(a) patents, patent applications and patent disclosures, including all provisionals, reissuances, continuations, continuations-in-part, divisions, revisions, extensions, reexaminations and counterparts thereof, inventions (whether patentable or unpatentable and whether or not reduced to practice) and all improvements thereto;

(b) trademarks, service marks, trade dress, logos, brand names, trade names, domain names and corporate names, and all goodwill associated therewith and all applications, registrations and renewals in connection therewith;

(c) copyrights, works of authorship and copyrightable works, including software, data and databases, website and other content and documentation, and all applications, registrations and renewals in connection therewith (“Copyrights”); and

(d) trade secrets, know-how, information and/or technology of any kind (including processes, procedures, research and development, ideas, concepts, formulas, algorithms, compositions, production processes and techniques, technical data, designs, drawings, specifications, research records and records of inventions).

“Interest Rate” means two percent (2%) plus the two (2)-year U.S. Treasury rate as published in The Wall Street Journal New York edition on the date in the United States that the Initial Liquidity Event Payment is made or if such rate ceases to be available or is not published, the most closely comparable rate.

“IPCo Payment” means a portion of the Liquidity Event Payment equal to Five Hundred Million Dollars (US\$500,000,000).

“IPO” means an initial public offering.

“Issuance” means each issuance of Ownership Interests in the Purchaser pursuant to Section 2.3, each of which (i) shall be made to the Seller or a Subsidiary of the Seller designated by the Seller, (ii) shall be of an Ownership Interest in the Purchaser representing, on a fully-diluted basis, as of immediately following such issuance together with all prior Issuances, a percentage of the aggregate Ownership Interests in the Purchaser equal to the Maximum Issuance Interest (or such lesser percentage as is permitted by the Issuance Approvals), and (iii) shall be free and clear of any Encumbrances whatsoever.

“Issuance Percentage” means the ratio, expressed as a percentage, of the Ownership Interests in Purchaser issued with respect to all Issuances to the Maximum Issuance Interest; provided that the Issuance Percentage shall not exceed 100%.

“Law” means (a) any federal, state, territorial, foreign or local law, common law, statute, ordinance, rule, regulation, code, measure, notice, circular, opinion or Order of any Governmental Authority, including any rules promulgated by a stock exchange or regulatory body or (b) any applicable widely adopted industry standard rules and regulations (such as the Payment Card Industry Data Security Standard or PCIDSS).

“Liabilities” means any and all liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured or determined or determinable.

“Maximum Issuance Interest” means (x) prior to a Purchaser Qualified IPO, thirty-three percent (33%), (y) following a Purchaser Qualified IPO, the product of thirty-three percent (33%) multiplied by the ratio of outstanding Ownership Interests of the Purchaser immediately prior to the Purchaser Qualified IPO to the outstanding Ownership Interests of the Purchaser immediately following the Purchaser Qualified IPO, and (z) following any Third-Party Issuance or Non-Pro Rata Share Repurchase subsequent to a Purchaser Qualified IPO, the product of the percentage that would have been calculated as the Maximum Issuance Interest immediately prior to such Third-Party Issuance or Non-Pro Rata Share Repurchase, multiplied by the ratio of outstanding Ownership Interests of the Purchaser immediately prior to the Third-Party Issuance or Non-Pro Rata Share Repurchase to the outstanding Ownership Interests of the Purchaser immediately following the Third-Party Issuance or Non-Pro Rata Share Repurchase; provided, however, that at no time shall the Maximum Issuance Interest exceed thirty-three percent (33%).

“MIIT” means the Ministry of Industry and Information Technology of the PRC and any duly authorized provincial or local office of the Ministry of Industry and Information Technology of the PRC.

“MOFCOM” means the Ministry of Commerce of the PRC and any duly authorized provincial or local office of the Ministry of Commerce of the PRC.

“New FIG Business-Exclusive IP” has the meaning ascribed to that term in the Amended IPLA.

“New FIG Royalty” shall have the meaning ascribed to that term in the Amended IPLA.

“Non-Pro Rata Share Repurchase” means any acquisition or redemption by the Purchaser of then outstanding Ownership Interests of the Purchaser other than an acquisition or redemption by the Purchaser of its Ownership Interests pro rata from all holders of such Ownership Interests.

“Order” means any judgment, order, writ, preliminary or permanent injunction, instruction or decree of any Governmental Authority or any arbitration award.

“Ownership Interest” of any Person in any entity organized under the laws of the PRC means, as of any time: (a) if such entity is in the form of a limited liability company, the quotient of the amount of the registered capital of such entity directly or indirectly owned by such Person divided by the total amount of the registered capital of such entity at such time; (b) if such entity is in a form of a company limited by shares, the quotient of the amount of the total shares of such entity directly or indirectly owned by such Person divided by the total amount of the shares of such entity issued and outstanding at such time; or (c) if such entity is in any other form, the quotient of the amount of the capital investment of such entity directly or indirectly owned by such person divided by the total amount of the capital investment contributed by all the shareholders of such entity, or the quotient of the total capital investment amount of such entity otherwise agreed in writing by all the shareholders of such entity.

“Payment Date” shall have the meaning ascribed to such term in the Amended IPLA.

“PBOC” means the headquarters of the People’s Bank of China located in Beijing and any duly authorized provincial or local office of the People’s Bank of China.

“Person” means an individual, a partnership, a corporation, an association, a limited liability company, a joint stock company, a trust, a joint venture, an unincorporated organization, a group, a Governmental Authority or any other type of legal entity.

“PRC” means the People’s Republic of China (for the purpose of this Agreement, not including Hong Kong Special Administrative Region, Macao Special Administrative Region or Taiwan).

“PRC Person” means (a) an individual with PRC nationality pursuant to the Nationality Law of the PRC, (b) a company organized under the Laws of the PRC that (i) is not a WFOE, (ii) is not otherwise foreign owned or foreign invested under the Laws of the PRC, and (iii) is not controlled or (in whole or in part) Beneficially Owned by any WFOE, VIE Structure, foreign invested enterprise under the Laws of the PRC, individual without PRC nationality, or Person organized under the Laws of a territory other than the PRC, or (c) a PRC Governmental Authority.

“Proceeding” means any action, suit, claim, hearing, proceeding, arbitration, mediation, audit, inquiry or investigation (whether civil, criminal, administrative or otherwise) by any Person or Governmental Authority.

“Purchaser Business” means (a) the provision and distribution of credit (including providing loans, factoring, guarantees and loan servicing) and insurance; (b) the provision of investment management and banking services (including capital markets advice, deposit services, custody services, trust services and other financial advisory services); (c) payment transaction processing and payment clearing services for third parties (including issuance of physical, virtual, online or mobile credit, debit or stored value cards, operation of payment networks, and acquisition of merchants for rendering payment services); (d) leasing, lease financing and related services; (e) trading, dealing and brokerage with respect to foreign exchange and financial instruments, including securities, indebtedness, commodities futures, derivatives, and currencies; (f) distribution of securities, commodities, funds, derivatives and other financial products (including trading and brokerage services with respect to the same); and (g) provision of credit ratings and credit profiles and reports.

“Purchaser Equity” means (a) if the Purchaser is in the form of a limited liability company, registered capital of the Purchaser; or (b) if the Purchaser is in a form of a company limited by shares, shares of the Purchaser.

“Purchaser Qualified IPO” means an underwritten initial public offering of Equity Securities of the Purchaser (i) at an implied equity value of the Purchaser exceeding Twenty-Five Billion U.S. Dollars (US\$25,000,000,000), (ii) in which, immediately following the offering, the Equity Securities of the Purchaser sold in the offering are listed on a Recognized Stock Exchange, and (iii) which results in gross proceeds of at least Two Billion U.S. Dollars (US\$2,000,000,000).

“Recognized Stock Exchange” means the largest capitalization listing tier of any of the New York Stock Exchange, NASDAQ, London Stock Exchange, Hong Kong Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange (for example, as of the date of this Agreement, for NASDAQ, the NASDAQ Global Select Market or for the London Stock Exchange, Main Market Primary Listing).

“Related Party” means:

(a) JM, JT, any of JM’s or JT’s respective Family Members, trusts formed by JM or JT for the benefit of himself or his Family Members (including any holding company directly or indirectly held by such trusts), family limited partnerships and other entities formed for the principal benefit of JM, JT or JM’s or JT’s respective Family Members (provided, that, the determination of whether such an entity has been formed for the principal benefit of JM, JT or JM’s or JT’s respective Family Members shall be conclusively established in the affirmative if JM, JT or JM’s or JT’s respective Family Members own or are entitled to more than 50% of the combined economic interests (in capital and in profits) of such entity);

(b) either Management Holdco or its respective general partner or any Person who controls such general partner; or

(c) any Person that would be a Connected Person of the Purchaser or either Management Holdco other than (i) directors and chief executives (and their respective associates) of any Subsidiary of the Purchaser that would not otherwise be Connected Persons of the Purchaser or either Management Holdco if they were not a director or chief executive of a Subsidiary of the Purchasers and (ii) the Seller, its Subsidiaries and Persons who would not otherwise be Connected Persons of the Purchaser or either Management Holdco in the absence of its relationship with the Seller.

“Renminbi” or “RMB” means lawful money of the PRC.

“Representatives” means a Person’s Affiliates, directors, managers, officers, employees, agents, attorneys, consultants, advisors or other representatives.

“Retained IP” means the Intellectual Property Rights set forth on Schedule 2.02(b) of the Framework Agreement and all of the Alipay-Exclusive IP and New FIG Business-Exclusive IP.

“SAFE Circular 75 Registration” means registration as required under the Circular Concerning Certain Foreign Exchange Administrative Issues Related to Offshore Special Purpose Vehicles Established by PRC Residents and Round Trip Investment, issued by SAFE, effective November 1, 2005, or any supplementary or successor rule or regulation under PRC Law.

“Secured Obligations” means all obligations and liabilities of Purchaser and IPCo to pay any Liquidity Event Payment, Initial Liquidity Event Payment, or any Liquidity Event Impact Payment, and interest and tax-related payments under this Agreement and any Impact Payment under the Commercial Agreement, and all obligations and liabilities of IPCo, Purchaser, JM, JT (as party to the Original Legal Mortgage of IPCo Shares and in the event all rights and obligations under the Novated Legal Mortgage of IPCo Shares (as amended by the Legal Mortgage of IPCo Shares) revert to JT pursuant to the Deed of Assignment and Novation) and PMH under the Amended IPCo Security Documents, in each case whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred or otherwise.

“Seller Audit Committee” means the audit committee of the board of directors of the Seller, which shall comply with applicable requirements of the New York Stock Exchange Listed Company Manual; *provided* that, for the avoidance of doubt, at any time following the listing of Equity Securities of the Seller on the New York Stock Exchange that the Equity Securities of the Seller are not listed on the New York Stock Exchange, the Seller Audit Committee shall consist solely of directors who are not officers or employees of the Seller or its Affiliates; *provided further* that, at any time prior to the listing of the Equity Securities of the Seller on the New York Stock Exchange, no more than one-half of the members of the Seller Audit Committee shall be officers or employees of the Seller.

“Seller Business” means the businesses of the Seller and its Subsidiaries (excluding, for the avoidance of doubt, the Purchaser Business) from time to time (together with any and all logical extensions of the business of the Seller and its Subsidiaries).

“Seller’s Ownership Percentage of Alipay” means, as of any time, (a) the amount of the registered capital or equivalent equity interests of Alipay Beneficially Owned by the Purchaser at such time multiplied by (b) the Seller’s Ownership Interest in the Purchaser at such time, divided by (c) the total amount of the registered capital or equivalent equity interests of Alipay issued and outstanding at such time, plus the quotient of (d) the amount of the registered capital or equivalent equity interests of Alipay Beneficially Owned (other than through the Purchaser) by the Seller at such time, divided by (e) the total amount of the registered capital or equivalent equity interests of Alipay issued and outstanding at such time.

“SME Loan” means a loan made by a lender in the small and medium enterprise financing market.

“SME Loan Onshore IP” means the domain names and copyrights registered in the PRC and owned by 阿里巴巴集团(Alibaba (China) Technology Co., Ltd. (B50)) set forth on Schedule 2.2(a)(ii), excluding, for avoidance of doubt, any SME Loan Know-How.

“SME Loan Know-How” means all know-how and Copyrights of the Seller and/or its Subsidiaries relating solely to the management and operation of an SME Loan business as conducted by Alibaba Small Loan Company (F50), Chongqing Loan Company (F51) and/or Guarantee Company (F82), including the materials listed in Exhibit H of the Amended IPLA, in each case that will be transferred to Purchaser or a Subsidiary of Purchaser in connection with the Transfer of the SME Loan Know-How pursuant to Section 2.2(a) of this Agreement.

“Software Technology Services Fee” shall have the meaning ascribed to that term in the Amended IPLA.

“Subsidiary” means, with respect to any Person, each other Person in which the first Person (a) Beneficially Owns, directly or indirectly, share capital or other equity interests representing more than fifty percent (50%) of the outstanding voting stock or other equity interests; (b) holds the rights to more than fifty percent (50%) of the economic interest of such other Person, including interests held through a VIE Structure or other contractual arrangements; or (c) has a relationship such that the financial statements of the other Person may be consolidated into the financial statements of the first Person under applicable accounting conventions. For the avoidance of doubt, none of the Purchaser or its Subsidiaries shall be deemed to be Subsidiaries of the Seller or any of its Subsidiaries.

“Tax” or “Taxes” means any federal, state, county, national, provincial, local or foreign tax (including transfer taxes), charge, fee, levy, impost, duty or other assessment, including income, gross receipts, excise, employment, sales, use, transfer, recording, license, payroll, franchise, severance, documentary, stamp, occupation, windfall profits, environmental, highway use, commercial rent, customs duty, capital stock, paid-up capital, profits, withholding, social security, single business, unemployment, disability, real property, personal property, registration, ad valorem, value added, alternative or add-on minimum, estimated or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Governmental Authority, including any estimated payments relating thereto, any interest, penalties and additions imposed thereon or with respect thereto.

“Third-Party Issuance” means any bona fide sale for cash by the Purchaser of any of its Equity Securities to a third party (other than Seller or any of its Subsidiaries or any Subsidiary of Purchaser) in a new equity financing.

“**Transfer**” means and includes any direct or indirect sale, assignment, Encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including transfers to receivers, levying creditors, trustees or receivers in bankruptcy Proceedings or general assignees for the benefit of creditors, whether voluntary or by operation of Law, or by forward or reverse merger.

“**United States**” means the United States of America.

“**U.S. Dollars**” and “**US\$**” shall each mean lawful money of the United States.

“**VIE Structure**” means the investment structure in which a PRC-domiciled operating entity and its PRC shareholders enter into a number of Contracts with a non-PRC investor (or a foreign-invested enterprise incorporated in the PRC invested by the non-PRC investor) pursuant to which the non-PRC investor achieves control of the PRC-domiciled operating entity and also consolidates the financials of the PRC-domiciled entity with those of the non-PRC investor.

“**WFOE**” means a wholly foreign-owned enterprise formed under the Laws of the PRC.

Section 1.2 Cross-Reference of Other Definitions. Each capitalized term listed below is defined in the corresponding Section of this Agreement:

Term	Section
2011 Commercial Agreement	Recitals
Accrued Profit Share	Section 2.7
Additional Alipay Securities	Section 9.3(b)(i)
Additional Purchaser Securities	Section 9.3(a)(i)
Additional Securities	Section 9.3(b)(i)
Additional Securities Purchase Price	Section 9.3(c)
Agreement	Preamble
Alibaba China Co. (A50)	Recitals
Alibaba Independent Committee	Section 9.10
Alibaba Small Loan Company (F50)	Recitals
Alibaba.com China (B58)	Preamble
Alipay	Preamble
Alipay Hong Kong	Section 2.1(a)(iii)
Alipay Singapore E-Commerce (B15)	Section 2.1(b)
Alipay Singapore E-Commerce (B15) Transfer	Section 2.1(b)
Amended IPLA	Recitals
Amended IPCo Security Documents	Recitals
Amended Shared Services Agreement	Recitals
Chongqing Loan Company (F51)	Section 2.1(a)(ii)
Chongqing Loan Company (F51) Transfer	Section 2.1(a)(ii)
Chongqing Loan Company Minority Shareholder Consents	Section 3.2(a)(ii)
Claimant	Section 12.8(b)
Closing	Section 3.1

<u>Term</u>	<u>Section</u>
Closing Transferred Equities	Section 2.1(a)
Cooperation Agreement	Recitals
Copyrights	Section 1.1 (Definition of Intellectual Property)
Cross-License Agreement	Section 2.2(b)(i)
Data Sharing Agreement	Recitals
Disclosure Schedules	Article VI
Escrow Interest Profit Share Deposit	Section 2.7
Finance Business Consideration	Section 2.4(a)(iii)
Financial Investments	Section 5.4
Framework Agreement	Recitals
Framework Agreement Parties	Preamble
FTZ	Section 3.2(b)(iv)(C)
Funded Amount Due	Section 2.6(b)(ii)
Funded Amounts	Section 2.6(b)(i)
Funded Payment Cap	Section 2.6(b)(i)
Guarantee Company (F82)	Section 2.1(a)(i)(A)
Guarantee Company (F82) Transfer	Section 2.1(a)(i)(B)
Hangzhou Ali Venture Capital (A54)	Preamble
ICC	Section 12.8(a)
Indemnified Party	Section 11.4(a)
Indemnifying Party	Section 11.4(a)
Independent Director	Section 9.1(a)(i)
Independent Director Ownership Period	Section 9.1(a)(i)
Initial Liquidity Event Payment	Section 2.5(b)(ii)
IP and Restructuring Payment	Section 2.6(b)(i)
IPCo	Preamble
IPLA	Recitals
IPLA Funded Amount Due	Section 2.6(b)(ii)(B)
IPO Retained IP Transfer	Section 2.2(b)(iv)
Issuance Approvals	Section 2.3(a)
Issuance Event	Section 2.3(b)
JM	Preamble
JT	Preamble
Junao Management Holdco	Preamble
Junhan Management Holdco	Preamble
Libra Capital (A22)	Section 2.1(a)(iii)
Libra Capital (A22) Transfer	Section 2.1(a)(iii)
Liquidity Event	Section 2.5(a)
Liquidity Event Excluded Taxes	Section 2.5(e)(ii)
Liquidity Event Impact Payment	Section 2.5(b)(i)
Liquidity Event Payment	Section 2.5(a)
Liquidity Event Taxes	Section 2.5(e)(i)
Liquidity Event Transaction Expenses	Section 2.5(b)(i)

<u>Term</u>	<u>Section</u>
Losses	Section 11.1
Management Holdcos	Preamble
Management Holdco Disclosure Schedules	Article VI
NDRC	Section 3.2(b)(iv)(C)
Offer Notice	Section 9.7(b)(i)
Offer Price	Section 9.7(b)(i)
Offeree	Section 9.7(b)(i)
Opportunity Offer Process	Section 9.9(c)
Parties	Preamble
Permitted Purchaser Competing Business Investment	Section 9.9(a)(ii)
Permitted Purchaser New Business Investment	Section 9.9(a)(iii)
Permitted Seller Competing Business Investment	Section 9.9(b)(ii)
Pre-QIPO Issuance Event	Section 2.3(a)
PMH	Preamble
Post-QIPO Issuance Event	Section 2.3(b)
PRC Closing Opinion	Section 8.1(c)
Preemptive Amount of Alipay Securities	Section 9.3(b)(iv)
Preemptive Amount of Purchaser Securities	Section 9.3(a)(iii)
Preemptive Rights	Section 9.3(b)(i)
Preemptive Rights for Alipay Securities	Section 9.3(b)(i)
Preemptive Rights for Purchaser Securities	Section 9.3(a)(i)
Proposed Transferee	Section 9.7(b)(i)
Purchaser	Preamble
Purchaser Disclosure Schedules	Article V
Purchaser Equity Transferor	Section 9.7(a)
Purchaser Equityholder	Section 9.7(a)
Purchaser Financial Information	Section 9.2(a)(iv)
Purchaser Subject Equities	Section 9.7(b)(i)
Regulatory Approvals	Section 4.3(a)
Remaining Retained IP	Section 2.2(b)(iii)
Request	Section 12.8(b)
Respondent	Section 12.8(b)
Retained Business	Section 2.4(b)
Retained Business Payment	Section 2.4(b)
SAFE	Section 4.3(a)
Seller	Preamble
Seller Disclosure Schedules	Article IV
Seller Parties	Preamble
Silverworld Technology (B17)	Preamble
SME Loan Know-How License Agreements	Recitals
SoftBank	Preamble
Stage 1 Retained IP	Section 2.2(b)(i)
Subsidiary Seller Parties	Preamble

<u>Term</u>	<u>Section</u>
Technology Services Agreement	Recitals
Third-Party Claim	Section 11.4(a)
Trademark Agreement	Recitals
Transaction Documents	Recitals
Transactions	Section 2.1(a)(iii)
Transferred Assets	Section 2.2(a)(ii)
Transferred Entities	Section 4.4
Transferred Equities	Section 2.1(b)
Type I Investment Threshold	Section 9.9(a)(ii)(A)
Type II Investment Threshold	Section 9.9(a)(iii)(C)
Yahoo!	Preamble
Zhejiang Alibaba Entities	Section 9.9(b)(iv)
Zhejiang Taobao (T51)	Preamble

Section 1.3 Construction. In this Agreement, unless the context otherwise requires:

- (a) references in this Agreement to “writing” or comparable expressions includes a reference to facsimile transmission or comparable means of communication (but excluding email communications);
- (b) words expressed in the singular number shall include the plural and vice versa, and words expressed in the masculine shall include the feminine and neutral genders and vice versa;
- (c) references to Articles, Sections, Exhibits, Schedules and Recitals are references to articles, sections, exhibits, schedules and recitals of this Agreement;
- (d) references to “day” or “days” are to calendar days;
- (e) references to this Agreement or any other agreement or document shall be construed as references to this Agreement or such other agreement or document, as the case may be, as the same may have been, or may from time to time be, amended, varied, novated or supplemented from time to time;
- (f) a reference to a subsection without further reference to a Section is a reference to such subsection as contained in the same Section in which the reference appears, and this rule shall also apply to paragraphs and other subdivisions;
- (g) the table of contents to this Agreement and all section titles or captions contained in this Agreement or in any Schedule or Exhibit annexed hereto or referred to herein are for convenience only and shall not be deemed a part of this Agreement and shall not affect the meaning or interpretation of this Agreement;
- (h) “include,” “includes” and “including” are deemed to be followed by “without limitation” whether or not they are in fact followed by such words or words of similar import;

(i) the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular provision; and

(j) references to a Person are also to its permitted successors and assigns and, in the case of an individual, to his or her heirs and estate, as applicable.

Section 1.4 Schedules, Annexes and Exhibits. The Schedules, Annexes and Exhibits to this Agreement are incorporated into and form an integral part of this Agreement. If an Annex or Exhibit is a form of agreement, such agreement, when executed and delivered by the parties thereto, shall constitute a document independent of this Agreement.

ARTICLE II

TRANSACTION

Section 2.1 Equity Transfers.

(a) Seller’s Existing Financial Services Business. At the Closing, subject to the Closing conditions and other terms and conditions set forth in this Agreement, the following Seller Parties shall convey, assign and transfer the following existing equity interests (collectively, the “Closing Transferred Equities”), free and clear of any Encumbrances whatsoever, to the Purchaser or wholly-owned Subsidiary of the Purchaser designated below, and the Purchaser or such Subsidiary shall acquire and accept such Closing Transferred Equities.

(i) Guarantee Company (F82) Transfer.

(A) Alibaba.com China (B58) shall transfer to the Purchaser, or a PRC-domiciled limited liability company wholly owned Subsidiary of the Purchaser designated by the Purchaser, registered capital of 上海盛成金融担保有限公司 (Shangcheng Finance Guarantee Co., Ltd.), a limited liability company organized under the Laws of the PRC (the “Guarantee Company (F82)”), constituting a seventy percent (70%) Ownership Interest in the Guarantee Company (F82); and

(B) Zhejiang Taobao (T51) shall transfer to the Purchaser, or a PRC-domiciled limited liability company wholly owned Subsidiary of the Purchaser designated by the Purchaser, registered capital of the Guarantee Company (F82) constituting a thirty percent (30%) Ownership Interest in the Guarantee Company (F82) (the transfers provided for in clauses (A) and (B) of this Section 2.1(a)(i), the “Guarantee Company (F82) Transfer”).

(ii) Chongqing Loan Company (F51) Transfer. Hangzhou Ali Venture Capital (A54) shall transfer (the “Chongqing Loan Company (F51) Transfer”) to the Purchaser, or a PRC-domiciled limited liability company wholly owned Subsidiary of the Purchaser designated by the Purchaser, registered capital of 重庆阿里巴巴小额贷款有限公司 (Chongqing Alibaba Small Loan Co., Ltd.), a limited liability company organized under the Laws of the PRC (the “Chongqing Loan Company (F51)”), constituting an eighty-six percent (86%) Ownership Interest in the Chongqing Loan Company (F51).

(iii) Libra Capital (A22) Transfer. The Seller shall transfer to Alipay (Hong Kong) Holding Limited, a limited liability company organized under the laws of Hong Kong indirectly 100% owned by the Purchaser (“Alipay Hong Kong”) its one (1) share, constituting a one hundred percent (100%) Ownership Interest, in Libra Capital (A22) Holding Limited (“Libra Capital (A22)”), such transfer, the “Libra Capital (A22) Transfer” and together with the Guarantee Company (F82) Transfer and the Chongqing Loan Company (F51) Transfer, the “Transactions”).

(b) Alipay Singapore E-Commerce (B15). Concurrently with the execution of this Agreement or as promptly as practicable thereafter, Silverworld Technology (B17) shall transfer (the “Alipay Singapore E-Commerce (B15) Transfer”) to Alipay Hong Kong, free and clear of any Encumbrances whatsoever, its one (1) share (such share, together with the Closing Transferred Equities, the “Transferred Equities”), constituting a one hundred percent (100%) Ownership Interest, in Alipay Singapore E-Commerce Private Limited, a limited liability company organized under the Laws of Singapore (“Alipay Singapore E-Commerce (B15)”), and Alipay Hong Kong shall acquire and accept such share.

Section 2.2 Asset Transfers.

(a) SME Loan Asset Transfers.

(i) At the earlier of (x) the Closing or (y) the 180th day following the date hereof, the Seller shall, and shall cause its Subsidiaries to, convey, assign and transfer, free and clear of any Encumbrances whatsoever, the SME Loan Know-How to the Purchaser or Chongqing Loan Company (F51), at the election of the Purchaser, and the Purchaser or Chongqing Loan Company (F51) shall acquire and accept the SME Loan Know-How.

(ii) At the earlier of (x) the Closing or (y) the 180th day following the date hereof, the Seller shall, and shall cause its Subsidiaries to, convey, assign and transfer the SME Loan Onshore IP (together with the SME Loan Know-How, the “Transferred Assets”), free and clear of any Encumbrances whatsoever, to Alipay Hong Kong or, at the election of Purchaser, to another Subsidiary of Purchaser, and the Purchaser or such Subsidiary shall acquire and accept the SME Loan Onshore IP.

(b) Other Retained IP.

(i) Stage 1 Retained IP. On or as soon as reasonably practicable after each occurrence of an Issuance arising from a Pre-QIPO Issuance Event, the Seller shall, and shall cause its Subsidiaries to, convey, assign and transfer, free and clear of any Encumbrances whatsoever, a portion of the Retained IP to be agreed in good faith between the Parties (and with notice thereof provided to the Seller Audit Committee) prior to such assignment and transfer (all such portions of Retained IP in the aggregate from time to time, the “Stage 1 Retained IP”), to Alipay Hong Kong, or to another wholly owned Subsidiary of the Purchaser designated by the Purchaser, and Alipay Hong Kong shall acquire and accept from the Seller and its Subsidiaries the Stage 1 Retained IP, and the Seller, on the one hand, and the Purchaser and such Subsidiary of the Purchaser, on the other hand, shall execute and deliver a cross-license agreement in substantially the form attached as Exhibit A (the “Cross-License Agreement”) on or prior to the first such transfer of any portion of the Stage 1 Retained IP, provided, however, that in the event the transfer by Seller of Stage 1 Retained IP to such other Subsidiary of Purchaser requires the Seller to pay additional Taxes or obtain additional approvals of Governmental Authorities, Purchaser shall pay to Seller a sum equal to the expenses incurred in connection with obtaining such approvals and any additional Taxes incurred by Seller in respect of such transfer, provided, further, however, that any Stage 1 Retained IP domiciled outside the PRC shall be transferred by Seller to a Subsidiary of Purchaser domiciled outside the PRC identified by Purchaser. Conveyance, assignment and transfer of Stage 1 Retained IP that would have the effect of altering any payment amount owed pursuant to the Amended IPLA other than in accordance with the terms of the Amended IPLA shall not occur without the consent of each of Purchaser and Seller (including approval of the Seller Audit Committee).

(ii) Regulatory Requirement Transfer. If Purchaser or any of its Subsidiaries receives notice of a requirement by the applicable Governmental Authority in the PRC that the New FIG Business-Exclusive IP be owned by Purchaser then, on or as soon as reasonably practicable following receipt by Seller of such notice, Seller shall, and shall cause its Subsidiaries to, convey, assign and transfer, free and clear of any Encumbrances whatsoever, the New FIG Business-Exclusive IP to Alipay Hong Kong, or to another wholly owned Subsidiary of the Purchaser designated by the Purchaser and such entity shall acquire and accept from the Seller and its Subsidiaries the New FIG Business-Exclusive IP, provided, however, that in the event the transfer of the New FIG Business-Exclusive IP to such other Subsidiary of Purchaser requires the Seller to pay additional Taxes or obtain additional approvals of Governmental Authorities, Purchaser shall pay to Seller a sum equal to the expenses incurred in connection with obtaining such approvals and any additional Taxes incurred by Seller in respect of such transfer, and provided, further, that no transfer of New FIG Business-Exclusive IP shall be made under this Section 2.2(b)(ii) without the consent of each of Purchaser and Seller (with notice thereof provided to the Seller Audit Committee) if such transfer would have the effect of altering any payment amount owed pursuant to the Amended IPLA.

(iii) Remaining Termination Transfer. On or as soon as reasonably practicable after the termination of the Amended IPLA, the Seller shall, and shall cause its Subsidiaries to, convey, assign and transfer, free and clear of any Encumbrances whatsoever, any and all Retained IP not previously transferred to Purchaser or its Subsidiaries (the "Remaining Retained IP") to Alipay Hong Kong, or to another wholly owned Subsidiary of the Purchaser designated by the Purchaser (subject to the execution and delivery of the Cross-License Agreement, if the Cross-License Agreement has not previously been executed and delivered pursuant to Section 2.2(b)(i)), and such entity shall acquire and accept from the Seller and its Subsidiaries the Remaining Retained IP, provided, however, that in the event the transfer of the Remaining Retained IP to such other Subsidiary of the Purchaser requires the Seller to pay additional Taxes or obtain additional approvals of Governmental Authorities, Purchaser shall pay to Seller a sum equal to the expenses incurred in connection with obtaining such approvals and any additional Taxes incurred by Seller in respect of such transfer, provided, further, however, that any Remaining Retained IP domiciled outside the PRC shall be transferred by Seller to a Subsidiary of Purchaser domiciled outside the PRC identified by Purchaser.

(iv) IPO Retained IP Transfer. Notwithstanding any provision in Section 2.2(b)(i) or Section 2.2(b)(ii), if the relevant stock exchange or securities regulatory authority requires, in order to obtain approval for a Purchaser Qualified IPO or Alipay Qualified IPO, that any of the Stage 1 Retained IP or Remaining Retained IP, as applicable, must be transferred to the Purchaser or its Subsidiaries prior to the termination of the Amended IPLA, such Stage 1 Retained IP or Remaining Retained IP, as applicable, will be transferred to the Purchaser (subject to the execution and delivery of the Cross-License Agreement, if the Cross-License Agreement has not previously been executed and delivered pursuant to Section 2.2(b)(i)), within the time such transfer is required by such Governmental Authority to be completed in order to approve such Purchaser Qualified IPO or Alipay Qualified IPO (the “IPO Retained IP Transfer”), in which case, however, the Alipay Royalty, the Software Technology Services Fee, and the New FIG Royalty shall continue to be paid by Purchaser or Alipay, as applicable, to the Seller and/or Alibaba China Co (A50), until the closing of the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable; provided, that if Purchaser or Alipay, as applicable, would not be permitted by applicable Laws to continue paying the Alipay Royalty, the New FIG Royalty or the Software Technology Services Fee following the IPO Retained IP Transfer, then it shall be a condition of the Purchaser’s and the Seller’s obligations to effect the IPO Retained IP Transfer that the Purchaser and the Seller shall have negotiated a mutually agreeable suspension of the Amended IPLA and prepayment by the Purchaser of the estimated Alipay Royalty, the estimated New FIG Royalty and the estimated Software Technology Services Fee for the fifteen (15)-month period following the IPO Retained IP Transfer and, if the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, closed prior to the end of such fifteen (15)-month period, the recipients of such prepayment shall refund a portion of such amount proportional to the percentage of such fifteen (15)-month period remaining; provided, however, that if the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, does not close within fifteen (15) months of the IPO Retained IP Transfer, Purchaser and Alipay shall, at the Seller’s request, transfer the Stage 1 Retained IP or Remaining Retained IP, as applicable, back to the Seller and/or the Seller’s Subsidiaries designated by the Seller as the recipients of all or a portion of such transfer and the Amended IPLA shall automatically resume in effect. For the avoidance of doubt, Purchaser and Alipay shall have no obligation to transfer the Stage 1 Retained IP or Remaining Retained IP, as applicable, back to the Seller and/or the Seller’s Subsidiaries if the Amended IPLA has terminated within the fifteen (15)-month period following the IPO Retained IP Transfer. Upon the closing of the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, the Amended IPLA (including the payment of the Alipay Royalty, the New FIG Royalty and the Software Technology Services Fee thereunder, subject to Section 2.6) shall be terminated automatically without further action by the parties thereto; provided, that upon such closing, the Seller, on the one hand, and the Purchaser and such Subsidiary of the Purchaser, on the other hand, shall execute and deliver the Cross-License Agreement on or prior to such transfer of the Stage 1 Retained IP or Remaining Retained IP, as applicable, if the Cross-License Agreement has not previously been executed and delivered pursuant to Section 2.2(b)(i).

Section 2.3 Issuance of Purchaser Equity Securities.

(a) Pre-QIPO Issuance. If at any time and from time to time following the date hereof and before the earlier of the consummation of any Purchaser Qualified IPO or Alipay Qualified IPO, Purchaser, in its sole discretion, and not pursuant to any obligation hereunder, has elected to apply for and has received the following approvals, such that (i) the PBOC shall have affirmatively approved or provided written confirmation of non-objection to the investment of the Seller or a Subsidiary of the Seller in the Purchaser on the terms set forth in this Section 2.3, (ii) MIIT shall have approved the Seller's or a Subsidiary of the Seller's foreign investment in the Purchaser, a value-added telecom enterprise, (iii) MOFCOM shall have approved the Seller's foreign investment in the Purchaser and the Purchaser's conversion into a sino-foreign joint venture of other form of entity (if applicable), (iv) the Anti-monopoly Bureau of MOFCOM shall have approved the Seller's or a Subsidiary of the Seller's merger filing with respect to its investment in the Purchaser, to the extent that MOFCOM formally requests that the Parties apply for such approval and accepts such filing for review or Purchaser and Seller mutually agree that such approval and filing are necessary, and (v) Seller shall be registered by the applicable Administration of Industry and Commerce as a shareholder of the Purchaser (clauses (i) through (v) collectively, the "Issuance Approvals"), and no Liquidity Event Payment shall be payable or have been paid pursuant to Section 2.5 (a "Pre-QIPO Issuance Event"), then the Purchaser shall promptly (and, in any event, within two Business Days) notify the Seller of its receipt of the Issuance Approvals and, within five Business Days following such notice, the Purchaser shall effect an Issuance in consideration of an amount in cash to be equal to the Income Share Buyout Amount.

(b) Post-QIPO Issuance. If at any time and from time to time following the earlier of the consummation of any Purchaser Qualified IPO or Alipay Qualified IPO, the Liquidity Event Payment is not payable and has not been paid pursuant to Section 2.5, and all of the Issuance Approvals are obtained (a "Post-QIPO Issuance Event" and either of a Pre-QIPO Issuance Event and Post-QIPO Issuance Event, an "Issuance Event"), then the Purchaser shall promptly (and, in any event, within two Business Days) notify the Seller of its receipt of the Issuance Approvals and, within five Business Days following such notice, the Purchaser shall effect an Issuance in consideration of an amount in cash to be equal to the Income Share Buyout Amount.

(c) Subsequent Issuances. For the avoidance of doubt, Sections 2.3(a) and (b) contemplate and shall apply to additional Issuances in the event that the Issuance Percentage is less than 100%.

(d) Valid Issuance. None of the Purchaser Equity to be issued in any Issuance will be subject to any outstanding option, warrant, call or similar right of any other Person to acquire the same, to any equityholders, voting or similar agreement other than this Agreement and the other Transaction Documents, or to any restriction on transfer thereof except for restrictions imposed by applicable Laws or by the express terms of this Agreement or the other Transaction Documents. All of the Purchaser Equity to be issued in any Issuance will be fully paid in compliance with the requirements of applicable Laws.

(e) Issuance Closing Deliveries of Purchaser. Upon the completion of any Issuance Event pursuant to this Section 2.3, Purchaser shall deliver to Seller:

(i) an investment certificate or share certificate, as applicable, given the corporate form of the Purchaser, issued by the Purchaser, certifying that Seller is the holder of the Ownership Interest transferred to Seller in the Issuance Event;

(ii) a copy of the shareholder registry of the Purchaser certifying that the Seller is a shareholder of the Purchaser holding the Ownership Interest transferred to Seller in the Issuance;

(iii) certified copies of the Issuance Approvals;

(iv) if the Person that acquires Ownership Interests in the Purchaser is not a PRC-domiciled entity, a counterpart to a Shareholder's Agreement or a Joint Venture Contract (as the case may be) of the Purchaser incorporating the matters set forth in Article IX hereof, duly executed by the Purchaser;

(v) if the Purchaser is a limited liability company at the time of the Issuance Event, consents of the shareholders of Purchaser waiving their preemptive rights with respect to the Issuance;

(vi) a certified copy of the amended articles of association of the Purchaser, incorporating the matters set forth in Sections 9.1 through 9.5 and 9.12;

(vii) an opinion of Fangda Partners to the effect that all approvals by Governmental Authorities of the PRC that are required in connection with, and for the consummation of, the Issuance have been obtained, which opinion shall be substantially in the form attached as Exhibit B; and

(viii) counterparts to such other agreements as may be required or appropriate under applicable Law of the PRC in order to effect the Issuance, in each case duly executed by the Purchaser.

(f) Issuance Closing Deliveries of Seller. Upon the completion of any Issuance Event pursuant to this Section 2.3, Seller shall deliver to Purchaser:

(i) if the Person that acquires Ownership Interests in the Purchaser is not a PRC-domiciled entity, a counterpart to a Shareholder's Agreement or a Joint Venture Contract (as the case may be) of the Purchaser incorporating the matters set forth in Article IX hereof, duly executed by such Person; and

(ii) counterparts to such other agreements as may be required or appropriate under applicable Law of the PRC in order to effect the Issuance, in each case duly executed by Seller or the appropriate Subsidiary of Seller.

(g) Issuance Post-Closing Delivery. Within ninety (90) days following any Issuance, the Purchaser and the Seller shall procure that all PRC residents who are ultimate shareholders of the Seller complete their respective amendment registrations of SAFE Circular 75 Registration indicating the Seller's Ownership Interest in the Purchaser as a result of the Issuance. Within ninety (90) days following any Issuance, the Purchaser shall (a) have completed the foreign exchange registration with SAFE regarding Seller's investment in the Purchaser, and (b) deliver to the Seller certified copies of the documents evidencing that the Purchaser has completed the foreign exchange registration with SAFE regarding the Seller's investment in the Purchaser.

(h) Certain Efforts. If, following the date of this Agreement but prior to the initial Issuance, the PBOC has (a) published final written guidelines for foreign equity investment in or ownership of online payment businesses operating in the PRC and those guidelines take effect, or (b) in any published writing after the date hereof approved or given notice of no objection expressly as to a foreign investment in an internet company with an online payment business reasonably similar in scope and scale to the payment business conducted by Alipay and which has been granted a payment license by the PBOC then the Purchaser shall, and shall cause Alipay to, exercise its reasonable best efforts to obtain the Issuance Approvals as promptly as reasonably practicable, and shall keep the Seller reasonably apprised of such efforts.

Section 2.4 Payments by the Purchaser for Transferred Equities.

(a) Finance Business Consideration. At the Closing, subject to the Closing conditions and other terms and conditions set forth in this Agreement, the Purchaser shall incur obligations to pay or cause to be paid to the persons specified below (or another person designated by the Seller) the following amounts in cash in U.S. Dollars or Renminbi, as indicated in this Section 2.4(a) and at the times set forth in Section 2.6 (or at such earlier times as the Purchaser may elect in its sole discretion):

(i) in consideration of the Guarantee Company (F82) Transfer, RMB 422,619,540 to be paid to Alibaba.com China (B58) and RMB 181,122,660 to be paid to Zhejiang Taobao (T51);

(ii) in consideration of the Chongqing Loan Company (F51) Transfer, RMB 2,574,936,000 to be paid to Hangzhou Ali Venture Capital (A54); and

(iii) in consideration of the Libra Capital (A22) Transfer, US\$155,181 to be paid to Seller (the amounts set forth in this clause (a) in the aggregate, the "Finance Business Consideration").

(b) Retained Business Payment. Upon and in consideration of the Alipay Singapore E-Commerce (B15) Transfer (the "Retained Business"), the Purchaser shall incur obligations to pay or cause to be paid to Silverworld Technology (B17) US\$6,307,989 (the "Retained Business Payment") at the times set forth in Section 2.6 (or at such earlier times as the Purchaser may elect in its sole discretion).

Section 2.5 Liquidity Event Payment.

(a) In connection with a Purchaser Qualified IPO or Alipay Qualified IPO, at the election of Seller, Purchaser will use its commercially reasonable efforts (with Seller's reasonable cooperation) to obtain any required consents or approvals of Governmental Authorities, make any required filings or notifications, and cause any waiting periods to expire, in each case, as may be required under applicable Laws in connection with the payment of the Income Share (as defined in the Amended IPLA) pursuant to the Amended IPLA following the Purchaser Qualified IPO or the Alipay Qualified IPO. If Seller does not so elect, or if despite such efforts, the payment of the Income Share is not permitted following the Purchaser Qualified IPO or an Alipay Qualified IPO under Applicable Law, then upon the occurrence of a Purchaser Qualified IPO or an Alipay Qualified IPO, if Issuances have not then occurred such that the Issuance Percentage is 100% (a "Liquidity Event"), Purchaser shall immediately become obligated, at the times and in the manner provided for herein, to pay to Seller an amount (as adjusted herein, the "Liquidity Event Payment") equal to the product of (x) thirty-seven and one-half percent (37.5%) of the equity value of Purchaser as determined immediately prior to the Purchaser Qualified IPO or Alipay Qualified IPO and (y) 100% minus the Issuance Percentage. For the avoidance of doubt, Purchaser shall not be required to pay the Liquidity Event Payment more than once.

(b)

(i) In the event of a Liquidity Event the proceeds of which (net of all expenses incurred in connection with the Liquidity Event, including underwriting fees as applicable, provided that such expenses are customary and within a reasonable range (“Liquidity Event Transaction Expenses”) and applicable taxes payable by Purchaser) are in excess of or equal to the Liquidity Event Payment amount plus the Impact Payment calculated as set forth in Section 6 of Schedule 7.1 to the Commercial Agreement, if any (the “Liquidity Event Impact Payment”), Purchaser will pay the Liquidity Event Payment, the associated Liquidity Event Impact Payment, if any, in each case to Seller as soon as reasonably practicable and in any event within ninety (90) days following the consummation of such Liquidity Event.

(ii) In the event of a Liquidity Event the proceeds of which (net of Liquidity Event Transaction Expenses and applicable taxes payable by Purchaser) are less than the Liquidity Event Payment amount plus the associated Liquidity Event Impact Payment amount, if any, Purchaser will pay all of the proceeds of the Liquidity Event (net of Liquidity Event Transaction Expenses and applicable taxes payable by Purchaser) to Seller (the “Initial Liquidity Event Payment”) as soon as reasonably practicable and in any event within ninety (90) days following the consummation of such Liquidity Event, with the remainder of the Liquidity Event Payment plus the associated Liquidity Event Impact Payment, if any, after giving effect to the Initial Liquidity Event Payment, if any, to be paid in three (3) equal installments due twelve (12), eighteen (18) and twenty-four (24) months after the date of such Liquidity Event. Purchaser shall apply the Initial Liquidity Event Payment ratably to the satisfaction of the Liquidity Event Impact Payment, if any, and the Liquidity Event Payment.

(iii) Following a Liquidity Event interest shall (A) accrue daily at an annual rate equal to the Interest Rate on the aggregate unpaid amount of the Liquidity Event Payment, plus the associated Impact Payment, if any, (B) compound monthly (provided, that the monthly rate will be calculated so that the effective annual rate remains the rate set forth in clause (A)), (C) be paid by Purchaser in arrears on each date on which payment is made, and (D) be computed on the basis of a three hundred sixty (360)-day year comprised of twelve (12) thirty (30)-day months.

(c) Notwithstanding anything herein to the contrary, each of Purchaser and IPCo shall be jointly and severally liable with the other (as a primary obligor and not merely as a surety) for the Liquidity Event Payment (including the portion thereof constituting the IPCo Payment), any interest with respect to the IPCo Payment under Section 2.5(b)(iii) and any additional amounts payable under Section 2.5(e)(ii) or Section 2.5(e)(iii); provided, however, that the maximum amount of IPCo’s (but not Purchaser’s) liability with respect thereto shall not exceed the sum of (i) Five Hundred Million Dollars (US\$500,000,000) plus (ii) any additional amounts payable with respect to such payments under Section 2.5(e)(ii) or Section 2.5(e)(iii), plus (iii) any interest on the IPCo Payment pursuant to Section 2.5(b)(iii). Neither Purchaser nor IPCo shall claim as a defense against the validity, legality or enforceability of its obligations to make the Liquidity Event Payment (or applicable portion thereof), payments of any amounts under Section 2.5(e)(ii) or Section 2.5(e)(iii) or payments of any interest pursuant to Section 2.5(b)(iii), the invalidity, illegality or unenforceability of the other party’s obligation to make such payments.

(d) All payments to be made to Seller pursuant to this Section 2.5, shall be made (x) to Seller or, if permitted by Law, one or more of Seller's designated Subsidiaries, at Seller's direction, in U.S. Dollars (or, at Seller's direction and if permitted by Law, Renminbi) or (y) if the payment directed by Seller in clause (x) is not permitted by Law, then as mutually agreed upon in writing by Purchaser and Seller (with respect to payments made by Purchaser) or as mutually agreed in writing by IPCo and Seller (with respect to payments to be made by IPCo), such agreement not to be unreasonably withheld, conditioned or delayed by either party.

(e)

(i) Other than the IPCo Payment and any interest on the IPCo Payment pursuant to Section 2.5(b)(iii), which shall be subject to Section 2.5(e)(ii) or Section 2.5(e)(iii), with respect to payments made under this Section 2.5 by Purchaser, if the total Taxes required by any Laws to be deducted, withheld, paid, or incurred by any Person, in connection with any payment to be made to Seller or any of its Subsidiaries pursuant to this Section 2.5 ("Liquidity Event Taxes") exceed the Taxes under PRC Law that would have been imposed if such payment had been paid by Purchaser directly to Seller and subject to Tax at the then-applicable withholding, income or similar Tax rate on capital gains with respect to sales of equity in PRC companies by foreign investors, then the payment shall be increased so that Seller receives (and is entitled to retain), after deduction, withholding or payment for or on account of such Liquidity Event Taxes as the case may be (including deduction, withholding or payment applicable to additional sums payable under this sentence), the full amount of the payment that would have been received if such payment had been paid by Purchaser directly to Seller and subject to Tax under PRC Law at the then-applicable withholding, income, or similar Tax rate on capital gains with respect to sales of equity in PRC companies by foreign investors.

(ii) With respect to payments made under this Section 2.5 by IPCo, and with respect to payments made under this Section 2.5 by Purchaser of the IPCo Payment or any interest on the IPCo Payment pursuant to Section 2.5(b)(iii):

(A) except as otherwise required by Law, any and all such payments shall be made free and clear of, and without deduction for or on account of, any present or future Taxes; and

(B) if any Taxes other than Liquidity Event Excluded Taxes shall be required by any Law to be deducted, withheld, paid, or incurred in connection with any such payments, IPCo or Purchaser, as applicable, shall increase the amount paid so that Seller receives (and is entitled to retain), after deduction or withholding for or on account of such Taxes (including deductions or withholdings applicable to additional sums payable under this Section 2.5(e)(ii)), together with applicable interest or penalties, and all costs and expenses, payable or incurred in connection therewith, the full amount of the payment that would have been received if not for such requirements. In addition, if IPCo or Purchaser, as applicable, makes any payment in respect of which it is required by applicable Law to make any deduction or withholding, it shall pay the full amount deducted or withheld to the relevant taxation or other Governmental Authority within the time allowed for such payments under applicable Law and promptly thereafter shall furnish to Seller an original or certified copy of a receipt evidencing payment thereof, together with such other information and documents as Seller may reasonably request.

For purposes of this Section 2.5(e)(ii) and Section 2.5(e)(iii), “Liquidity Event Excluded Taxes” means (A) any Taxes imposed on or measured by net income (or franchise taxes imposed on it in lieu of net income taxes), (x) which Taxes are assessed or levied by a Governmental Authority of the jurisdiction under the Laws of which Seller (or its successor, as the case may be) is organized or in which its principal executive offices may be located or (y) with respect to any payments received by Seller under this Section 2.5, which Taxes are assessed or levied by a Governmental Authority of any jurisdiction as a result of Seller (or its successor, as the case may be) engaging in a trade or business in (or being resident in) such jurisdiction for Tax purposes (other than such Tax arising solely from Seller having executed, delivered or performed its obligations or received a payment under, or enforced, any Amended IPCo Security Document), and (B) any Taxes imposed on IPCo by the PRC to the extent that such payment is treated as consideration for the transactions contemplated by this Agreement, and (C) any Tax imposed on any successor of Seller by requirements of Law in effect at the time rights under this Agreement were assigned to such successor.

(iii) With respect to payments made under this Section 2.5 by IPCo, and with respect to payments made under this Section 2.5 by Purchaser of the IPCo Payment or any interest on the IPCo Payment pursuant to Section 2.5(b)(iii), if Seller is required by Law to make any payment on account of Taxes (other than Liquidity Event Excluded Taxes), or any liability in respect of any Tax (other than Liquidity Event Excluded Taxes) is imposed, levied or assessed against Seller, IPCo and Purchaser shall indemnify and hold harmless Seller for and against such payment or liability, together with any incremental or additional taxes, interest or penalties, and all costs and expenses, payable or incurred in connection therewith, including Taxes imposed on amounts payable under this Section 2.5, whether or not such payment or liability was correctly or legally asserted. A certificate of Seller as to the amount of any such payment shall, in the absence of manifest error, be conclusive and binding for all purposes.

Section 2.6 Timing and Method of Other Payments.

(a) Finance Business Consideration. Solely in the event (and solely to the extent) that the Purchaser engages in any Third-Party Issuances following the Closing, the Finance Business Consideration shall be paid in installments following the Closing, each installment to be paid upon the closing of any Third-Party Issuance, in an amount equal to 20% of the cash proceeds of such Third-Party Issuance until the aggregate amounts so paid to Seller (or its Subsidiaries) by the Purchaser equal the aggregate amount of the Finance Business Consideration. Each such installment payment shall be allocated to and made in respect of the Guarantee Company (F82) Transfer, the Chongqing Loan Company (F51) Transfer and the Libra Capital (A22) Transfer in a manner that would reasonably be expected to maximize Tax benefits for the Seller. Upon the earliest of (i) the second anniversary of the Closing, (ii) the Purchaser Qualified IPO and (iii) the Alipay Qualified IPO, the Purchaser shall pay any remaining amount of the Finance Business Consideration that has not been paid pursuant to the preceding sentence.

(b) Funded Payments.

(i) At and following any Issuance, subject to Section 2.6(b)(iii), the Purchaser shall be obligated to fund, from time to time, amounts in Renminbi equal to the Additional Securities Purchase Price with respect to any exercise of Preemptive Rights pursuant to Section 9.3 (the "Funded Amounts"); provided, that the Purchaser shall have no obligation to fund any Funded Amounts in excess of the Funded Payment Cap in the aggregate. Such funding obligation shall be satisfied by (A) payments by the Purchaser to the Seller in consideration of the licenses pursuant to the Amended IPLA (the "IP and Restructuring Payment"), (B) any portion of the Retained Business Payment paid by the Purchaser to the Seller, in each case at the times set forth in Section 2.6(b)(ii), and (C) deposits by the Purchaser with the Seller of cash against future payments of the amounts set forth in clauses (A) and (B), in each case upon or prior to the relevant Additional Securities Purchase Price becoming due and payable. The "Funded Payment Cap" means an amount equal to (1) one billion five hundred million U.S. Dollars (US\$1,500,000,000), *less* (2) any purchase price paid by the Purchaser for the registered capital of the Chongqing Loan Company (F51) not owned by Hangzhou Ali Venture Capital (A54) as of the date hereof. In addition, upon any Issuance, Purchaser shall deliver to Seller, not later than the date of closing of such Issuance, an amount in cash equal to the then-applicable Income Share Buyout Amount in accordance with the Amended IPLA.

(ii) As of any Payment Date (as defined in the Amended IPLA) following any Issuance, if any Funded Amounts accrued during the period starting immediately after the later of the immediately preceding Payment Date (if any) and the first Issuance to and including such current Payment Date (such accrued Funded Amounts, the "Funded Amount Due"), the Purchaser shall, in satisfaction of its obligation to fund the Funded Amount Due: (A) pay to the Seller any amount of the Retained Business Payment not yet paid pursuant to this clause (A), up to the Funded Amount Due; provided, that the Retained Business Payment shall be deemed for purposes of this clause (A) to be converted into Renminbi at the exchange rate published by PBOC on its official website on the date of such payment; and (B) to the extent that the Funded Amount Due is not satisfied by clause (A), include the unsatisfied amount of the Funded Amount Due as the "IPLA Funded Amount Due" for purposes of the Amended IPLA.

(iii) From time to time following any Issuance, the Seller and the Purchaser shall discuss in good faith reducing or delaying the due dates of the IP and Restructuring Payment if the scheduled payments of the IP and Restructuring Payment exceed the portions of the Funded Amounts expected to be accrued at the times of such payments.

(iv) The Purchaser shall reimburse the Seller for any Taxes as and when actually incurred and paid by the Seller as a result of the funding of the Funded Amounts pursuant to this Section 2.6(b), promptly following Seller's delivery to Purchaser of an invoice for and reasonable documentation of such Taxes. Upon each Transfer following any Issuance for consideration (whether such consideration is for cash, non-cash assets, or cancellation, satisfaction or forgiveness of liabilities) by the Seller of its Purchaser Equity to any Person that is not a wholly-owned Subsidiary of the Seller, the Seller shall pay to the Purchaser an aggregate amount equal to the excess of (A) the product of (1) ten percent (10%) of the Funded Amounts funded pursuant to this Section 2.6(b) from the date hereof through the date of such Transfer, multiplied by (2) a fraction, the numerator of which is the excess of the aggregate amount of the Purchaser Equity Transferred by the Seller (including in the instant Transfer) over the amount of Purchaser Equity acquired by the Seller in all Issuances and the denominator of which is the total amount of the Purchaser's Purchaser Equity acquired through the exercise of Preemptive Rights pursuant to Section 9.3, over (B) all amounts previously paid by the Seller to the Purchaser pursuant to this sentence.

Upon the first to occur of (x) the Purchaser Qualified IPO and (y) the Alipay Qualified IPO, except for any Funded Amounts that become payable prior to such occurrence (even if not required to be paid until after such occurrence) (A) no further funding of Funded Amounts shall be due or payable pursuant to this Section 2.6(b); and (B) any remaining amount of the Retained Business Payment shall cease to be payable.

(c) All payments to be made by a payor Party to a payee Party pursuant to Article II, Section 9.3, or the Amended IPLA may be made by wire transfer of immediately available funds to the account specified by the payee at least three (3) Business Days prior to such payment (which account, once specified, will be used for all future payments to such payee Party unless notice of a new account is given by the payee at least three (3) Business Days prior to any payment to be made to such new account), and/or may be set off against any other payment then due and payable by such payee Party to such payor Party pursuant to Article II, Section 9.3, or the Amended IPLA, to the extent permitted by Applicable Law.

Section 2.7 Accrued Profit Share. No later than the one hundred fiftieth (150th) day after the date hereof any amounts accrued pursuant to Section 5 of the IPLA from and after July 28, 2011 through the date hereof but not paid (the "Accrued Profit Share") shall be paid by the Purchaser to the Seller (or a Subsidiary of the Seller designated by the Seller). In addition, by such 150th day, Purchaser shall deposit with the Seller (or a Subsidiary of the Seller designated by the Seller), to the extent not included in the payment under the preceding sentence, an amount equal to 49.9% of any interest on customer escrow funds earned by Alipay from and after July 29, 2011, through the date hereof, net of any reserves (which may be accounted for as profit distributions) with respect thereto required by the PBOC, regardless of whether such interest is accounted for as income of Alipay for financial statement reporting purposes (the "Escrow Interest Profit Share Deposit"). If at any time and from time to time, the applicable Governmental Authority in the PRC delivers notice to Seller or Purchaser that any of the interest on customer escrow funds to which the outstanding Escrow Interest Profit Share Deposit relates may be recognized by Alipay as revenue under applicable Law, then (a) Purchaser shall pay to Seller (or a Subsidiary of the Seller designated by the Seller) 49.9% of such income, and (b) Seller shall return to Purchaser an equal amount of the Escrow Interest Profit Share Deposit. Following the fifth anniversary of the date hereof, the obligations of Purchaser and Seller under the preceding sentence shall terminate and Seller shall be entitled to retain and own, and Purchaser shall no longer have any rights to, the remaining amount of the Escrow Interest Profit Share Deposit.

Section 2.8 SME Fees. The Purchaser or a Subsidiary of the Purchaser designated by the Purchaser shall pay the amounts due in accordance with the SME Loan Know-How License Agreements to which the Purchaser or any Subsidiary of the Purchaser is a party. If during the term of any SME Loan Know-How License Agreement any of Purchaser or its Subsidiaries other than the Chongqing Loan Company (F51) makes any SME Loan, Purchaser shall cause such lender to, and Seller shall cause Alibaba China Co. (A50) to, enter into a separate SME Loan Know-How License Agreement on the same terms and conditions as those set forth in the SME Loan Know-How License Agreement between Alibaba China Co. (A50) and Chongqing Loan Company (F51) signed concurrently with this Agreement, or if Purchaser fails to cause such lenders to enter into such a SME Loan Know-How License Agreement, Seller shall cause (if prior to the Closing) or Purchaser shall cause (if after the Closing) the Chongqing Loan Company (F51) to pay such amounts as any of Purchaser or any Subsidiary of Purchaser acting as such lender would have been required to pay under such an SME Loan Know-How License Agreement. If by the 180th day following the date hereof, the Closing has not occurred, then prior to any transfers pursuant to Section 2.2(a), Seller shall cause Alibaba China Co. (A50) to, and Purchaser shall or shall cause one of its Subsidiaries to, enter into a SME Loan Know-How License Agreement to replace, on the same terms and conditions, the SME Loan Know-How License Agreements signed concurrently with this Agreement. If and to the extent that, during the term of any SME Loan Know-How License Agreement, applicable Governmental Authorities require any action resulting in a reduction in any amount payable thereunder, then the Purchaser shall pay to the Seller a lump-sum cash amount equal to the present value of any such reduction over the term of any affected SME Loan Know-How License Agreement. The Purchaser and the Seller shall discuss in good faith the determination of such present value in such event; provided that if the Purchaser and the Seller are unable to reach agreement on such present value within sixty (60) days following the reduction, the Purchaser and the Seller shall mutually agree on a third-party expert to make a binding determination of such present value.

Section 2.9 Termination of Framework Agreement. Effective as of the date hereof, the Framework Agreement Parties hereby agree that the Framework Agreement shall automatically terminate without any further action by any of the Framework Agreement Parties or any of their officers, directors or equityholders and without any surviving obligation or Liability of any party thereto and shall hereafter be of no further force and effect.

ARTICLE III

CLOSING

Section 3.1 Closing. The closing of the Transactions (the "Closing") shall take place at 10:00 a.m. (New York time) on the third (3rd) Business Day following satisfaction or waiver of the conditions set forth in Article VIII (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions at such time). The Closing shall be held at the offices of Wachtell, Lipton, Rosen & Katz located at 51 West 52nd Street, New York, NY 10019. Notwithstanding the foregoing, the Closing may take place at such other date, time or place as the Parties may agree to in writing.

Section 3.2 Closing Deliverables.

(a) Seller Deliverables. At the Closing, the Seller shall deliver to the Purchaser:

(i) the officer's certificate described in Section 8.3(c);

(ii) to the extent that any Ownership Interests in Chongqing Loan Company (F51) are not Beneficially Owned by Purchaser and/or Seller as of the Closing, consents of the shareholders holding such Ownership Interests waiving their right of first refusal with respect to the Chongqing Loan Company (F51) Transfer (the "Chongqing Loan Company Minority Shareholder Consents"); and

(iii) counterparts to such other transfer agreements, substantially in the forms attached as Exhibit C hereto, and such other agreements as may be required or appropriate under applicable Law of the PRC in order to effect the Transactions, in each case duly executed by the Seller or the applicable Subsidiary of the Seller.

(b) Purchaser Deliverables. At the Closing, the Purchaser shall deliver to the Seller:

(i) the officer's certificate described in Section 8.2(c);

(ii) the PRC Closing Opinion;

(iii) counterparts to transfer agreements, substantially in the forms attached as Exhibit C hereto, and such other agreements as may be required or appropriate under applicable Law of the PRC in order to effect the Transactions, in each case duly executed by the Purchaser or the applicable Subsidiary of the Purchaser;

(iv) certified copies of:

(A) the approval letter of the Chongqing local Office of Financial Affairs in respect of the Guarantee Company (F82) Transfer and the Chongqing Loan Company (F51) Transfer;

(B) the approval letter of MOFCOM in respect of the Guarantee Company (F82) Transfer; and

(C) the filing certificate issued by the MOFCOM and/or the National Development & Reform Commission (including any duly authorized provincial or local office of the National Development & Reform Commission of the People's Republic of China) ("NDRC") and the registration with SAFE, or, if the investment is made by a Subsidiary set up by the Purchaser in Shanghai Free Trade Zone ("FTZ"), the filing certificate issued by the Management Committee of FTZ, in connection with Purchaser's investment in Alipay Singapore E-Commerce (B15) and Libra Capital (A22).

Section 3.3 Withholding Rights. Except as may be otherwise expressly provided in the Transaction Documents, each Party shall be entitled to deduct and withhold from any payments to be made pursuant to this Agreement such amounts as may be required to be deducted and withheld with respect to the making of such payment under applicable Law relating to taxes, customs, tariffs, imposts, levies, duties, fees or other like assessments or charges of any kind imposed by a Governmental Authority (or interest, penalties and additions imposed with respect thereto). Amounts so withheld and paid over to the appropriate taxing Governmental Authority shall be treated for all purposes of this Agreement as having been paid to the applicable recipient of the payment in respect of which such deduction or withholding was made.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE SELLER

Except as set forth in the disclosure schedules of the Seller attached hereto (the “Seller Disclosure Schedules”), the Seller hereby, on behalf of the Seller Parties, makes the representations and warranties set forth in this Article IV to the Purchaser.

Section 4.1 Organization and Qualification; Subsidiaries. Each of the Seller Parties (a) is a corporation or legal entity duly organized or formed and validly existing under the Laws of its jurisdiction of organization or formation, (b) has the requisite corporate or similar entity power and authority to conduct and carry on its business as it is now being conducted and to own, lease and operate its properties and assets, and (c) is duly qualified to do business in each jurisdiction where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary.

Section 4.2 Authority; Binding Effect. Each of the Seller and the Subsidiary Seller Parties has all requisite corporate or entity power and authority to execute and deliver this Agreement and the other Transaction Documents to which it is party and to perform its obligations hereunder and thereunder. The execution and delivery by each of the Seller Parties of this Agreement and the other Transaction Documents to which it is party, and the performance of its obligations hereunder and thereunder, have been duly authorized by all requisite corporate, entity or other action. This Agreement has been duly and validly executed and delivered by each of the Seller Parties and, assuming the due authorization, execution and delivery by the Purchaser and each Management Holdco, this Agreement constitutes a legal, valid and binding obligation of each of the Seller Parties, enforceable against each of the Seller Parties in accordance with its terms (except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws of general applicability relating to or affecting creditor’s rights, and to general equitable principles). The Transaction Documents, when executed and delivered by each of the Seller Parties that is party to the Transaction Documents, assuming due execution and delivery hereof by the Purchaser, shall constitute valid and binding obligations of each of the Seller Parties party to the Transaction Documents and are enforceable against each of the Seller Parties party to the Transaction Documents in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency or reorganization Laws.

Section 4.3 No Conflicts; Required Filings and Consents.

(a) The execution and delivery by each of the Seller Parties of this Agreement does not, and the other Transaction Documents and any other instrument required hereby or thereby to be executed and delivered at the Closing shall not, and the performance by any of the Seller Parties of its obligations under this Agreement and the other Transaction Documents shall not, require any consent, approval, Order, license, authorization, registration, declaration or permit of, or filing with or notification to, any Governmental Authority, except (i) such approvals, filings and notifications as may be required under applicable regulations by the PBOC with respect to licensing requirements and other compliance matters, (ii) such approvals, filings and notifications as may be required under applicable regulations by MIIT with respect to the foreign investment in value added telecom domestic companies, (iii) such approvals, filings and notifications as may be required under applicable regulations of MOFCOM with respect to foreign investment in domestic companies, (iv) such filings and notifications as may be required under applicable regulations by the State Administration on Foreign Exchange (“SAFE”) with respect to foreign currency payment obligations and (v) such filings and notifications as may be required under applicable Intellectual Property-related Laws and regulations and the requirements thereunder with respect to registration, filing and approval by the PRC State Intellectual Property Office, the China Trademark Office and the National Copyright Administration and any other Laws (collectively, to the extent required, the “Regulatory Approvals”).

(b) The execution and delivery by each of the Seller Parties of this Agreement does not, and the other Transaction Documents and any other instrument required hereby or thereby to be executed and delivered by each of the Seller Parties at the Closing shall not, and the performance by each of the Seller Parties of its obligations under this Agreement and the other Transaction Documents shall not, (i) conflict with or result in any breach of any provision of its articles of incorporation or by-laws (or any similar organizational documents), (ii) violate, conflict with, require consent pursuant to, result in a breach of, constitute a default (with or without due notice or lapse of time or both) under, or give rise to a right of, or result in, the termination, cancellation, modification, acceleration or the loss of a benefit under, or result in the creation of any Encumbrance upon any of the Transferred Equities or Transferred Assets or any of the terms, conditions or provisions of any Contract to which any of the Parties is a party or by which any of the Parties is bound or to which any of the Transferred Equities or Transferred Assets are subject, except for the Chongqing Loan Company Minority Shareholder Consents, or (iii) violate any Order or Law applicable to any of the Seller Parties or any of their properties or assets.

Section 4.4 Capitalization. Schedule 4.4 of the Seller Disclosure Schedules sets forth a true and complete schedule of (a) the outstanding share capital, including the total amount of registered capital or the number of shares, units or other Equity Securities, of each entity of which any Transferred Equities are Equity Securities (collectively, the “Transferred Entities”), (b) the total registered capital or outstanding share capital of each Subsidiary of a Transferred Entity, and (c) the amount of registered capital or share capital of any such Subsidiary that is Beneficially Owned by any Transferred Entity. All of the registered capital or outstanding share capital of the Transferred Entities and Subsidiaries of the Transferred Entities has been fully paid in compliance with the requirements of applicable Laws, and was not issued in violation of any preemptive or other similar rights of any holder of such equity interests. There are no Contracts, commitments, understandings or arrangement by which any Transferred Entity or Subsidiary of a Transferred Entity is bound to issue additional registered capital, share capital or other Equity Securities.

Section 4.5 Title to Transferred Equities. Schedule 4.5 of the Seller Disclosure Schedules sets forth a true and complete schedule of the registered capital or share capital, including the number of shares, units or other Equity Securities, held by each of the Seller Parties in each of the Transferred Entities. The Seller Parties collectively are the legal owner, and have good and marketable title (beneficially and of record) to all of the Transferred Equities, and have the capacity to convey to the Purchaser good and marketable title to all of the Transferred Equities at the Closing, free and clear of any Encumbrances whatsoever. None of the Transferred Equities are subject to any outstanding option, warrant, call or similar right of any other Person to acquire the same, to any equityholders, voting or similar agreement or to any restriction on transfer thereof except for restrictions imposed by applicable Laws or by the express terms of this Agreement or the other Transaction Documents. All of the Transferred Equities are fully paid in compliance with the requirements of applicable Laws.

Section 4.6 Title to Transferred Intellectual Property. The Seller represents and warrants that it and its Subsidiaries are the sole and exclusive owners of the Stage 1 Retained IP, Remaining Retained IP and the SME Loan Know-How, and they have the full right and power to transfer the Stage 1 Retained IP, Remaining Retained IP and the SME Loan Know-How as contemplated by this Agreement, free and clear of any Encumbrances whatsoever, and none of the Stage 1 Retained IP, Remaining Retained IP or SME Loan Know-How has lapsed based on a failure to pay the appropriate fees or become abandoned. To the knowledge of the Seller and its Subsidiaries, no court or other tribunal or administrative body has made a finding or adjudication, pursuant to any proceeding, that any of the Stage 1 Retained IP, Remaining Retained IP or SME Loan Know-How is invalid or unenforceable, and no Stage 1 Retained IP, Remaining Retained IP or SME Loan Know-How is the subject of a claim of invalidity or unenforceability in any pending judicial, administrative or other proceeding pursuant to which the Seller or one of its Subsidiaries is a party.

Section 4.7 Purchaser Business. The assets of the Transferred Entities and their Subsidiaries do not include any material assets that are not used to conduct the Purchaser Business, and the Transferred Entities and their Subsidiaries do not conduct any material activities other than the Purchaser Business.

Section 4.8 Exclusivity of Representations. The representations and warranties made by the Seller in this Article IV are the exclusive representations and warranties made by the Seller with respect to this Agreement and the transactions contemplated hereby. Notwithstanding anything to the contrary in this Agreement, the Seller is not, directly or indirectly, making any representations or warranties regarding any financial information, financial projections or other forward-looking statements with respect to the Seller or the Transferred Equities or Transferred Assets.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

Except as set forth in the disclosure schedules of the Purchaser attached hereto (the "Purchaser Disclosure Schedules"), the Purchaser hereby makes the representations and warranties set forth in this Article V to the Seller Parties.

Section 5.1 Organization and Qualification. The Purchaser (a) is a limited liability company duly organized and is validly existing under the Laws of the PRC, (b) has all necessary entity power and authority to own, lease and operate its properties and assets and to conduct and carry on its business as currently conducted and (c) is duly qualified to do business in each jurisdiction where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary.

Section 5.2 Authority; Binding Effect. The Purchaser has all requisite power and authority to execute and deliver this Agreement and the other Transaction Documents and to perform its obligations hereunder and thereunder. The execution and delivery by the Purchaser of this Agreement and the other Transaction Documents, and the performance by the Purchaser of its respective obligations hereunder and thereunder, have been duly authorized by all requisite action on the part of the Purchaser. The Purchaser has duly executed this Agreement and each of the other Transaction Documents to which it is a party. This Agreement has been duly and validly executed and delivered by the Purchaser and, assuming the due authorization, execution and delivery by each Management Holdco, the Seller and each of the other Seller Parties, this Agreement constitutes a legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms (except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws of general applicability relating to or affecting creditor's rights, and to general equitable principles). The Transaction Documents, when executed and delivered by the Purchaser, assuming due execution and delivery hereof by each of the other parties hereto and thereto, shall constitute valid and binding obligations of the Purchaser enforceable against the Purchaser in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency or reorganization Laws.

Section 5.3 No Conflicts; Required Filings and Consents.

(a) The execution and delivery by the Purchaser of this Agreement does not, and the other Transaction Documents and any other instrument required hereby or thereby to be executed and delivered at the Closing shall not, and the performance by the Purchaser of its obligations under this Agreement and the other Transaction Documents shall not, require any consent, approval, Order, license, authorization, registration, declaration or permit of, or filing with or notification to, any Governmental Authority, except the Regulatory Approvals.

(b) The execution and delivery by the Purchaser of this Agreement does not, and the other Transaction Documents and any other instrument required hereby or thereby to be executed and delivered by the Purchaser at the Closing shall not, and the performance by the Purchaser of its obligations under this Agreement and the other Transaction Documents shall not, (i) conflict with or result in any breach of any provision of the organizational or charter documents of the Purchaser, (ii) violate, conflict with, require consent pursuant to, result in a breach of, constitute a default (with or without due notice or lapse of time or both) under, or give rise to a right of, or result in, the termination, cancellation, modification, acceleration or the loss of a benefit under, or result in the creation of any Encumbrance upon the Purchaser Equity Securities or any of the terms, conditions or provisions of any Contract to which the Purchaser is a party or by which the Purchaser is bound or to which any of the Purchaser Equity Securities are subject or (iii) violate any Order or Law applicable to the Purchaser or any of its properties or assets.

Section 5.4 Capitalization. Part 1 of Schedule 5.4 of the Purchaser Disclosure Schedules sets forth a true and complete schedule of the outstanding Equity Securities of the Purchaser as of the date hereof, including the total amount of registered capital or the number of shares or other Equity Securities, as applicable, and the names of the owners of record of such Equity Securities. The Purchaser has no issued and outstanding Equity Securities other than as shown on such Schedule, and there are no Contracts, commitments, understandings or arrangements by which the Purchaser is bound to issue additional Purchaser Equity or other Equity Securities, and the Purchaser Equity is not subject to any outstanding option, warrant, call or similar right of any other Person to acquire the same, in each case other than the agreements listed in Part 2 of Schedule 5.4 of the Purchaser Disclosure Schedules regarding agreements for the Purchaser to issue, immediately prior to Closing, Purchaser Equity to certain financial investors (the "Financial Investments"). No direct or indirect Ownership Interest in the Purchaser is currently owned by any Person other than a PRC Person.

Section 5.5 Purchaser Business. The assets of the Transferred Entities and their Subsidiaries do not include any material assets that are not used to conduct the Purchaser Business, and the Transferred Entities and their Subsidiaries do not conduct any material activities other than the Purchaser Business.

Section 5.6 Exclusivity of Representations. The representations and warranties made by the Purchaser in this Article V are the exclusive representations and warranties made by the Purchaser with respect to this Agreement and the transactions contemplated hereby. Notwithstanding anything to the contrary in this Agreement, the Purchaser is not, directly or indirectly, making any representations or warranties regarding any financial information, financial projections or other forward-looking statements with respect to the Purchaser.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE MANAGEMENT HOLDCOS

Except as set forth in the disclosure schedules of the Management Holdcos attached hereto (the "Management Holdco Disclosure Schedules," and together with the Seller Disclosure Schedules, and the Purchaser Disclosure Schedules, the "Disclosure Schedules"), each Management Holdco, severally and not jointly, hereby makes the representations and warranties set forth in this Article VI to the Seller Parties.

Section 6.1 Organization and Qualification. Such Management Holdco (a) is a limited partnership duly organized and is validly existing under the Laws of the PRC, (b) has all necessary power and authority to own, lease and operate its properties and assets and to conduct and carry on its business as currently conducted and (c) is duly qualified to do business in each jurisdiction where the character of the property owned, leased or operated by it or the nature of its activities makes such qualification necessary.

Section 6.2 Authority; Binding Effect. Such Management Holdco has all requisite power and authority to execute and deliver this Agreement and the other Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by such Management Holdco of this Agreement and the other Transaction Documents to which it is a party, and the performance by Management Holdco of its respective obligations hereunder and thereunder, have been duly authorized by all requisite action on the part of such Management Holdco. Such Management Holdco has duly executed this Agreement and each of the other Transaction Documents to which it is a party. This Agreement has been duly and validly executed and delivered by such Management Holdco and, assuming the due authorization, execution and delivery by the Purchaser, the Seller and each of the other Seller Parties, this Agreement constitutes a legal, valid and binding obligation of such Management Holdco, enforceable against such Management Holdco in accordance with its terms (except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar Laws of general applicability relating to or affecting creditor's rights, and to general equitable principles). The Transaction Documents to which such Management Holdco is a party, when executed and delivered by such Management Holdco, assuming due execution and delivery hereof by each of the other parties hereto and thereto, shall constitute valid and binding obligations of such Management Holdco enforceable against such Management Holdco in accordance with their respective terms, except as such enforcement may be limited by applicable bankruptcy, insolvency or reorganization Laws.

Section 6.3 No Conflicts; Required Filings and Consents.

(a) The execution and delivery by such Management Holdco of this Agreement does not, and the other Transaction Documents to which it is a party and any other instrument required hereby or thereby to be executed and delivered at the Closing shall not, and the performance by such Management Holdco of its obligations under this Agreement and the other Transaction Documents to which it is a party shall not, require any consent, approval, Order, license, authorization, registration, declaration or permit of, or filing with or notification to, any Governmental Authority, except the Regulatory Approvals.

(b) The execution and delivery by such Management Holdco of this Agreement does not, and the other Transaction Documents to which it is a party and any other instrument required hereby or thereby to be executed and delivered by such Management Holdco at the Closing shall not, and the performance by such Management Holdco of its obligations under this Agreement and the other Transaction Documents to which it is a party shall not, (i) conflict with or result in any breach of any provision of the organizational or charter documents of such Management Holdco, (ii) violate, conflict with, require consent pursuant to, result in a breach of, constitute a default (with or without due notice or lapse of time or both) under, or give rise to a right of, or result in, the termination, cancellation, modification, acceleration or the loss of a benefit under, any of the terms, conditions or provisions of any Contract to which such Management Holdco is a party or by which such Management Holdco is bound or (iii) violate any Order or Law applicable to such Management Holdco or any of its properties or assets.

Section 6.4 Purchaser Business. The assets of the Transferred Entities and their Subsidiaries do not include any material assets that are not used to conduct the Purchaser Business, and the Transferred Entities and their Subsidiaries do not conduct any material activities other than the Purchaser Business.

Section 6.5 Exclusivity of Representations. The representations and warranties made by each Management Holdco in this Article VI are the exclusive representations and warranties made by such Management Holdco with respect to this Agreement and the transactions contemplated hereby. Notwithstanding anything to the contrary in this Agreement, the Management Holdcos are not, directly or indirectly, making any representations or warranties regarding any financial information, financial projections or other forward-looking statements with respect to either Management Holdco or the Purchaser.

ARTICLE VII

COVENANTS

Section 7.1 Confidentiality. Each Party, and each Party's Representatives who receive Confidential Information as permitted hereunder, shall maintain the confidentiality of Confidential Information in accordance with the procedures adopted by such Party in good faith to protect confidential information of third parties generally delivered to such Party; provided, that such Party may deliver or disclose Confidential Information to:

- (a) such Party's Representatives, and Persons related thereto who are informed of the confidentiality obligations of this Section 7.1; provided, that such Party shall be responsible for any violation of such Party's applicable procedures made by any such Person;
- (b) any Governmental Authority having jurisdiction over such Party to the extent required by applicable Law;
- (c) any other Person to which such delivery or disclosure may be required (i) to effect compliance with any Law applicable to such Party, or (ii) in response to any subpoena or other legal process; or
- (d) as permitted under Section 7.4;

provided, that, in the cases of clauses (b) and (c) of this Section 7.1, the disclosing Party shall provide each other Party with prompt written notice thereof so that the appropriate Party may seek (with the cooperation and reasonable efforts of the disclosing party) a protective Order, confidential treatment or other appropriate remedy, and in any event shall furnish only that portion of the information which is reasonably necessary for the purpose at hand and shall exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such information to the extent reasonably requested by any other Party.

Section 7.2 Appropriate Action; Consents; Filings.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the Parties hereto shall use its reasonable best efforts to take, or cause to be taken, all actions, and use its reasonable best efforts to do, or cause to be done, and to assist and cooperate with the other Parties in doing, all things consistent with applicable Law and reasonably necessary, proper or advisable to consummate, as promptly as practicable, the Transactions, and none of the Parties shall take any action or omit to take any action that would or would reasonably be expected to prevent, impair, make illegal or materially delay the Closing unless such action or omission is required by applicable Law. Without limiting the foregoing, each of the Parties agrees to use its respective reasonable best efforts to:

(i) cause the Closing conditions set forth in Article VIII to be satisfied as promptly as practicable,

(ii) obtain all necessary Regulatory Approvals,

(iii) obtain all necessary licenses, consents, approvals, registrations, qualifications, Orders, waivers, finding of suitability and authorizations of, actions or nonactions by, any Governmental Authority or any third party necessary in connection with the consummation of the transactions contemplated by this Agreement (other than Section 2.3, except to the extent provided in Section 2.3(h)),

(iv) make all necessary applications, registrations, declarations and filings with, and notices to, any Governmental Authorities and take all reasonable steps as may be necessary to obtain all approvals from, or to avoid any suit, action, Proceeding or investigation by, any Governmental Authority or other Persons necessary in connection with the consummation of the transactions contemplated by this Agreement (other than Section 2.3, except to the extent provided in Section 2.3(h)),

(v) to the extent named as a defendant, defend any lawsuits or other legal Proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated by this Agreement (other than Section 2.3, except to the extent provided in Section 2.3(h)),

(vi) in the case of the Seller, the Purchaser and their respective Subsidiaries only, have vacated, lifted, reversed or overturned any Order, decree, ruling, judgment, injunction or other action (whether temporary, preliminary or permanent) that is then in effect and that enjoins, restrains, conditions, makes illegal or otherwise restricts or prohibits the consummation of the transactions contemplated by this Agreement (other than Section 2.3, except to the extent provided in Section 2.3(h)); provided, that in no event shall the Seller, the Purchaser, the Seller Parties or any of their Subsidiaries be required to pay or to commit to, prior to the Closing, any fee, penalty or other consideration to obtain any consent, approval, Order, waiver or authorization in connection with the transactions contemplated by this Agreement (other than Section 2.3, except to the extent provided in Section 2.3(h)) under any Contract other than filing fees required and *de minimis* amounts and customary filing fees payable to Governmental Authorities; and

(vii) execute and deliver any additional instruments and/or separate agreements necessary to consummate the Transactions to be performed or consummated by such Party in accordance with the terms of this Agreement and to carry out fully the purposes of this Agreement.

(b) Subject to applicable Law, each of the Parties hereto shall furnish to each other such necessary information and reasonable assistance as the other may request in connection with the preparation of any required filings or submissions with any Governmental Authority and will reasonably cooperate in responding to any inquiry from a Governmental Authority, including promptly informing the other party of such inquiry, consulting in advance before making any presentations or submissions to a Governmental Authority, and supplying each other with copies of all material correspondence, filings or communications with any Governmental Authority with respect to this Agreement (other than private or personal information pertaining to any individual applicants which may remain confidential). No Party shall have any material communication or meeting (telephonic or in-person) regarding the Transactions with a Governmental Authority without giving the Purchaser and the Seller a reasonable opportunity to attend in person or by phone (unless the Governmental Authority prohibits such participation or attendance in the communication or meeting).

Section 7.3 Notification of Certain Matters. The Seller shall give prompt notice to the Purchaser, and the Purchaser shall give prompt notice to the Seller, upon receiving knowledge of (a) any notice, complaint, investigation or hearing (or communications indicating that the same may be contemplated) from (i) any Governmental Authority in connection with this Agreement or the Transactions or the other actions contemplated hereby, or (ii) any other Person, in each case alleging that the consent of such Person is or may be required in connection with the Transactions or the other actions contemplated hereby and (b) any actions, suits, claims, investigations or Proceedings commenced or, to such Party's knowledge, threatened in writing against, relating to or involving or otherwise affecting such Party or any of its Subsidiaries which relate to this Agreement, the Transactions or the other actions contemplated hereby.

Section 7.4 Public Announcement and Filings.

(a) The initial press release(s) announcing the execution of this Agreement shall be in a form mutually agreed upon by the Purchaser, the Seller, SoftBank and Yahoo!. The Purchaser and the Seller shall require mutual consent before issuing, and, to the extent practicable, give each other a reasonable opportunity to review and comment on, any other press release or other public announcement with respect to this Agreement, the Transactions or the other actions contemplated hereby, and shall not issue any such press release or make any such public announcement prior to obtaining such mutual consent, except as may be required by applicable Law, court process or the rules and regulations of any national securities exchange or national securities quotation system.

(b) Each of SoftBank and Yahoo! shall, to the extent permitted by Law and reasonably practicable, prior to the filing or furnishing of any report, statement, or other document to a Governmental Authority or as required by applicable Laws that includes any disclosure or statement regarding this Agreement, the Transactions or the other actions contemplated hereby, provide the Purchaser and the Seller with a reasonable opportunity to review and comment upon such report, statement or document, and shall consult with the Purchaser and the Seller in good faith prior to filing or furnishing any such report, statement or document, in each case only if such report, statement or document includes information regarding this Agreement, the Transactions or the other actions contemplated hereby that is materially inconsistent with or in addition to information previously disclosed in (x) any public announcement by the Purchaser and/or the Seller, (y) any publicly disclosed prospectus of the Seller in connection with its initial public offering or (z) any report, statement or document previously filed, furnished or disclosed pursuant to this Section 7.4(b).

Section 7.5 Conduct of Business Pending the Closing. Until the earlier of the Closing and the date, if any, on which this Agreement is terminated pursuant to Section 10.1, the Seller shall and shall cause its Subsidiaries to operate the Transferred Entities and the Transferred Assets in the ordinary course of business consistent with past practice.

Section 7.6 Seller Parties. The Seller shall take all actions necessary to cause each of the Subsidiary Seller Parties to comply with this Agreement, perform its obligations under this Agreement and consummate the Transactions and other actions contemplated hereby, in each case, on the terms and conditions set forth in this Agreement.

Section 7.7 No Control of the Transferred Entities and the Transferred IP. Nothing contained in this Agreement is intended to give the Purchaser, directly or indirectly, the right to control the Transferred Entities whose equities are Closing Transferred Equities or control or direct the voting or disposition of the Closing Transferred Equities prior to the Closing, or the right to control or direct the use, operation or disposition of the Stage 1 Retained IP or Remaining Retained IP before the transfer thereof to Purchaser pursuant to this Agreement.

ARTICLE VIII

CONDITIONS TO CLOSING

Section 8.1 General Conditions. The respective obligations of the Parties to consummate the Transactions shall be subject to the fulfillment, at or prior to the Closing, of the following conditions, which may, to the extent permitted by applicable Law, be waived in a writing signed by all Parties, in the sole discretion of each Party:

(a) No Injunction or Prohibition. No Governmental Authority shall have, after the date hereof, enacted, issued, promulgated, enforced or entered any Law (whether temporary, preliminary or permanent) that is then in effect and that enjoins, restrains, makes illegal or otherwise prohibits the consummation of the Transactions.

(b) Regulatory Approvals.

(i) The local Office of Financial Affairs (□□□) shall have approved the Guarantee Company (F82) Transfer and the Chongqing Loan Company (F51) Transfer;

(ii) MOFCOM shall have approved the Guarantee Company (F82) Transfer; and

(iii) The filings with NDRC and/or MOFCOM, or the filing with the Management Committee of FTZ if the Purchaser chooses to make the investment through a Subsidiary of the Purchaser to be established in the FTZ, and related filing with SAFE or its local counterparts to be made in connection with Purchaser's investment in Alipay Singapore E-Commerce (B15) and Libra Capital (A22), shall have been completed.

(c) Legal Opinion. The Purchaser and the Seller shall have received from Fangda Partners an opinion substantially in the form attached as Exhibit D (the "PRC Closing Opinion"); provided that the PRC Closing Opinion may differ from the form attached as Exhibit D solely to the extent that such differences (x) result from changes in Law between the date of this Agreement and the Closing or (y) have been approved in writing by both the Purchaser and the Alibaba Independent Committee on behalf of the Seller.

Section 8.2 Conditions to Obligations of the Seller and the Seller Parties. The obligations of the Seller Parties to consummate the Transactions shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions, any of which, to the extent permitted by applicable Law, may be waived in writing by the Seller (with the prior written approval of the Alibaba Independent Committee) in its sole discretion:

(a) Representations and Warranties. The representations and warranties of the Purchaser and the Management Holdcos contained in this Agreement shall be true and correct as of the date hereof and as of the date of the Closing as if made on such date (unless made as of a specified date, in which case, as of such date);

(b) Pre-Closing Covenants. Each of the Parties other than the Seller Parties shall have performed and complied with, in all material respects, all obligations and agreements required by this Agreement to be performed or complied with by it prior to or at the Closing; and

(c) Officer's Certificate. The Seller shall have received from the Purchaser a certificate to the effect that the conditions set forth in Section 8.2(a) and Section 8.2(b) are satisfied and signed by a duly authorized executive officer thereof.

Section 8.3 Conditions to Obligations of the Purchaser. The obligations of the Purchaser to consummate the Transactions shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions, any of which, to the extent permitted by applicable Law, may be waived in writing by the Purchaser in its sole discretion:

(a) Representations and Warranties. The representations and warranties of the Seller contained in this Agreement shall be true and correct as of the date hereof and as of the date of the Closing as if made as of such date (unless made as of a specified date, in which case, as of such date);

(b) Pre-Closing Covenants. Each of the Parties other than the Purchaser, SoftBank and Yahoo! shall have performed and complied with, in all material respects, all obligations and agreements required by this Agreement to be performed or complied with by it prior to or at the Closing; and

(c) Officer's Certificate. The Purchaser shall have received from the Seller a certificate to the effect that the conditions set forth in Section 8.3(a) and Section 8.3(b) are satisfied and signed by a duly authorized executive officer thereof.

ARTICLE IX

ADDITIONAL COVENANTS

Section 9.1 Board Representation of the Seller.

(a) Independent Director.

(i) During the Independent Director Ownership Period, Seller and Purchaser shall mutually agree to recommend one person to Purchaser, who Purchaser shall nominate for election as a director of the Purchaser board of directors (the "Independent Director"); provided, that no Person that is an officer or employee of the Seller, the Purchaser, SoftBank, Yahoo! or their respective Affiliates, or that is a Related Party, may be designated as the Independent Director. The Parties shall agree on the initial Independent Director as promptly as practicable, and in any event by the 60th day following the date hereof. The "Independent Director Ownership Period" shall commence on the date of this Agreement and shall terminate upon the earlier to occur of (x) a Purchaser Qualified IPO if the Seller's rights under this Section 9.1 are not permitted by, and not capable of being preserved (through preferred stock or otherwise) under, applicable Law or applicable listing rules; provided, that the Purchaser shall use its commercially reasonable efforts to cause such rights to be permitted and preserved, including by seeking an exemption under applicable stock exchange rules that would permit or otherwise allow such rights to be preserved and (y) the first date following the first occurrence of any Issuance on which the Seller and its Subsidiaries do not collectively own at least fifty percent (50%) of the aggregate Ownership Interests in the Purchaser issued, on or prior to such date, to the Seller and its Subsidiaries collectively pursuant to this Agreement; provided, that if the Seller and/or any of its Subsidiaries is required by Law to sell or otherwise transfer or dispose of Purchaser Equity or equivalent equity interests of the Purchaser, such sale shall not terminate the Independent Director Ownership Period unless the Seller and/or any of its Subsidiaries subsequently voluntarily sells any Purchaser Equity or equivalent equity interests of the Purchaser and immediately following such sale the Seller and its Subsidiaries collectively own less than fifty percent (50%) of the aggregate Ownership Interests in the Purchaser issued, on or prior to the date of such sale, to the Seller and its Subsidiaries collectively pursuant to this Agreement.

(ii) During the Independent Director Ownership Period, the Purchaser shall use reasonable best efforts, and the Seller and other Parties shall cooperate with the Purchaser, to elect or cause the election of such Independent Director to the board of directors of the Purchaser and otherwise effect the provisions of this Section 9.1 and any determination or resolution of the board of directors of the Purchaser under this Section 9.1, including (prior to any initial public offering) amending the organizational documents to increase or decrease the numbers of directors on the board of directors of the Purchaser and electing or removing directors and (following any initial public offering), nominating the Independent Director for election to the board of directors of the Purchaser and recommending and soliciting proxies for the Independent Director to the same extent as the Purchaser does for any of its other nominees to its board of directors. Without limiting the foregoing, JM, JT and the Management Holdcos shall at all times during the Independent Director Ownership Period vote their respective Equity Securities of the Purchaser in favor of the election of the duly designated Independent Director to the Purchaser board of directors.

(b) Committee Representation. During the Independent Director Ownership Period, the audit committee of the board of directors of the Purchaser shall include the Independent Director and the Purchaser shall cause the Independent Director to be elected or appointed to such committee, in each case subject to applicable Law.

(c) Independent Director Vacancy.

(i) Subject to Section 9.1(a), upon the death, disability, resignation, retirement, disqualification, removal or other expiration or termination of service of the Independent Director during the Independent Director Ownership Period, to the extent permitted by applicable Law, the Seller shall have the right to designate any replacement for the Independent Director, which replacement shall satisfy all requirements under Section 9.1(a) and Section 9.1(b). The Purchaser shall use its reasonable best efforts to take all action required to fill the vacancy on its board of directors and its audit committee resulting therefrom with such person. For the avoidance of doubt, removal and replacement of the Independent Director (and the failure to re-appoint such director at the end of any term) shall require the same approvals as appointment of the Independent Director and the last sentence of Section 9.1(a)(ii) shall apply to any replacement Independent Director designated pursuant to this Section 9.1(c)(i).

(ii) Until the earlier of (A) the date on which SoftBank no longer owns directly or indirectly at least twenty percent (20%) of the ordinary shares of the Seller, (B) the date of the Purchaser Qualified IPO and (C) the expiration of the Independent Director Ownership Period, on or prior to the resignation, removal, termination or expiration of service, death or disability of the Independent Director, SoftBank and JM (or his successor, in the case of JM's death or incapacity), acting in good faith, shall jointly select and submit to the Alibaba Independent Committee an individual to be designated as the replacement Independent Director. If such selection is approved by the Alibaba Independent Committee, then the Seller shall designate such person as the replacement Independent Director pursuant to Section 9.1(c)(i).

(iii) If, during the period set forth in Section 9.1(c)(ii), SoftBank and JM (or his successor, in the case of JM's death or incapacity) are unable to agree on a replacement Independent Director, or the Alibaba Independent Committee fails to approve a replacement Independent Director, within three (3) months following the creation of the vacancy in the Independent Director position, the Seller shall designate the chairman of the audit committee of the board of directors of the Seller as the replacement Independent Director pursuant to Section 9.1(c)(i); provided, that such person shall not be elected to the Purchaser's board as the Independent Director for a term exceeding twelve (12) months.

Section 9.2 Information Rights.

(a) The Purchaser shall, and shall cause each Subsidiary to, maintain true books and records of account in which full and correct entries shall be made of all its business transactions pursuant to a system of accounting established and administered in accordance with GAAP, and shall set aside on its books all such proper accruals and reserves as shall be required under GAAP. During the period commencing on the first date on which the Seller owns at least a ten percent (10%) Ownership Interest in the Purchaser and ending on the earlier of (x) the first date after such commencement on which the Seller no longer owns at least a ten percent (10%) Ownership Interest in the Purchaser and (y) payment in full of the Liquidity Event Payment, the Purchaser shall deliver to the Seller the following financial information:

(i) Not later than sixty (60) days after the end of each of the quarterly accounting periods or, after the Purchaser Qualified IPO, not later than the date on which the Purchaser publicly discloses them, the unaudited consolidated balance sheets of the Purchaser and its Subsidiaries as of the end of each such period, the related unaudited consolidated statements of operations, equity and cash flows of the Purchaser and its Subsidiaries for such quarterly period and for the period from the beginning of such fiscal year to the end of such quarterly period. All such financial statements shall be prepared in accordance with GAAP applied on a consistent basis and be certified by the Purchaser's Chief Financial Officer (and Chief Accounting Officer after such Chief Accounting Officer is appointed). For the avoidance of doubt, if such financial statements are prepared in accordance with IFRS, the Purchaser shall provide a reconciliation of such financial statements to U.S. GAAP, and shall cause such reconciliation to be reviewed by the firm serving as the Purchaser's independent public accountants at such time.

(ii) As soon as available but in any event not later than sixty (60) days after the end of each fiscal year of the Purchaser, the unaudited consolidated balance sheets of the Purchaser and its Subsidiaries as of the end of fiscal year and the related consolidated statements of operations, equity and cash flows of the Purchaser and its Subsidiaries for the fourth quarterly period of such fiscal year. All such financial statements shall be prepared in accordance with GAAP applied on a consistent basis and be certified by the Purchaser's Chief Financial Officer (and Chief Accounting Officer after such Chief Accounting Officer is appointed). For the avoidance of doubt, if such financial statements are prepared in accordance with IFRS, the Purchaser shall provide a reconciliation of such financial statements to U.S. GAAP, and shall cause such reconciliation to be reviewed by the firm serving as the Purchaser's independent public accountants at such time.

(iii) As soon as available, but in any event no later than ninety (90) days after the end of each fiscal year of the Purchaser, a copy of the audited consolidated balance sheets of the Purchaser and its Subsidiaries as of the end of such fiscal year and the related consolidated statements of operations, equity and cash flows of the Purchaser and its Subsidiaries stating in comparative form the figures as of the end of and for the previous fiscal year certified by a firm of independent certified public accountants of recognized international standing selected by the Purchaser and approved by the Purchaser's equityholders. All such financial statements shall be prepared in accordance with GAAP applied on a consistent basis and be certified by the Purchaser's Chief Financial Officer (and Chief Accounting Officer after such Chief Accounting Officer is appointed). For the avoidance of doubt, if such financial statements are prepared in accordance with IFRS, the Purchaser shall provide a reconciliation of such financial statements to U.S. GAAP, and shall cause such reconciliation to be reviewed by the firm serving as the Purchaser's independent public accountants at such time.

(iv) As soon as available but in any event not later than sixty (60) days after the end of each quarterly accounting period,

(A) explanations for any significant movements from the prior quarter in each of the unaudited consolidated balance sheets and statements of income, equity and cash flows in conjunction with this Section 9.2, and (B) operating metrics relevant to the Purchaser's businesses and used by the Purchaser's management for decision-making purposes (excluding any Highly Sensitive Information) (clauses (i) through (iv) collectively, the "Purchaser Financial Information").

During such period, the Seller's external auditors shall have the right to conduct, at the Seller's own cost, periodic reviews of the quarterly financial information provided pursuant to Sections 9.2(a)(i) and (ii) above. Any such review shall be conducted by an independent, external internationally recognized firm of the Seller's choice with appropriate qualifications and experience in the PRC conducting reviews of this nature. Before beginning its review, the firm selected by the Seller to conduct the review shall execute a confidentiality agreement with the Purchaser, the terms of which shall not frustrate or impede the purpose of the review or the disclosure of the results thereof to the Seller. The auditors shall create a detailed written report of the results and findings of each review, and simultaneously provide copies of the report to both the Seller and the Purchaser. The auditor's report shall limit the disclosure to the Seller of information reviewed in connection with the review to the conclusions of the reviews, the determination of the auditor in connection therewith, and the basis for such conclusions.

(b) Without limiting the provisions of Section 9.2(a), during the period commencing upon the first date on which any of the Purchaser or a Subsidiary of the Purchaser is party to an SME Loan Know-How License Agreement and terminating on January 1, 2018, the Purchaser shall, and shall cause each of its Subsidiaries to, maintain true books and records of account in which full and correct entries shall be made for the purpose of supporting and documenting the accuracy of the payments to be made pursuant to the SME Loan Know-How License Agreements as reasonably necessary to confirm the Purchaser's compliance with the payment provisions of the SME Loan Know-How License Agreements. All such books and records will be retained at the Purchaser's, or its applicable Subsidiary's, principal place of business for a period of at least three (3) years after the payments to which they pertain have been made. The Purchaser's, or its applicable Subsidiary's, books and records will be open for inspection and review (as set forth in this Section 9.2(b)) by the Seller, the Alibaba Independent Committee, and their Representatives, during such three (3)-year period for the purpose of verifying the accuracy of the payments made, and the Purchaser's, or its applicable Subsidiary's, compliance with, the payment provisions of the SME Loan Know-How License Agreements.

(i) The Seller's external auditors shall have the right to conduct (and the Seller shall cause the Seller's external auditors to so conduct, including when requested to do so by the Alibaba Independent Committee), at the Seller's own cost, periodic reviews to confirm the Purchaser's compliance with the payment provisions of the SME Loan Know-How License Agreements. Any review conducted pursuant to this Section 9.2(b)(i) shall be conducted by an independent, external internationally recognized firm of the Seller's choice with appropriate qualifications and experience in the PRC conducting reviews of this nature. Before beginning its review, the firm selected by the Seller to conduct the review shall execute a confidentiality agreement with the Purchaser, the terms of which shall not frustrate or impede the purpose of the review or the disclosure of the results thereof to the Seller. The auditors shall create a detailed written report of the results and findings of each review, and simultaneously provide copies of the report to both the Seller and the Purchaser. The auditor's report shall limit the disclosure to the Seller of information reviewed in connection with the review to the conclusions of the reviews, the determination of the auditor in connection therewith, and the basis for such conclusions.

(ii) The Purchaser may dispute the results of a review conducted pursuant to Section 9.2(b)(i), in which case the Purchaser and the Seller shall work together in good faith to resolve such dispute within thirty (30) days of the Seller's demand for compensation or reimbursement arising out of the result of such review. If the Purchaser and the Seller are unable to resolve any such dispute after such thirty (30)-day period, the Purchaser may commence arbitration pursuant to Section 12.8; provided, however, that commencing arbitration will not excuse the Purchaser from paying any amounts due to the Seller under the payment provisions of the SME Loan Know-How License Agreements.

(iii) The Seller will, through its external auditors, conduct reviews under Section 9.2(b)(i) no more than once per year, unless any review reveals any breach by the Purchaser of the payment provisions of the SME Loan Know-How License Agreements, in which case, the Seller may, through its external auditors, conduct one (1) additional review in the following twelve (12) months. The Purchaser shall reasonably cooperate with the Seller's auditors in connection with any review under Section 9.2(b)(i), including by providing the Seller's auditors with access to all financial and accounting books and statements, management and operating data, records, working papers of the Purchaser's auditors (to the extent permitted by such auditors; provided, that the Purchaser shall not withhold any consents necessary to permit the Purchaser's auditors from providing access to such working papers), accounts, financial statements, systems, facilities, operations, and management personnel and other personnel, but only as reasonably necessary for the purposes set forth in Section 9.2(b)(i), and ensure that its personnel cooperate with any such review and all other reasonable requests by the Seller's auditors for additional information or documentation related to such review.

(iv) If any review reveals that the Purchaser overpaid any amount due pursuant to the payment provisions of the SME Loan Know-How License Agreements (except for any portion thereof disputed in good faith), the Seller shall promptly refund the overpayment to the Purchaser. If any review reveals that the Purchaser underpaid or failed to pay in full any amount due pursuant to the payment provisions of the SME Loan Know-How License Agreements (except for any portion thereof disputed in good faith), the Purchaser shall promptly pay the amount of such shortfall to the Seller and reimburse the Seller for the reasonable costs of its external auditor's conduct of the review.

(v) The rights of the Seller and the Alibaba Independent Committee pursuant to this Section 9.2(b) shall terminate upon a Purchaser Qualified IPO if such rights are not permitted by, and are not capable of being preserved (through preferred stock or otherwise) under, applicable Law or applicable listing rules; provided, that the Purchaser shall use its commercially reasonable efforts to cause such rights to be permitted and preserved, including by seeking an exemption under such applicable Law that would permit or otherwise allow such rights to be preserved.

(c) All access to information and reviews provided for in this Section 9.2 shall be during normal business hours following reasonable advance notice to the Purchaser, and in a manner that does not unreasonably interfere with the Purchaser's business operations. Nothing in this Section 9.2 shall require the Purchaser to disclose to the Seller or the Alibaba Independent Committee, or to permit any auditor to disclose to the Seller or the Alibaba Independent Committee, (i) any Highly Sensitive Information; (ii) any information to the extent such disclosure of such information would violate applicable Law; (iii) any information to the extent that disclosure thereof would constitute a breach of an agreement with a third party; or (iv) any information whose disclosure would result in a waiver of any attorney-client privilege.

Section 9.3 Preemptive Rights.

(a) Preemptive Rights for Purchaser Securities.

(i) Following any Issuance arising from a Pre-QIPO Issuance Event and until, but not including, the time of the Purchaser Qualified IPO, if the Purchaser proposes to sell any Equity Securities of the Purchaser (the "Additional Purchaser Securities"), the Purchaser shall, no later than thirty (30) days prior to issuing such Additional Purchaser Securities (or in the case of any marketed offering prior to the Purchaser Qualified IPO or Alipay Qualified IPO, as appropriate, no later than the earlier of thirty (30) days prior to issuing such Additional Purchaser Securities and ten (10) days prior to the printing of the preliminary prospectus in connection with such offering), notify the Seller in writing of such proposed issuance (which notice shall specify, to the extent practicable, the purchase price or a range for the purchase price, if any, for, and the terms and conditions of, such Additional Purchaser Securities) and shall offer to sell such Additional Purchaser Securities to the Seller in the amounts set forth in Section 9.3(a)(iii) or Section 9.3(a)(iv), as applicable, and subject to Section 9.3(d), upon the terms and conditions set forth in the notice and at the Additional Securities Purchase Price as provided in Section 9.3(c) (the "Preemptive Rights for Purchaser Securities").

(ii) If the Seller wishes to subscribe for a number of Additional Purchaser Securities equal to or less than the number to which they are entitled under this Section 9.3(a), the Seller may do so (by itself or by causing such Person(s) to which it would be permitted to Transfer Equity Securities pursuant to Section 9.7 to subscribe for all or a portion of such Additional Purchaser Securities) and shall, in the written notice of exercise of the offer, specify the number of Additional Purchaser Securities that it (or each of such Person(s)) wishes to purchase.

(iii) With respect to Additional Purchaser Securities that are Purchaser Equity or equivalent equity interests of the Purchaser, the Purchaser shall offer to the Seller a number of such Additional Purchaser Securities, such that, after giving effect to the proposed issuance (including the issuance to the Seller pursuant to the Preemptive Rights for Purchaser Securities), the Seller's Ownership Interest in Purchaser after such issuance would equal the Seller's Ownership Interest in Purchaser immediately prior to such issuance, such number of Additional Purchaser Securities set forth in this Section 9.3(a)(iii), to constitute the "Preemptive Amount of Purchaser Securities" for the Seller for purposes of any exercise of its Preemptive Rights for Purchaser Securities to which this Section 9.3(a)(iii) applies. If, at the time of the determination of any Preemptive Amount of Purchaser Securities under this Section 9.3(a)(iii), any other Person has preemptive or other equity purchase rights similar to the Preemptive Rights for Purchaser Securities, such Preemptive Amount of Purchaser Securities shall be recalculated to take into account the amount in RMB or the number of equivalent equity interests reflecting the Ownership Interest in the Purchaser of such Persons that such Persons have committed to purchase, rounding down such Preemptive Amount of Purchaser Securities to the nearest whole such security of the Purchaser that is proposed for sale.

(iv) With respect to Additional Purchaser Securities that are Equity Securities and not Purchaser Equity nor equivalent equity interests of the Purchaser, the Purchaser shall offer to the Seller, all or any portion specified by the Seller, of a number of such securities equal to the total number of such Additional Purchaser Securities proposed to be sold, multiplied by the Seller's Ownership Interest in Purchaser at such time (which number shall constitute the Preemptive Amount of Purchaser Securities for purposes of any exercise of Preemptive Rights for Purchaser Securities to which this Section 9.3(a)(iv) applies). If, at the time of the determination of any Preemptive Amount of Purchaser Securities under this Section 9.3(a)(iv), any other Person has preemptive or other equity purchase rights similar to the Preemptive Rights for Purchaser Securities, such Preemptive Amount of Purchaser Securities shall be recalculated to take into account the number of such securities such Persons have committed to purchase, rounding down such Preemptive Amount of Purchaser Securities to the nearest whole such security of the Purchaser that is proposed for sale.

(b) Preemptive Rights for Alipay Securities.

(i) Subject to Section 9.3(b)(ii), following any Issuance arising from a Pre-QIPO Issuance Event and until, but not including, the earlier of the Purchaser Qualified IPO and the Alipay Qualified IPO, if Alipay proposes to issue any Equity Securities of Alipay to any Person other than the Purchaser (the "Additional Alipay Securities," together with Additional Purchaser Securities, the "Additional Securities"), Alipay shall, at least thirty (30) days prior to issuing such Additional Alipay Securities, notify the Seller in writing of such proposed issuance (which notice shall specify, to the extent practicable, the purchase price or a range for the purchase price, if any, for, and the terms and conditions of, such Additional Alipay Securities) and shall offer to sell such Additional Alipay Securities to the Seller in the amounts set forth in Section 9.3(b)(iv) or Section 9.3(b)(v), as applicable, and subject to Section 9.3(e), upon the terms and conditions set forth in the notice and at the Additional Securities Purchase Price as provided in Section 9.3(c) (the "Preemptive Rights for Alipay Securities" and together with the Preemptive Rights for Purchaser Securities, the "Preemptive Rights").

(ii) Any issuance of Additional Alipay Securities subject to the Preemptive Rights for Alipay Securities is subject to and conditioned upon either (A) receipt of approval by the PBOC (or non-objection by the PBOC following submission to the PBOC and a reasonable time for the PBOC's review and comment) to the Seller's ownership of the Additional Alipay Securities to be issued to the Seller or a Subsidiary of the Seller pursuant to the Preemptive Rights for Alipay Securities, or (B) Alipay's agreement to deliver to the Seller alternative arrangements, which may include synthetic equity, indirect holding structures, or use of other rights of value, in each case to provide similar benefits and burdens to the Seller as it would have if it owned Additional Alipay Securities to the extent permitted under applicable Law, and which alternative arrangements are permitted by the PBOC and reasonably acceptable to the Alibaba Independent Committee.

(iii) If the Seller wishes to subscribe for a number of Additional Alipay Securities equal to or less than the number to which they are entitled under this Section 9.3(b), the Seller may do so (by itself or by causing such Person(s) to which it would be permitted to Transfer Equity Securities pursuant to Section 9.7 to subscribe for all or portion of such Additional Alipay Securities) and shall, in the written notice of exercise of the offer, specify the number of Additional Alipay Securities that it (or each of such Person(s)) wishes to purchase.

(iv) With respect to Additional Alipay Securities that are registered capital or equivalent equity interests of Alipay, Alipay shall offer to the Seller a number of such Additional Alipay Securities, such that, after giving effect to the proposed issuance (including the issuance to the Seller pursuant to the Preemptive Rights for Alipay Securities) and including any related issuance resulting from the exercise of preemptive rights by any unrelated Person with respect to the same issuance that gave rise to the Seller's exercise of the Preemptive Rights for Alipay Securities, the Seller's Ownership Percentage of Alipay after such issuance would equal the Seller's Ownership Percentage of Alipay immediately prior to such issuance, such number of Additional Alipay Securities set forth in this Section 9.3(b)(iv) to constitute the "Preemptive Amount of Alipay Securities" for the Seller for purposes of any exercise of its Preemptive Rights for Alipay Securities to which this Section 9.3(b)(iv) applies. If, at the time of the determination of any Preemptive Amount of Alipay Securities under this Section 9.3(b)(iv), any other Person has preemptive or other equity purchase rights similar to Preemptive Rights for Alipay Securities, such Preemptive Amount of Alipay Securities shall be recalculated to take into account the amount in RMB of the registered capital of Alipay or the number of equivalent equity interests of Alipay of such Persons that such Persons have committed to purchase, rounding down such Preemptive Amount of Alipay Securities to the nearest whole such security of Alipay that is proposed for sale.

(v) With respect to Additional Alipay Securities that are Equity Securities and not registered capital nor equivalent equity interests, Alipay shall offer to the Seller, all or any portion specified by the Seller, of a number of such securities equal to the total number of such Additional Alipay Securities proposed to be sold, multiplied by the Seller's Ownership Percentage of Alipay at such time (which number shall constitute the "Preemptive Amount of Alipay Securities" for purposes of any exercise of Preemptive Rights for Alipay Securities to which this Section 9.3(b)(v) applies). If, at the time of the determination of any Preemptive Amount of Alipay Securities under this Section 9.3(b)(v), any other Person has preemptive or other equity purchase rights similar to the Preemptive Rights for Alipay Securities, such Preemptive Amount of Alipay Securities shall be recalculated to take into account the number of such securities such Persons have committed to purchase, rounding down such Preemptive Amount of Alipay Securities to the nearest whole such security of Alipay that is proposed for sale.

(c) Purchase Price. The “Additional Securities Purchase Price” for the Additional Securities to be issued pursuant to the exercise of the Preemptive Rights shall be payable only in cash (unless otherwise unanimously agreed by the Seller and the Purchaser or by the Seller and Alipay, as applicable), and shall equal per Additional Security the per security issuance price for the Additional Securities giving rise to such Preemptive Right.

(d) Exercise Period. The Preemptive Rights set forth in this Section 9.3 must be exercised by acceptance in writing of any offer referred to in Section 9.3(a)(i) or Section 9.3(b)(i), (i) within thirty (30) days following the receipt of the notice from the Purchaser of its intention to sell Purchaser Equity Securities or from Alipay of its intention to sell Alipay Equity Securities, and (ii) in connection with any marketed offering (prior to the Purchaser Qualified IPO or Alipay Qualified IPO, as appropriate) of the Purchaser or Alipay, at least five (5) Business Days prior to the printing of the preliminary prospectus in connection with such offering; provided, that, in the case of clauses (i) and (ii), such acceptance shall indicate a willingness to purchase at the same per equity interest price at which such securities are sold to the public (less underwriting fees and discounts, which difference shall be shared equally by the Seller and the Purchaser, or the Seller and Alipay, as applicable) and may specify a maximum and/or minimum per equity interest price that such offeree is willing to pay for such Equity Securities. The closing of any purchase of Additional Purchaser Securities or Additional Alipay Securities pursuant to the exercise by the Seller of its Preemptive Rights for Purchaser Securities or Preemptive Rights for Alipay Securities, as applicable, hereunder shall occur within sixty (60) days after delivery of the notice by the Purchaser as provided in Section 9.3(a)(i) or by Alipay as provided in Section 9.3(b)(i), subject to the receipt of any necessary Governmental Approvals to which the issuance of the Additional Purchaser Securities or the Additional Alipay Securities, as applicable, is subject; provided, that such sixty (60)-day period shall be extended automatically as necessary to apply for and obtain any Governmental Approvals that are required to consummate such purchase, so long as the Seller is making good faith efforts to obtain such Governmental Approvals as soon as practicable in accordance with applicable Law. If there is any such extension, the relevant period will end on the fifth (5th) Business Day following the receipt of such Governmental Approvals.

(e) Termination of Rights. The Preemptive Rights for Purchaser Securities and the Preemptive Rights for Alipay Securities shall not be exercisable with respect to the Purchaser Qualified IPO, and shall terminate (if not already terminated pursuant to the following sentence) upon, and be of no force and effect from and after, the completion of the Purchaser Qualified IPO. The Preemptive Rights for Alipay Securities shall not apply to the Alipay Qualified IPO and shall terminate (if not already terminated pursuant to the previous sentence) upon, and be of no force and effect after, the earlier of the Purchaser Qualified IPO or the Alipay Qualified IPO.

Section 9.4 Certain Transactions.

(a) Until the earlier of the Purchaser Qualified IPO and the end of the Independent Director Ownership Period, without the prior consent of the Independent Director, the Purchaser shall not, and shall cause its Subsidiaries not to:

(i) enter into, modify, terminate or effect any agreement or transaction (other than any modification of the Transaction Agreements and the transactions contemplated thereby subject to Section 12.2(a)) between the Purchaser and/or its controlled Affiliates, on the one hand, and any Related Party, on the other hand, other than:

(A) any issuance of Equity Securities of the Purchaser or its Subsidiaries that is subject to Section 9.3,

(B) any issuance of Equity Securities of the Purchaser pursuant to any equity or incentive plan of the Purchaser (x) that has been previously approved by the Independent Director or (y) which issuance does not result in a reduction of the Seller's Ownership Interest in Purchaser (after taking into account any concurrent corrective action, including an issuance of Equity Securities to the Seller that would not be deemed to be an exercise of Preemptive Rights pursuant to Section 9.3),

(C) any issuance of Equity Securities of any Subsidiary of the Purchaser pursuant to any equity or incentive plan duly approved by the board of directors or other governing body of such Subsidiary, subject to Section 9.3(b) in the case of Alipay,

(D) any compensation arrangement entered into in the ordinary course of a Related Party's (other than of JM's and JT's) employment by or service on the board of directors of the Purchaser or its Subsidiaries and

(E) the Purchaser Qualified IPO; or

(ii) propose to the Seller any annual "Approved Fee Rate" as defined in and pursuant to the 2011 Commercial Agreement;

provided, that any Independent Director designated pursuant to Section 9.1(c)(iii) shall not have the power to approve any matter set forth in Section 9.4(a)(i).

(b) Prior to the occurrence of Issuances resulting, in the aggregate, in an Issuance Percentage of 100%, without the prior consent of the Alibaba Independent Committee:

(i) Alipay will not issue any Equity Securities other than in an Alipay Qualified IPO, and the Purchaser will not otherwise permit any IPO of Alipay other than an Alipay Qualified IPO ;

(ii) the Purchaser will not Transfer any Equity Securities of Alipay directly or indirectly held by the Purchaser; and

(iii) the Purchaser will not undertake, and the Purchaser and the Management Holdcos will not otherwise permit, any IPO of the Purchaser other than a Purchaser Qualified IPO.

(c) Following the earliest occurrence of any Issuance, without the prior consent of the Alibaba Independent Committee, the Seller shall not, and shall not permit any of its Subsidiaries (which, for the avoidance of doubt, shall not include the Purchaser or any of its Subsidiaries) to:

- (i) elect not to exercise, or fail to exercise, wholly or in part, its Preemptive Rights pursuant to Section 9.3; or
- (ii) voluntarily Transfer any Equity Securities of the Purchaser or Alipay directly or indirectly held by the Seller.

(d) Without the prior consent of the Alibaba Independent Committee, the Purchaser shall not voluntarily Transfer any Equity Securities of Alipay.

Section 9.5 Change of Control. Following the earliest occurrence of any Issuance until the earlier of the Purchaser Qualified IPO and the end of the Independent Director Ownership Period, without the prior consent of the Seller, none of JM, JT, the Management Holdcos or the Purchaser shall enter into, effect or give effect to any Transfer of Equity Securities of the Purchaser or other transaction if, to his or its knowledge after due inquiry, immediately following such transaction, an individual or group (other than JM (or his successor, in the case of JM's death or incapacity), other members of management or employees of the Purchaser or its Subsidiaries, the Management Holdcos, and Seller, directly or indirectly) would acquire Beneficial Ownership of Equity Securities of the Purchaser representing more than fifty percent (50%) of the voting or economic rights in, or assets of, the Purchaser, it being understood that, without limitation, the applicable proposed Transferor party shall have satisfied his or its obligation of due inquiry if each Transferee party in such Transfer has given an enforceable representation and warranty to each Transferor party to the effect that such individual or group would not, as a result of such Transfer or any other pending or agreed Transfer, acquire Beneficial Ownership of Equity Securities of the Purchaser representing more than fifty percent (50%) of the voting or economic rights in, or assets of, the Purchaser. Actions taken and agreements made by JM, JT, the Management Holdcos or the Purchaser not consistent with this Section 9.5 shall be null and void *ab initio*.

Section 9.6 Cross-ownership of Equity Securities by Employees of the Seller and the Purchaser. In order to encourage mutually beneficial cooperation between the Seller and the Purchaser:

(a) The Purchaser may, without further board of directors or third-party approvals, subject to compliance with applicable Law, grant to the employees of the Seller and the Seller's Subsidiaries up to 20% of the total value of the pool of Purchaser Equity Securities that it has reserved from time to time for employees generally.

(b) The Seller may, without further board of directors or third-party approvals, subject to compliance with applicable Law, grant to the employees of the Purchaser and the Purchaser's Subsidiaries up to 20% of the total value of the pool of Seller Equity Securities that it has reserved from time to time for employees generally, the aggregate size of which has been approved by the Alibaba Independent Committee.

(c) The Purchaser and the Seller shall cooperate and use their good faith efforts to maintain parity and equitable treatment with respect to such grants.

Section 9.7 Transfer Restrictions. Following the first occurrence of any Issuance, neither of the Seller, on the one hand, nor Junao Management Holdco and Junhan Management Holdco, on the other hand, shall Transfer any Purchaser Equity Securities Beneficially Owned by it except pursuant to one of the following provisions:

(a) Transfers to Subsidiaries. At any time, the Seller, on the one hand, and the Management Holdcos, on the other hand, (or their Subsidiaries) (each, to the extent that it owns Equity Securities of the Purchaser, a “Purchaser Equityholder” and “Purchaser Equity Transferor”) may transfer their Equity Securities of the Purchaser to any wholly-owned Subsidiary of such Purchaser Equityholder; provided, however, that such transferee shall at all times continue to be a wholly-owned Subsidiary and that such transferee becomes a party to this Agreement pursuant to an instrument satisfactory to the Seller’s and the Management Holdcos’ Representative; and provided, further, that if, at any time, such transferee ceases to be a wholly-owned Subsidiary of such Purchaser Equityholder, it shall immediately return all of the Equity Securities of the Purchaser received under this Section 9.7(a) to such Purchaser Equityholder. For the avoidance of doubt, and subject to Section 9.5, no transfer of Equity Securities of the Seller or of either Management Holdco shall be deemed to be a Transfer of Equity Securities of the Purchaser, provided that a Transfer of Equity Securities of a Management Holdco that results in a change of control of such Management Holdco shall constitute a Transfer of the Purchaser Equity Securities Beneficially Owned by such Management Holdco.

(b) Right of First Refusal. Following the first occurrence of any Issuance:

(i) If, from time to time, a Purchaser Equityholder proposes to Transfer any Equity Securities owned by that Purchaser Equityholder to a specific Person other than the other Purchaser Equityholder (a “Proposed Transferee”), then prior to consummating such Transfer, the Purchaser Equity Transferor shall deliver a written notice (the “Offer Notice”) to the other Purchaser Equityholder (the “Offeree”), setting forth the identity of the Proposed Transferee, its *bona fide* intention to Transfer Equity Securities of the Purchaser to such Proposed Transferee, the number and type of Equity Securities of the Purchaser to be Transferred (the “Purchaser Subject Equities”), the total consideration (including the amount and form thereof) for which such Proposed Transferee has offered to acquire, or such Purchaser Equityholder has offered to sell to such Proposed Transferee the Purchaser Subject Equities (the “Offer Price”), and any other terms of the proposed Transfer.

(ii) The Offer Notice shall constitute, for a period of fifteen (15) days from the date on which it shall have been deemed given, an irrevocable and exclusive offer to sell to the Offeree (or any direct or indirect wholly-owned Subsidiary designated by the Offeree), at the Offer Price, all or a portion of the Purchaser Subject Equities.

(iii) The Offeree (or a designated direct or indirect wholly-owned Subsidiary thereof) may accept the offer set forth in an Offer Notice by giving notice to the Purchaser Equity Transferor, prior to the expiration of such offer, specifying the number of the Purchaser Subject Equities that the Offeree wishes to purchase. The Offeree may exercise the right to purchase all or a portion of the Purchaser Subject Equities pursuant to this Section 9.7(b) by causing such Person(s) to which the Offeree would be permitted to Transfer Equity Securities of the Purchaser pursuant to Section 9.7(a) to purchase all or portion of the Purchaser Subject Equities directly from the Purchaser Equity Transferor, if so specified in the notice given to the Purchaser Equity Transferor pursuant to this Section 9.7(b)(iii). Any offer accepted by the Management Holdcos as Offeree shall be apportioned between the Management Holdcos as they mutually determine in their sole discretion.

(iv) If the Offeree agrees to purchase any or all of the Purchaser Subject Equities pursuant to this Section 9.7(b), it shall pay in cash or immediately available funds for, and the Purchaser Equity Transferor shall deliver valid title, free and clear of any Encumbrance, to, such Purchaser Subject Equities, subject to receipt of any necessary or advisable third-party approvals or any Governmental Approvals, within fifteen (15) days following completion of the procedures set forth in Section 9.7(b)(ii) or such longer period as is required to obtain any necessary or advisable third-party approvals or Governmental Approvals.

(v) If the offers made by the Purchaser Equity Transferor to the Offeree pursuant to Section 9.7(b)(ii) expire without an agreement by the Offeree to purchase all of the Purchaser Subject Equities, the Purchaser Equity Transferor shall have thirty (30) days following such expiry to enter into a definitive agreement with the Proposed Transferee with respect to such Transfer and, if such agreement is timely entered into, sixty (60) days following the date of that agreement to effect the Transfer of the balance of the Purchaser Subject Equities to the Proposed Transferee, for cash, at a price not less than the Offer Price, and upon terms not otherwise more favorable to the transferee or transferees than those specified in the Offer Notice, subject to the execution and delivery by such third party of an assignment and assumption agreement, in form and substance satisfactory to the other Purchaser Equityholders, pursuant to which such third party shall assume all of the obligations of a party pursuant to or under this Agreement. In the event that the Purchaser Equity Transferor has not entered into a definitive agreement with the Proposed Transferee within such (30)-day period or such Transfer is not consummated within such sixty (60)-day period, the Purchaser Equity Transferor shall not be permitted to sell its Purchaser Equity Securities pursuant to this Section 9.7(b) without again complying with each of the requirements of this Section 9.7(b); provided, that such sixty (60)-day period should be extended automatically as necessary to apply for and obtain any Governmental Approvals that are required to consummate such Transfer, so long as the Purchaser Equity Transferor is making good faith efforts to obtain such Governmental Approvals as soon as practicable in accordance with applicable Law. If there is such extension, the relevant period will end on the fifth (5th) Business Day following the receipt of such Governmental Approvals.

(vi) The right of first refusal held by the Seller pursuant to this Section 9.7(b) shall be freely assignable, in connection with any specific Transfer, to the extent that the Seller could not exercise such right without exceeding any applicable regulatory threshold. The right of first refusal held by each Management Holdco shall be freely assignable to any Person that controls, is controlled by, or is under common control with, such Management Holdco.

(vii) The provisions of this Section 9.7(b) shall not be exercisable with respect to, and shall terminate upon, and be of no force and effect from and after, the completion of the Purchaser Qualified IPO.

(c) Transfers to Non-PRC Persons. Prior to the occurrence of Issuances resulting, in the aggregate, in an Issuance Percentage of 100%, none of JM, JT, the Management Holdcos, the Purchaser or Alipay shall enter into, effect or give effect to any Transfer of Equity Securities of the Purchaser or Alipay or other transaction if, to his or its knowledge after due inquiry, immediately following such transaction, any Person other than a PRC Person would acquire Beneficial Ownership of Equity Securities of the Purchaser or of Alipay, it being understood that the applicable proposed Transferor party shall have satisfied his or its obligation of due inquiry if each Transferee party in such transaction has given an enforceable representation and warranty to each Transferor party to the effect that it is a PRC Person. Actions taken and agreements made by JM, JT, the Management Holdcos, the Purchaser or Alipay not consistent with this Section 9.7 shall be null and void *ab initio*.

Section 9.8 IPO.

(a) Restructuring. Following the earliest occurrence of any Issuance, if, for any reason, a restructuring of the Purchaser's Equity Securities, including any stock split or reverse stock split, share exchange, merger or share or equity interest conversion, or of the Purchaser and its Subsidiaries is required in order to effect the Purchaser Qualified IPO, such restructuring shall be conducted in a manner that results in the Seller and its Subsidiaries holding equity interests of the entity that is to issue equity interests in the Purchaser Qualified IPO (and equity interests of any other entity that is not a Subsidiary of such entity succeeding to or acquiring any material assets or operations of the Purchaser in such restructuring) having equivalent value and voting power as the Equity Securities of Purchaser held by the Seller and its Subsidiaries immediately prior to such restructuring.

(b) Participation Right. Following the earliest occurrence of any Issuance, if the Purchaser proposes to effect the Purchaser Qualified IPO or Alipay proposes to effect the Alipay Qualified IPO, the Purchaser or Alipay, as applicable, shall give the Seller written notice of its intent to do so as soon as reasonably practicable, at a time leaving the Seller a reasonable opportunity to comply with any applicable Law in connection with its exercise of the right described in this Section 9.8(b), and in any event not less than thirty (30) Business Days prior to the contemplated publication or public filing of the prospectus for such offering. Within fifteen (15) Business Days following the delivery of such notice, the Seller may, at the sole discretion of the Alibaba Independent Committee, by notice to the Purchaser or Alipay, as applicable, irrevocably commit to sell a number of equity interests of Purchaser or Alipay up to the number of equity interests the Seller and its Subsidiaries own directly in the Purchaser or Alipay, as applicable, and the Purchaser or Alipay, as applicable, shall include in the Purchaser Qualified IPO or the Alipay Qualified IPO, as applicable, such number of equity interests as specified in such notice; provided, that if the managing underwriter of such Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, in good faith shall have advised the Purchaser or Alipay, as applicable, that, in its opinion, the inclusion in the offering of the number of equity interests committed to be sold by the Seller in accordance with this Section 9.8(b) would adversely affect the price or success of the offering, the Purchaser or Alipay, as applicable, shall include in the offering only such number of equity interests as the Purchaser or Alipay, as applicable, is advised can be sold in such offering without such an effect provided that any reduction in equity interests to be included in the offering shall be effected in the following order of priority: (i) first, equity interests that the Purchaser or Alipay, as applicable, proposes to offer for its own account; (ii) second, equity interests that the Seller and its Subsidiaries have committed to sell in the offering; and (iii) third, any equity interests that other equityholders have requested to be sold in such offering.

(c) Cooperation. If requested by the managing underwriter in a Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, following the earliest occurrence of any Issuance, the Seller shall, and shall cause its Subsidiaries to, agree not to effect any transfer of Equity Securities of the Purchaser or Alipay, as applicable, other than as part of the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, during a lock-up period for the longer of (i) any statutory lock-up period and (ii) a period that the managing underwriter reasonably determines to be customary for major stockholders in a large initial public offering after consultation with the Seller; provided, that in the case of clause (ii), such lock-up period is not longer than, and shall expire no later than the expiration of, any lock-up period required to be agreed to by any other seller of Equity Securities of the Purchaser or Alipay, as applicable, in the offering (including any management seller) that is expected to sell shares constituting more than 20% of the aggregate shares to be offered in the offering. If the Seller or any of its Subsidiaries is selling equity interests in the Purchaser Qualified IPO or Alipay Qualified IPO, as applicable, the Seller and such Subsidiaries shall enter into customary underwriting and other agreements and documentation in connection with such offering on terms substantially similar to those applicable to the Purchaser or Alipay, as applicable, and furnish to the Purchaser or Alipay, as applicable, such information regarding the Seller and its intended method of distribution of the equity interests to be sold as the Purchaser may from time to time reasonably request in order to comply with Purchaser's obligations under all applicable securities and other Laws and to ensure that the prospectus or other offering documents conform to applicable securities and other Laws. If the Seller or any of its Subsidiaries is selling equity interests in the Purchaser Qualified IPO or Alipay Qualified IPO, the Purchaser shall fully cooperate with the marketing of the equity interests to be sold in the offering, including the equity interests to be sold by the Seller and its Subsidiaries, including, at the recommendation or request of the managing underwriter, making its officers available to participate in "road show," "one on one" and other customary marketing activities in such locations as recommended by the managing underwriter. All costs and expenses incurred by the Purchaser or Alipay in the Purchaser Qualified IPO or Alipay Qualified IPO shall be borne by the Purchaser or Alipay, as applicable.

Section 9.9 Business Scope.

(a) The Purchaser. During the Business Scope Period and, if later, for the duration of the Total Term (as defined in the Data Sharing Agreement), the Purchaser shall, and shall cause its Subsidiaries not to, without the prior written consent of the Seller (which consent must be approved by the Alibaba Independent Committee), directly or indirectly engage in, enter into, or participate in the Seller Business as an owner, partner or principal (including by means of any arrangements that function similarly to equity interests), or otherwise compete with the Seller in the Seller Business; provided, that the Purchaser and its Subsidiaries shall be permitted to engage in activities and make investments as provided in clauses (i) through (v) below.

(i) Shared Businesses. The Purchaser and its Subsidiaries may, from time to time, directly or indirectly engage in, enter into or participate in the businesses set forth on Schedule 9.9 of the Purchaser Disclosure Schedules.

(ii) Competing Business Investments. The Purchaser and its Subsidiaries may, from time to time, make Permitted Purchaser Competing Business Investments, and thereafter participate as an owner, partner or principal, in the investee businesses regardless of whether they compete with the Seller Business. A "Permitted Purchaser Competing Business Investment" is a passive investment (including in Equity Securities and/or debt securities or instruments) that:

(A) (1) is an investment in a publicly traded company, (2) does not result in the Purchaser and its Subsidiaries Beneficially Owning more than twenty percent (20%) of the equity interests of such company, and (3) is in an amount that, together with any amounts previously invested in such company (and not sold or disposed of) by the Purchaser and its Subsidiaries, does not exceed one hundred million U.S. Dollars (US\$100,000,000) (the limitations of clauses (2) and (3) together, the "Type I Investment Threshold"); or

(B) (1) is an investment in a company that is not publicly traded and (2) does not exceed the Type I Investment Threshold; provided, that the Purchaser first complies with the Opportunity Offer Process set forth in Section 9.9(c).

(iii) New Business Investments. The Purchaser and its Subsidiaries may, from time to time, make Permitted Purchaser New Business Investments in, and thereafter participate as an owner, partner or principal in, any business that is engaged in neither the Seller Business nor the Purchaser Business. A "Permitted Purchaser New Business Investment" is a passive investment (including in Equity Securities and/or debt securities or instruments) that:

(A) (1) is an investment in a publicly traded company and (2) does not exceed the Type I Investment Threshold;

(B) (1) is an investment in a publicly traded company and (2) does exceed the Type I Investment Threshold; provided, that the Purchaser first complies with the Opportunity Offer Process;

(C) (1) is in a company that is not publicly traded, (2) does not result in the Purchaser and its Subsidiaries Beneficially Owning more than twenty percent (20%) of the equity interests of such company, and (3) is in an amount that, together with any amounts previously invested in such company (and not sold or disposed of) by the Purchaser and its Subsidiaries, does not exceed Fifty Million U.S. Dollars (US\$50,000,000) in investment amount (the limitations of clauses (2) and (3) together, the "Type II Investment Threshold");

(D) (1) is in a company that is not publicly traded, and (2) does exceed the Type II Investment Threshold; provided, that the Purchaser first complies with the Opportunity Offer Process; or

(E) (1) is held on behalf of one or more clients by the Purchaser or its Subsidiaries, including in a brokerage, deposit or custodial capacity; or (2) is an investment in a publicly traded company held in the ordinary course of business by any mutual fund, hedge fund or other investment fund managed by the Purchaser or its Subsidiaries and in which no more than five percent (5%) of the assets under management are held for the account of the Purchaser and its Subsidiaries; or (3) is an ordinary course portfolio investment of an insurance business of the Purchaser or its Subsidiaries.

(iv) No Exit Obligation. If the Purchaser first engages in, enters into, participates in, or invests in any of the businesses at a time when it is not prohibited from doing so pursuant to the other provisions of this Section 9.9(a), the Purchaser shall be permitted to continue to engage or participate in such businesses notwithstanding any such prohibition arising after such time, including as a result of subsequent changes to the scope of the Seller Business.

(b) The Seller. During the Business Scope Period and for the duration of the Total Term (as defined in the Data Sharing Agreement), the Seller shall, and shall cause its Subsidiaries not to, without the prior written consent of the Purchaser, directly or indirectly engage in, enter into, or participate in the Purchaser Business as an owner, partner or principal (including by means of any arrangements that function similarly to equity interests), or otherwise compete with the Purchaser in the Purchaser Business; provided, that the Seller and its Subsidiaries shall be permitted to engage in activities and make investments as provided in clauses (i) through (iv) below.

(i) Shared Businesses. The Seller and its Subsidiaries may, from time to time, directly or indirectly engage in, enter into or participate in the businesses set forth on Schedule 9.9 of the Seller Disclosure Schedules.

(ii) Competing Business Investments. The Seller and its Subsidiaries may, from time to time, make Permitted Seller Competing Business Investments, and thereafter participate as an owner, partner or principal, in the investee businesses regardless of whether they compete with the Purchaser Business. A "Permitted Seller Competing Business Investment" is a passive investment (including in Equity Securities and/or debt securities or instruments) that:

(A) (1) is an investment in a publicly traded company and (2) does not exceed the Type I Investment Threshold (substituting "Seller" for "Purchaser" in the definition thereof); or

(B) (1) is an investment in a company that is not publicly traded and (2) does not exceed the Type I Investment Threshold; provided, that the Seller first complies with the Opportunity Offer Process.

(iii) Non-Exclusivity. The Seller and its Subsidiaries may, from time to time, enter into and perform contracts and agreements with third Persons for the provision or procurement of payment services and other financial services and products, including (A) sharing of data subject and pursuant to the Data Sharing Agreement and (B) as set forth in Section 2.6 of the 2011 Commercial Agreement.

(iv) SME Loan Business. Until the earlier of (x) the Closing or (y) the 180th day following the date hereof, the Alibaba Small Loan Company (F50), the Chongqing Loan Company (F51) and 浙江阿里巴巴金融网络科技服务有限公司 (Zhejiang Alibaba Finance Credit Network Technology Co., Ltd.) (together, the “Zhejiang Alibaba Entities”) may operate the Seller’s SME Loan business in the ordinary course of business consistent with past practices. For the avoidance of doubt, following the earlier of (x) the Closing or (y) the 180th day following the date hereof, the Seller shall use its reasonable best efforts to promptly wind down any portion of the Seller’s SME Loan business still owned by the Seller and its Subsidiaries, including the operations of the Zhejiang Alibaba Entities to the extent they are still Subsidiaries of the Seller and the Parties shall make appropriate provisions for the employees of the Seller’s SME Loan business, including the Zhejiang Alibaba Entities, with associated costs to be borne by the Purchaser, it being understood and agreed that as long as the Seller is using reasonable efforts to wind down the operation of the Zhejiang Alibaba Entities to the extent they are still Subsidiaries of the Seller and does not, directly or indirectly, make any new SME Loan, it shall not be deemed to be in breach of this Section 9.9(b).

(c) Opportunity Offer Process. Where the “Opportunity Offer Process” is required under Section 9.9(a) or Section 9.9(b) with respect to any proposed investment in any Person:

(i) the proponent Party shall notify the other Party of the proposed investment promptly after the proponent Party’s internal investment committee (or equivalent decision-making body) authorizes the proponent Party to explore the proposed investment, which notice shall include the presentation and other materials provided to the internal investment committee;

(ii) the proponent Party shall provide a draft of the term sheet and/or draft documentation regarding the investment when initially proposed to or by the counterparty(ies) to such investment, and thereafter once the terms thereof have been substantially negotiated;

(iii) if and when the proponent Party has made a reasonably final determination to proceed with the proposed investment, the proponent Party shall provide notice of such determination to the other Party, including the then-current draft of the term sheet and/or draft documentation;

(iv) the other Party may elect, no later than the later of ten (10) calendar days or five (5) Business Days, to pursue the proposed investment itself; and

(v) if the other Party declines to pursue the proposed investment, does not make any election within the time period specified above, or elects to pursue the proposed investment but subsequently gives notice that it is no longer pursuing the proposed investment or otherwise ceases to actively pursue the proposed investment, the proponent Party may thereafter pursue the proposed investment on terms no more favorable to the proponent Party than those previously offered to the other party hereunder. If the proponent Party thereafter ceases to actively pursue the proposed investment, it will promptly notify the other party of that fact and may not thereafter recommence its pursuit of the proposed investment without first complying again with this Opportunity Offer Process.

(d) During the Business Scope Period, none of JM, JT, or the Management Holdcos shall directly or indirectly engage in, enter into, or participate in the Purchaser Business, other than through the Purchaser and its Subsidiaries.

Section 9.10 Alibaba Independent Committee. As promptly as practicable, and in any event by the 60th day following the date hereof, the Seller shall designate a committee (the "Alibaba Independent Committee") for purposes of this Agreement. The Alibaba Independent Committee shall be comprised of all of those directors, and only those directors, that both (i) are "independent" under the rules of the New York Stock Exchange (or, if the Seller's equity interests are primarily listed on another Recognized Stock Exchange, the rules of such Recognized Stock Exchange) and (ii) are not officers or employees of the Seller; provided, that for the purposes of this Agreement, any individual nominated by SoftBank to the Seller board of directors shall serve as a member of the Alibaba Independent Committee, and, provided further, that for the first year after the date hereof, JT shall be entitled to observe, present to and participate in the meetings of the Alibaba Independent Committee, but shall not be a member of the Alibaba Independent Committee or vote regarding any consent, determination or decision of the Alibaba Independent Committee, it being understood and agreed that, during such first year, subject to applicable Law, the Alibaba Independent Committee shall be permitted to hold, and vote on any matter in, executive sessions with respect to any matters in which the members of the Alibaba Independent Committee reasonably conclude that JT has a direct or indirect conflicting interest and may, after affording JT an opportunity to present on such matters, exclude JT from such executive sessions. The Alibaba Independent Committee composed as described in this Agreement shall remain in existence for so long as any Transaction Document remains in effect under which any consent, determination or decision of the Alibaba Independent Committee is required. Any consents, determinations or decisions of the Alibaba Independent Committee referred to herein shall be made by majority vote.

Section 9.11 Further Assurances.

(a) Notwithstanding any other provision of this Agreement to the contrary, this Agreement shall not constitute an assignment or transfer of any Transferred Equities or Transferred Assets or any claim or right or any benefit arising thereunder or resulting therefrom if an attempted assignment or transfer thereof, without the consent of a third party, would constitute a breach or other contravention thereof or would in any way adversely affect the rights of the Purchaser thereto or thereunder, and such consent has not been obtained on or prior to the date of the applicable transfer. If, as of the date of the applicable transfer, an attempted transfer or assignment of any such Transferred Equities or Transferred Assets would be ineffective or would adversely affect the rights of the Purchaser as a result of a failure to obtain any such consent of a third party so that the Purchaser would not in fact receive all such rights, the Purchaser and the Seller will use their respective reasonable best efforts to (i) obtain such consent and (ii) enter into a mutually agreeable arrangement under which the applicable Party would obtain the benefits and assume the obligations and bear the burdens associated with such Transferred Equities or Transferred Assets, as applicable.

(b) Following an Issuance, in the event that, as a result of any change in Law or any action taken by any Governmental Authority, the Seller or a Subsidiary thereof is required to divest, or is prohibited from owning, any or all of the Equity Securities of the Purchaser acquired by it pursuant to this Agreement, then the Purchaser and the Seller shall, as soon as practicable, negotiate in good faith and use their respective reasonable best efforts to agree on contractual or other alternative arrangements providing, to the extent permitted by applicable Law, the Seller with economic rights and other rights and benefits equivalent to the rights and benefits of ownership of the Equity Securities of the Purchaser that the Seller or its Subsidiary is required to divest or is prohibited from owning. Such contractual or alternative arrangements may include, to the extent agreed by the Purchaser and the Seller in good faith, profit sharing, mandatory liquidity event payments and other arrangements similar to those provided for in the Framework Agreement.

(c) If Issuances resulting, in the aggregate, in an Issuance Percentage of 100% do not occur prior to the Purchaser Qualified IPO, but no Liquidity Event Payment is payable under Section 2.5(a), then (i) the Purchaser shall not permit in connection with any Post-QIPO Issuance Event any Issuance resulting, in the aggregate, in Seller having Beneficial Ownership of 30% or more of the aggregate Ownership Interests in Purchaser absent the prior written consent of the Seller, (ii) if the foregoing clause (i) prevents the Issuance Percentage from reaching 100%, the Parties shall discuss in good faith a process for effecting Issuances resulting, in the aggregate, in an Issuance Percentage of 100% without triggering a mandatory tender offer under the Laws of the PRC and (iii) the Parties shall ensure that any Post-QIPO Issuance complies with applicable Laws.

Section 9.12 Dividends. Prior to the occurrence of Issuances resulting, in the aggregate, in an Issuance Percentage of 100%, neither Purchaser nor any non-wholly owned Subsidiary of Purchaser shall declare or pay any dividends, or repurchase or redeem any Equity Securities, without the consent of the Alibaba Independent Committee.

Section 9.13 Further Covenants.

(a) Maintenance of Existence; Compliance. Until the earlier of: (a) the date on which the Issuance Percentage is 100% and (b) the Secured Obligations are satisfied and discharged in full, each of Purchaser, Alipay and IPCo shall, and JM, JT and PMH shall cause Purchaser, Alipay and IPCo to, take all reasonable action to (i) preserve, renew and keep in full force and effect its organizational existence, (ii) maintain all rights, privileges, business licenses, and franchises, and comply with all Contracts, in each case as is necessary or desirable in the normal conduct of its business, and (iii) comply in all material respects with all Laws and judgments, orders and decrees of any Governmental Authority.

(b) Further Assurances. Until the earlier of: (a) the date on which the Issuance Percentage is 100% and (b) the Secured Obligations are satisfied and discharged in full, each of Purchaser, Alipay, IPCo, JM, JT and PMH agree, that from time to time, at his or its expense, he or it shall promptly execute and deliver, and JM, JT and PMH shall cause Purchaser, Alipay and IPCo to execute and deliver, all further instruments and documents, and take all further action, that may be reasonably necessary, or that Alibaba, Softbank or Yahoo may reasonably request, in order to perfect and protect the security interest granted, ensure the continued perfection of, purported or intended to be granted in favor of Alibaba pursuant to the Amended IPCo Security Documents or to enable Alibaba to exercise and enforce its rights and remedies thereunder with respect to any Collateral.

ARTICLE X

TERMINATION

Section 10.1 Termination of Transactions. The provisions of this Agreement relating to (and only to the extent relating to) the consummation of the Transactions may be terminated at any time prior to the Closing:

(a) by mutual written consent of the Seller and the Purchaser;

(b) by either the Seller or the Purchaser if any court of competent jurisdiction shall have issued an Order, decree or ruling or taken any other action restraining, enjoining, making illegal or otherwise prohibiting the consummation of any of the Transactions and such Order, decree, ruling or other action shall have become final and nonappealable; provided, that the Party so requesting termination shall have used its reasonable best efforts in accordance with Section 7.2(a) to have such Order, decree, ruling or other action vacated;

(c) by the Purchaser in the event of a failure of the Seller's representations, as set forth in Article IV (other than Section 4.7), to be true and correct or a material breach by the Seller or a Seller Party of its obligations or agreements hereunder, in each case that would cause a condition set forth in Section 8.1 or Section 8.3 not to be satisfied, which failure or breach remains uncured for sixty (60) days following written notice thereof by the Purchaser to the Seller;

(d) by the Seller in the event of a failure of the Purchaser's representations, as set forth in Article V (other than Section 5.5) or the Management Holdcos' representations, as set forth in Article VI (other than Section 6.5), to be true and correct or a material breach by the Purchaser of its obligations or agreements hereunder, in each case that would cause a condition set forth in Section 8.1 or Section 8.2 not to be satisfied, which failure or breach remains uncured for sixty (60) days following written notice thereof by the Seller to the Purchaser; or

(e) by either the Seller or the Purchaser if the Closing has not occurred by the 180th day following the date hereof; provided, that the Party so requesting termination shall not have breached any provision of this Agreement in a manner that primarily caused the failure of the Closing to occur by such date.

The Party seeking to terminate such provisions of this Agreement pursuant to this Section 10.1 (other than Section 10.1(a)) shall give prompt written notice of such termination to each other Party.

Section 10.2 Effect of Termination. In the event of termination of certain provisions of this Agreement as provided in Section 10.1, such provisions of this Agreement shall forthwith become void and there shall be no Liability on the part of any Party with respect thereto. The remaining provisions of this Agreement shall remain in full force and effect.

ARTICLE XI

INDEMNIFICATION

Section 11.1 Indemnification by the Seller. The Seller shall save, defend, indemnify and hold harmless the Purchaser and its respective officers, directors, employees, agents, successors and assigns from and against any and all losses, damages, Liabilities, deficiencies, claims, interest, awards, judgments, penalties, costs and expenses (including reasonable attorneys' fees, costs and other out-of-pocket expenses incurred in investigating, preparing or defending the foregoing) (hereinafter, collectively, "Losses") to the extent arising out of or resulting from (i) any failure of any representation or warranty set forth in Article IV (other than Sections 4.3(a) and 4.7) to be true and correct as of the date hereof and as of the date of the Closing as if made on such date (unless made as of a specified date, in which case, as of such date), or (ii) any breach of or failure to perform or comply with the covenants or agreements of the Seller Parties contained in this Agreement. In the event of any failure of any representation or warranty set forth in Section 4.7 to be true and correct as of the date hereof and as of the date of the Closing as if made on such date, the Purchaser shall, upon request by the Seller, transfer to the Seller for no additional consideration any assets identified by the Seller that cause such representation or warranty to not be so true and correct, and such obligation of the Purchaser shall be the Seller's sole and exclusive remedy with respect to such failure.

Section 11.2 Indemnification by the Purchaser. The Purchaser shall save, defend, indemnify and hold harmless each of the Seller Parties, their Affiliates and their respective officers, directors, employees, agents, successors and assigns from and against any and all Losses to the extent arising out of or resulting from (i) any failure of any representation or warranty set forth in Article V (other than Section 5.5) to be true and correct as of the date hereof and as of the date of the Closing as if made on such date (unless made as of a specified date, in which case, as of such date), or (ii) any breach of or failure to perform or comply with the covenants or agreements of the Purchaser contained in this Agreement.

Section 11.3 Indemnification by the Management Holdcos. The Management Holdcos, jointly and severally, shall save, defend, indemnify and hold harmless each of the Seller Parties, their Affiliates and their respective officers, directors, employees, agents, successors and assigns from and against any and all Losses to the extent arising out of or resulting from (i) any failure of any representation or warranty set forth in Article VI (other than Section 6.4) to be true and correct as of the date hereof and as of the date of the Closing as if made on such date (unless made as of a specified date, in which case, as of such date), or (ii) any breach of or failure to perform or comply with the covenants or agreements of the Management Holdcos contained in this Agreement.

Section 11.4 Procedures.

(a) In order for a Purchaser Indemnified Party or a Seller Indemnified Party (each, an "Indemnified Party") to be entitled to any indemnification provided for under this Agreement as a result of a Loss or a claim or demand made by any third Person against the Indemnified Party (a "Third-Party Claim"), such Indemnified Party shall deliver notice thereof to the Seller or the Purchaser, as the case may be, (the "Indemnifying Party"), promptly after receipt by such Indemnified Party of written notice of the Third-Party Claim, describing in reasonable detail the facts giving rise to any claim for indemnification hereunder, the amount or method of computation of the amount of such claim (if known) and such other information with respect thereto as the Indemnifying Party may reasonably request. The failure to provide such notice, however, shall not release the Indemnifying Party from any of its obligations under this Article XI, except to the extent that the Indemnifying Party is actually prejudiced by such failure.

(b) An Indemnifying Party shall have the right, upon written notice to the Indemnified Party within thirty (30) days after receipt of notice from the Indemnified Party of the commencement of such Third-Party Claim, to assume the defense thereof at the expense of the Indemnifying Party with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnified Party. If the Indemnifying Party assumes the defense of such Third-Party Claim, the Indemnified Party shall have the right to employ separate counsel and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party; provided, that, if, in the reasonable opinion of counsel for the Indemnified Party, there is a conflict of interest between the Indemnified Party and the Indemnifying Party, the Indemnifying Party shall be responsible for the reasonable fees and expenses of one counsel to such Indemnified Party in connection with such defense. If the Indemnifying Party assumes the defense of any Third-Party Claim, the Indemnified Party shall reasonably cooperate with the Indemnifying Party in such defense and make available to the Indemnifying Party such witnesses, pertinent records, materials and information in the Indemnified Party's possession or under the Indemnified Party's control relating thereto as is reasonably required by the Indemnifying Party. If the Indemnifying Party assumes the defense of any Third-Party Claim, the Indemnifying Party shall not settle, compromise or discharge such Third-Party Claim without the prior written consent of the Indemnified Party, unless such settlement, compromise or discharge of such Third-Party Claim by its terms obligates the Indemnifying Party to pay the full amount of the Liability in connection with such Third-Party Claim, and releases the Indemnified Party completely in connection with such Third-Party Claim. Whether or not the Indemnifying Party assumes the defense of a Third-Party Claim, the Indemnified Party shall not admit any Liability with respect to, or settle, compromise or discharge, or offer to settle, compromise or discharge, such Third-Party Claim without the Indemnifying Party's prior written consent.

(c) In the event any Indemnified Party should have a claim against an Indemnifying Party hereunder that does not involve a Third-Party Claim being asserted against or sought to be collected from such Indemnified Party, the Indemnified Party shall deliver notice of such claim promptly to the Indemnifying Party, describing in reasonable detail the facts giving rise to any claim for indemnification hereunder, the amount or method of computation of the amount of such claim (if known) and such other information with respect thereto as the Indemnifying Party may reasonably request. The failure to provide such notice, however, shall not release the Indemnifying Party from any of its obligations under this Article XI except to the extent that the Indemnifying Party is prejudiced by such failure. The Indemnified Party shall reasonably cooperate and assist the Indemnifying Party in determining the validity of any claim for indemnity by the Indemnified Party and in otherwise resolving such matters. Such assistance and cooperation shall include providing reasonable access to and copies of information, records and documents relating to such matters, furnishing employees to assist in the investigation, defense and resolution of such matters and providing legal and business assistance with respect to such matters, in each case, to the extent reasonably required by the Indemnifying Party.

Section 11.5 Limits on Indemnification and Liability.

(a) The Purchaser and the Seller Parties shall, or shall cause the applicable Indemnified Party to, use reasonable efforts to seek full recovery under all insurance policies covering any Loss to the same extent as they would if such Loss were not subject to indemnification hereunder.

(b) No Party shall have any liability under any provision of this Agreement for any punitive, incidental, consequential, special or indirect damages, including business interruption, diminution of value, loss of future revenue, profits or income, or loss of business reputation or opportunity relating to the breach or alleged breach of this Agreement.

ARTICLE XII

MISCELLANEOUS

Section 12.1 Notices. All notices and other communications hereunder shall be in writing, shall be made by personal delivery, internationally recognized courier service, facsimile or electronic mail and shall be deemed received (i) on the date of delivery if delivered personally, (ii) on the date of confirmation of receipt if delivered by an internationally recognized courier service (or the first Business Day following such receipt if (a) the date is not a Business Day or (b) receipt occurs after 5:00 p.m., local time of the recipient) or (iii) on the date of receipt of transmission by facsimile or electronic mail (or the first Business Day following such receipt if (a) the date is not a Business Day or (b) receipt occurs after 5:00 p.m., local time of the recipient), to the Parties at the following addresses, facsimile numbers or email addresses (or at such other address, facsimile number or email address for a Party as shall be specified by like notice):

To the Seller or any of the Seller Parties:

c/o Alibaba Group Services Limited
26th Floor, Tower One
Times Square
1 Matheson Street
Causeway Bay
Hong Kong
Attention: General Counsel
Facsimile No.: +852 2215 5200
Email: legalnotice@hk.alibaba-inc.com

with a copy (which shall not constitute notice) to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
United States
Attention: Mark Gordon
DongJu Song
Facsimile No.: +1 212 403 2000
Email: mgordon@wlrk.com
dsong@wlrk.com

and

Morrison & Foerster
Shin-Marunouchi Building, 29th Floor
5-1, Marunouchi 1-Chome
Tokyo, 100-6529
Japan
Attention: Kenneth A. Siegel
Facsimile No.: +81 3 3214 6512
Email: ksiegel@mofo.com

and

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
United States
Attention: Marc R. Packer
Facsimile No.: +1 212 735 2000
Email: marc.packer@skadden.com

To the Purchaser:

22F Block B
Huanglong Times Plaza
No. 18 Wantang Road
Hangzhou, 310099
People's Republic of China
Attention: Head of Legal
Facsimile No.: +(86571) 8656 2095
Email: legalnotice@alipay.com

with a copy (which shall not constitute notice) to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
United States
Attention: Mark Gordon
DongJu Song
Facsimile No: +1 212 403 2000
Email: mgordon@wlrk.com
dsong@wlrk.com

Section 12.2 Amendment; Waiver; Etc.

(a) Any provision of this Agreement may be amended, waived or modified if, and only if, such amendment, waiver or modification is in writing and signed, (x) in the case of an amendment or waiver of any provision of Article II, Section 9.9 or this Section 12.2 of this Agreement or of any provision that by its terms requires or contemplates the approval of or otherwise refers to the Alibaba Independent Committee, by the Purchaser, by the Seller after obtaining consent of the Alibaba Independent Committee, and by SoftBank, (y) in the case of an amendment of any other provision of this Agreement, by (i) the Purchaser and the Seller and (ii) any Party other than the Purchaser and the Seller Parties that is adversely and directly affected by such amendment, or (z) in the case of a waiver of any other provision of this Agreement, by the Party against whom the waiver is to be effective. Furthermore, the Parties shall not, and shall not permit any of their respective Subsidiaries party to any SME Loan Know-How License Agreement to, amend, waive or modify any provision of Article 3 or Appendix 2 of such SME Loan Know-How License Agreement without the prior written consent of the Alibaba Independent Committee and SoftBank. No failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) All material actions, consents, determinations, and approvals, including in connection with amendments and waivers under Section 12.2(a), to be taken or made by the Seller or its controlled Affiliates under or in connection with any Transaction Document (other than any such matters that require the approval of the Alibaba Independent Committee) shall be taken or made solely with prior approval of the Seller Audit Committee or any person to whom the Seller Audit Committee delegates such matters.

Section 12.3 Assignment. With the exception of the right of first refusal held by the Seller pursuant to Section 9.7(b), no Party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the Purchaser and the Seller; provided that the assignor shall remain liable for its obligations under this Agreement. Any assignment without such prior written consent shall be null and void.

Section 12.4 Entire Agreement. This Agreement (including all Schedules and Exhibits), the Disclosure Letters and the other Transaction Documents contain the entire agreement among the Parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters. To the extent there is any inconsistency between (i) a provision of another Transaction Document and (ii) a provision of this Agreement that is more specific or detailed with respect to the subject matter of such other Transaction Document, then the provision of this Agreement shall govern and control. Otherwise, the provision of the other Transaction Document shall govern. In the case of any other inconsistency between this Agreement and any other Transaction Document, this Agreement shall govern.

Section 12.5 Parties in Interest. This Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns in accordance with this Agreement. Nothing in this Agreement, express or implied, is intended to confer upon any Person other than the Parties, or their successors or permitted assigns, any rights or remedies under or by reason of this Agreement. The Management Holdcos shall be parties to this Agreement solely with respect to Article VI, this Article XII, and Sections 4.2, 5.2, 7.1, 7.2, 8.2(a), 9.1(a)(ii), 9.5, 9.7, 9.9(d), 10.01, 11.3 and 11.4. PMH shall be party to this Agreement solely with respect to this Article XII and Section 9.13.

Section 12.6 Expenses. Except as otherwise expressly provided in this Agreement, all costs and expenses incurred by the Parties in connection with the negotiation and execution of the Transaction Documents shall be borne by the Person incurring such expenses.

Section 12.7 Governing Laws; Jurisdiction. THIS AGREEMENT IS MADE UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND, TO THE EXTENT POSSIBLE, ALL OTHER TRANSACTION DOCUMENTS SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

Section 12.8 Arbitration.

(a) Any dispute, controversy or claim arising out of, relating to, or in connection with this Agreement and/or the other Transaction Documents, or the transactions contemplated hereby or thereby, or the breach, termination or validity hereof or thereof, shall be finally settled exclusively by arbitration. The arbitration shall be administered by, and conducted in accordance with the rules of the International Chamber of Commerce (the "ICC") in effect at the time of the arbitration, except as they may be modified by mutual agreement of the parties. The seat of the arbitration shall be Singapore; provided, that the arbitrators may hold hearings in such other locations as the arbitrators determine to be most convenient and efficient for all of the parties to such arbitration under the circumstances. The arbitration shall be conducted in the English language.

(b) The arbitration shall be conducted by three (3) arbitrators. The Party (or the Parties, acting jointly, if there is more than one (1)) initiating arbitration (the "Claimant") shall appoint an arbitrator in its request for arbitration (the "Request"). The other Party (or the other Parties, acting jointly, if there is more than one (1)) to the arbitration (the "Respondent") shall appoint an arbitrator within thirty (30) days of receipt of the Request and shall notify the Claimant of such appointment in writing. If, within thirty (30) days of receipt of the Request by the Respondent, either Party has not appointed an arbitrator, then that arbitrator shall be appointed by the ICC. The first two (2) arbitrators appointed in accordance with this provision shall appoint a third arbitrator within thirty (30) days after the Respondent has notified Claimant of the appointment of the Respondent's arbitrator or, in the event of a failure by a Party to appoint, within thirty (30) days after the ICC has notified the Parties and any arbitrator already appointed of the appointment of an arbitrator on behalf of the Party failing to appoint. When the third (3rd) arbitrator has accepted the appointment, the two (2) arbitrators making the appointment shall promptly notify the Parties of the appointment. If the first two arbitrators appointed fail to appoint a third arbitrator or so to notify the Parties within the time period prescribed above, then the ICC shall appoint the third (3rd) arbitrator and shall promptly notify the Parties of the appointment. The third (3rd) arbitrator shall act as chair of the tribunal.

(c) The arbitral award shall be in writing, state the reasons for the award, and be final and binding on the parties. The award may include an award of costs, including reasonable attorneys' fees and disbursements. In addition to monetary damages, the arbitral tribunal shall be empowered to award equitable relief, including an injunction and specific performance of any obligation under this Agreement. The arbitral tribunal is not empowered to award damages in excess of compensatory damages, and each Party hereby irrevocably waives any right to recover punitive, exemplary or similar damages with respect to any dispute, except insofar as a claim is for indemnification for an award of punitive damages awarded against a Party in an action brought against it by an independent third party. The arbitral tribunal shall be authorized in its discretion to grant pre-award and post-award interest at commercial rates. Any costs, fees or Taxes incident to enforcing the award shall, to the maximum extent permitted by Laws, be charged against the Party resisting such enforcement. Judgment upon the award may be entered by any court having jurisdiction thereof or having jurisdiction over the relevant Party or its assets.

(d) In order to facilitate the comprehensive resolution of related disputes, and upon request of any Party to the arbitration Proceeding, the arbitration tribunal may, within ninety (90) days of its appointment, consolidate the arbitration Proceeding with any other arbitration Proceeding involving any of the Parties relating to the Transaction Documents. The arbitration tribunal shall not consolidate such arbitrations unless it determines that (i) there are issues of fact or law common to the Proceedings, so that a consolidated Proceeding would be more efficient than separate Proceedings, and (ii) no Party would be prejudiced as a result of such consolidation through undue delay or otherwise. In the event of different rulings on this question by the arbitration tribunal constituted hereunder and any tribunal constituted under these Transaction Documents, the ruling of the tribunal constituted under this Agreement shall govern, and that tribunal shall decide all disputes in the consolidated Proceeding.

(e) The Parties agree that the arbitration shall be kept confidential and that the existence of the Proceeding and any element of it (including any pleadings, briefs or other documents submitted or exchanged, any testimony or other oral submissions, and any awards) shall not be disclosed beyond the tribunal, the ICC, the parties, their counsel and any person necessary to the conduct of the Proceeding, except as may be lawfully required in judicial Proceedings relating to the arbitration or otherwise, or as required by NASDAQ rules or the rules of any other quotation system or exchange on which the disclosing Party's Equity Securities are listed or applicable Law.

(f) The costs of arbitration shall be borne by the losing Party unless otherwise determined by the arbitration award.

(g) All payments made pursuant to the arbitration decision or award and any judgment entered thereon shall be made in U.S. Dollars (or, if a payment in U.S. Dollars is not permitted by Law and if mutually agreed upon by the Parties, in Renminbi), free from any deduction, offset or withholding for Taxes.

(h) Notwithstanding this Section 12.8 or any other provision to the contrary in this Agreement, no Party shall be obligated to follow the foregoing arbitration procedures where such Party intends to apply to any court of competent jurisdiction for an interim injunction or similar equitable relief against any other Party; provided, that there is no unreasonable delay in the prosecution of that application. None of the Parties shall institute a proceeding in any court or administrative agency to resolve a dispute arising out of, relating to or in connection with this Agreement or the other Transaction Documents, except for a court proceeding to compel arbitration or otherwise enforce this agreement to arbitrate, to enforce an order or award of the arbitration tribunal or petition for the provisional or emergency remedies provided for herein. The Parties waive objection to venue and consent to the nonexclusive personal jurisdiction of the courts of Singapore in any action to enforce this arbitration agreement, any order or award of the arbitration tribunal or the provisional or emergency remedies provided for herein. In any such permitted court action, the Parties agree that delivery of the complaint or petition by international courier, with proof of delivery, shall constitute valid and sufficient service, and they individually and collectively waive any objection to such service.

Section 12.9 Severability. Each provision of this Agreement shall be deemed a material and integral part hereof. Except as otherwise provided in this paragraph, in the event of a final determination of invalidity, illegality or unenforceability of any provision of this Agreement, the Parties shall negotiate in good faith to amend this Agreement (and any other Transaction Documents, as applicable) or to enter into new agreements to replace such invalid, illegal or unenforceable provision(s) with valid, legal and enforceable provisions providing the Parties with benefits, rights and obligations that are equivalent in all material respects as provided by this Agreement (and any other Transaction Documents, as applicable) as if the invalid, illegal or unenforceable provision(s) had been valid, legal and enforceable. In the event the Parties are not able to reach agreement on such amendments or new agreements, then the arbitrators (pursuant to the procedures set forth in Section 12.8) shall determine, as part of their arbitral award, such amendments or new agreements such to provide the Parties with benefits, rights and obligations that are equivalent in all material respect as provided by the Agreement as if the stricken provision(s) had been valid, legal and enforceable. No Party shall, or shall Permit any of its Related Parties or Representatives to, directly or indirectly assert that any provision of any Transaction Document is invalid, illegal or unenforceable.

Section 12.10 Counterparts. This Agreement may be executed in two or more counterparts and such counterparts may be delivered in electronic format (including by email), all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Parties, it being understood that all Parties need not sign the same counterpart.

Section 12.11 Rules of Construction. Each Party represents and acknowledges that, in the negotiation and drafting of this Agreement and the other instruments and documents required or contemplated hereby, it has been represented by and has relied upon the advice of counsel of its choice. Each Party hereby affirms that its counsel has had a substantial role in the drafting and negotiation of this Agreement and such other instruments and documents. Therefore, each Party agrees that no rule of construction to the effect that any ambiguities are to be resolved against the drafter shall be employed in the interpretation of this Agreement and such other instruments and documents and in the event an ambiguity or question of intent or interpretation arises, the Agreement shall be construed as if drafted jointly by the Parties.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

ALIBABA GROUP HOLDING LIMITED

By: /s/ Timothy Alexander Steinert
Name: Timothy Alexander Steinert
Title: Authorized Signatory

蚂蚁集团
(Zhejiang Ant Small and Micro Financial Services Group Co., Ltd.)

By: /s/ Peng Lei
Name: Peng Lei
Title: Legal Representative

ALIBABA.COM CHINA LIMITED

By: /s/ Timothy Alexander Steinert

Name: Timothy Alexander Steinert

Title: Authorized Signatory

浙江淘宝网络有限公司

(Zhejiang Taobao Network Co., Ltd.)

By: /s/ Lu Zhaoxi

Name: Lu Zhaoxi

Title: Legal Representative

杭州阿里创业投资有限公司

(Hangzhou Ali Venture Capital Co., Ltd.)

By: /s/ Jack Ma Yun

Name: Jack Ma Yun

Title: Legal Representative

SILVERWORLD TECHNOLOGY
LIMITED

By: /s/ Timothy Alexander Steinert

Name: Timothy Alexander Steinert

Title: Authorized Signatory

SOFTBANK CORP.

By: /s/ Masayoshi Son

Name: Masayoshi Son

Title: Chairman and CEO

YAHOO! INC.

By: /s/ Marissa Mayer

Name: Marissa Mayer

Title: President and CEO

Alipay.com Co., Ltd.
(Alipay.com Co., Ltd.)

By: /s/ Peng Lei
Name: Peng Lei
Title: Legal Representative

APN LTD.

By: /s/ Joseph Chung Tsai
Name: Joseph Chung Tsai
Title: Director

/s/ Jack Ma Yun
JACK MA YUN

/s/ Xie Shihuang
XIE SHIHUANG

/s/ Joseph Chung Tsai
JOSEPH CHUNG TSAI

Hangzhou Junao Equity Investment
Partnership (Limited Partnership)

By: /s/ Jack Ma Yun
Name: Jack Ma Yun
Title: Authorized Representative of Executive Partner

Hangzhou Junhan Equity Investment
Partnership (Limited Partnership)

By: /s/ Jack Ma Yun
Name: Jack Ma Yun
Title: Authorized Representative of Executive Partner

PMH HOLDING LIMITED

By: /s/ Joseph Chung Tsai

Name: Joseph Chung Tsai

Title: Director

**Certification of Chief Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Marissa A. Mayer, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2014

By: /s/ MARISSA A. MAYER

Marissa A. Mayer
Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ken Goldman, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2014

By: /s/ KEN GOLDMAN

Ken Goldman
Chief Financial Officer

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Yahoo (the "Company") for the quarter ended September 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marissa A. Mayer, as Chief Executive Officer of the Company, and Ken Goldman, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ MARISSA A. MAYER

Name: Marissa A. Mayer
Title: Chief Executive Officer
Dated: November 7, 2014

/S/ KEN GOLDMAN

Name: Ken Goldman
Title: Chief Financial Officer
Dated: November 7, 2014

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.