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 March 31, 2017

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	77-0398689
(State or other jurisdiction of incorporation or organization)	(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth 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	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ☐

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 April 28, 2017
Common Stock, $0.001 par value	958,198,997

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YAHOO! INC.

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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:

- expectations regarding the pending transaction with Verizon Communications Inc.;
- the Security Incidents (as defined below);
- expectations about revenue, including search, display, and other revenue, as well as revenue from our offerings in mobile, video, native, and social ("Mavens");
- expectations about the financial and operational impacts of our Search and Advertising Services and Sales Agreement with Microsoft Corporation and our Google Services Agreement with Google Inc.;
- expectations about the opportunities for monetization of, and revenue growth from, our mobile offerings;
- expectations about growth in users;
- expectations about changes to our operating expenses;
- 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 the sufficiency of our available sources of liquidity to meet normal operating requirements and capital expenditures; and
- expectations regarding the future outcome of legal proceedings in which we are involved.

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.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

Yahoo! Inc.

Condensed Consolidated Balance Sheets

	December 31, 2016	March 31, 2017
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,119,469	$ 1,328,913
Short-term marketable securities	5,700,925	5,582,149
Accounts receivable, net	1,084,267	940,311
Prepaid expenses and other current assets	221,499	176,351
Total current assets	8,126,160	8,027,724
Long-term marketable securities	1,089,707	1,110,166
Property and equipment, net	1,209,937	1,177,723
Goodwill	415,809	430,463
Intangible assets, net	161,644	142,424
Other long-term assets and investments	206,059	279,267
Investment in Alibaba Group	33,680,879	41,359,859
Investments in equity interests	3,192,884	2,841,100
Total assets	$ 48,083,079	$ 55,368,726
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 171,520	$ 180,368
Other accrued expenses and current liabilities	1,006,676	884,000
Deferred revenue	109,228	103,543
Total current liabilities	1,287,424	1,167,911
Convertible notes	1,299,945	1,317,112
Long-term deferred revenue	39,583	42,669
Other long-term liabilities	95,597	91,026
Deferred tax liabilities related to investment in Alibaba Group	13,633,988	16,762,865
Deferred and other long-term tax liabilities	642,466	519,950
Total liabilities	16,999,003	19,901,533
Commitments and contingencies (Note 11)	-	-
Yahoo! Inc. stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 972,472 shares issued and 955,308 shares outstanding as of December 31, 2016 and 974,796 shares issued and 957,641 shares outstanding as of March 31, 2017	969	971
Additional paid-in capital	9,125,459	9,170,142
Treasury stock at cost, 17,164 shares as of December 31, 2016 and 17,155 shares as of March 31, 2017	(908,996)	(908,559)
Retained earnings	4,353,958	4,560,905
Accumulated other comprehensive income	18,477,893	22,612,258
Total Yahoo! Inc. stockholders' equity	31,049,283	35,435,717
Noncontrolling interests	34,793	31,476
Total equity	31,084,076	35,467,193
Total liabilities and equity	$ 48,083,079	$ 55,368,726

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

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Yahoo! Inc.

Condensed Consolidated Statements of Operations

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(Unaudited, in thousands except per share amounts)	
Revenue	$ 1,087,152	$ 1,327,270
Operating expenses:		
Cost of revenue — traffic acquisition costs	227,763	493,502
Cost of revenue — other	282,587	256,774
Sales and marketing	236,033	209,366
Product development	278,029	252,220
General and administrative	155,451	156,837
Amortization of intangibles	18,773	11,506
Gain on sale of patents	(1,500)	-
Restructuring charges, net	57,230	5,812
Total operating expenses	1,254,366	1,386,017
Loss from operations	(167,214)	(58,747)
Other (expense) income, net	(47,416)	18,822
Loss before income taxes and earnings in equity interests	(214,630)	(39,925)
Benefit for income taxes	34,766	26,177
Earnings in equity interests, net of tax	81,574	113,688
Net (loss) income	(98,290)	99,940
Net income attributable to noncontrolling interests	(942)	(506)
Net (loss) income attributable to Yahoo! Inc.	$ (99,232)	$ 99,434
Net (loss) income attributable to Yahoo! Inc. common stockholders per share — basic	$ (0.10)	$ 0.10
Net (loss) income attributable to Yahoo! Inc. common stockholders per share — diluted	$ (0.10)	$ 0.10
Shares used in per share calculation — basic	945,719	955,859
Shares used in per share calculation — diluted	945,719	963,169
Stock-based compensation expense by function:		
Cost of revenue — other	$ 8,526	$ 8,415
Sales and marketing	32,887	31,409
Product development	47,988	48,366
General and administrative	19,006	20,586
Restructuring charges, net	7,374	-

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

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Yahoo! Inc.

Condensed Consolidated Statements of Comprehensive (Loss) Income

	Three Months Ended March 31,	
	2016	2017
	(Unaudited, in thousands)	
Net (loss) income	$ (98,290)	$ 99,940
Available-for-sale securities:		
Unrealized (losses) gains on available-for-sale securities, net of taxes of $363,084 and $(3,153,593) for the three months ended March 31, 2016 and 2017, respectively	(516,536)	4,587,033
Reclassification adjustment for realized losses on available-for-sale securities included in net (loss) income, net of taxes of $(112) and $(89) for the three months ended March 31, 2016 and 2017, respectively	202	178
Net change in unrealized (losses) gains on available-for-sale securities, net of tax	(516,334)	4,587,211
Foreign currency translation adjustments ("CTA"):		
Foreign CTA gains (losses), net of taxes of $(336) and $(102) for the three months ended March 31, 2016 and 2017, respectively	2,183	(446,721)
Net investment hedge CTA losses, net of taxes of $16,931 and $3,108 for the three months ended March 31, 2016 and 2017, respectively	(30,710)	(5,632)
Reclassification adjustment for realized gains included in CTA, net of taxes of nil for the three months ended March 31, 2017	-	(493)
Net foreign CTA losses, net of tax	(28,527)	(452,846)
Cash flow hedges:		
Unrealized losses on cash flow hedges, net of taxes of $1,338 for the three months ended March 31, 2016	(2,426)	-
Reclassification adjustment for realized losses on cash flow hedges included in net (loss) income, net of taxes of $(277) for the three months ended March 31, 2016	501	-
Net change in unrealized losses on cash flow hedges, net of tax	(1,925)	-
Other comprehensive (loss) income	(546,786)	4,134,365
Comprehensive (loss) income	(645,076)	4,234,305
Less: comprehensive income attributable to noncontrolling interests	(942)	(506)
Comprehensive (loss) income attributable to Yahoo! Inc.	$ (646,018)	$ 4,233,799

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

Yahoo! Inc.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (98,290)	$ 99,940
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	107,377	95,703
Amortization of intangible assets	32,288	19,396
Accretion of convertible notes discount	16,290	17,167
Stock-based compensation expense	115,781	108,776
Non-cash restructuring charges	362	-
Non-cash accretion on marketable securities	12,354	899
Foreign exchange gain	(6,524)	(12,546)
Gain on sale of assets and other	(190)	(9)
Gain on sale of patents	(1,500)	-
Loss (gain) on Hortonworks warrants	39,150	(5,385)
Earnings in equity interests	(81,574)	(113,688)
Tax benefits from stock-based awards	1,192	-
Excess tax benefits from stock-based awards	(7,526)	-
Deferred income taxes	(37,794)	(44,296)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	172,677	151,772
Prepaid expenses and other	232,783	24,281
Accounts payable	2,844	(5,099)
Accrued expenses and other liabilities	(142,308)	(118,622)
Deferred revenue	8,376	(3,834)
Net cash provided by operating activities	365,768	214,455
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(76,399)	(61,147)
Proceeds from sales of property and equipment	300	937
Purchases of marketable securities	(1,871,316)	(1,457,036)
Proceeds from sales of marketable securities	47,374	52,436
Proceeds from maturities of marketable securities	1,369,836	1,503,562
Proceeds from sales of patents	1,500	-
Purchases of intangible assets	(1,177)	(52)
Proceeds from settlement of derivative hedge contracts	36,028	8,223
Payments for settlement of derivative hedge contracts	(3,024)	(1,078)
Other investing activities, net	(58)	156
Net cash (used in) provided by investing activities	$ (496,936)	$ 46,001

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

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Yahoo! Inc.

Condensed Consolidated Statements of Cash Flows (continued)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(Unaudited, in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	$ 4,754	$ 3,095
Excess tax benefits from stock-based awards	7,526	-
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(42,139)	(67,901)
Distributions to noncontrolling interests	-	(3,823)
Other financing activities, net	(3,637)	(3,126)
Net cash used in financing activities	(33,496)	(71,755)
Effect of exchange rate changes on cash and cash equivalents	12,357	20,743
Net change in cash and cash equivalents	(152,307)	209,444
Cash and cash equivalents at beginning of period	1,631,911	1,119,469
Cash and cash equivalents at end of period	$ 1,479,604	$ 1,328,913
NON-CASH ACTIVITIES:		
Change in non-cash acquisitions of property and equipment	$ 6,333	$ (1,564)

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 a guide to digital information discovery, focused on informing, connecting, and entertaining users through its search, communications, and digital content products. By creating highly personalized experiences, the Company helps users discover the information that matters most to them around the world — on mobile or desktop. The Company creates value for advertisers with a streamlined, simple advertising technology that leverages Yahoo's data, content, and technology to connect advertisers with their target audiences. Advertisers can build their businesses through advertising to targeted audiences on the Company's online properties and services ("Yahoo Properties") and a distribution network of third party entities ("Affiliates") who integrate the Company's advertising offerings into their websites or other offerings ("Affiliate sites"). The Company's revenue is generated principally from search and display advertising. 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 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.

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, originally developed content, acquired content, stock-based compensation, goodwill, income taxes, contingencies, and restructuring charges. 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, when these carrying values are not readily available from other sources. 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, 2016. 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, 2016 was derived from the Company's audited financial statements for the year ended December 31, 2016, 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.

Revenue Recognition — Search Revenue and Cost of Revenue — TAC. On April 15, 2015, the Company and Microsoft Corporation ("Microsoft") entered into the Eleventh Amendment (the "Eleventh Amendment") to the Search and Advertising Services and Sales Agreement ("Microsoft Search Agreement"). Pursuant to the Eleventh Amendment, the Company completed the transition of its exclusive sales responsibilities to Microsoft for Microsoft's paid search services to premium advertisers in the United States, Canada, and Europe on April 1, 2016 and in its remaining markets (other than Taiwan and Hong Kong) on June 1, 2016. Following the transition in each respective market, Yahoo is considered the principal in the sale of traffic to Microsoft and other customers because Yahoo is the primary obligor in its arrangements with Microsoft and has discretion in how search queries from Affiliate sites will be fulfilled and monetized. As a result, amounts paid to Affiliates under the Microsoft Search Agreement in the transitioned markets are recorded as cost of revenue — TAC rather than as a reduction to revenue, resulting in revenue from the Microsoft Search Agreement being reported on a gross rather than net basis. Effective June 3, 2016, the Company and Microsoft further amended the Microsoft Search Agreement to provide that sales responsibilities for premium advertisers in Taiwan and Hong Kong will not be transitioned. TAC in those markets will continue to be reported as a reduction to revenue.

TAC consists of payments made to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo Properties. TAC is either recorded as a reduction to revenue or as cost of revenue — TAC. TAC related to the Microsoft Search Agreement was recorded as a reduction to revenue for reporting periods through March 31, 2016. Beginning in the second quarter of 2016, TAC related to the Microsoft Search Agreement is recorded as cost of revenue — TAC in markets that have completed the transition of exclusive sales responsibilities to Microsoft for paid search services to premium advertisers pursuant to the Eleventh Amendment as described above.

The table below presents how the Company accounted for amounts paid to Affiliates related to the Microsoft Search Agreement in transitioned markets and shows the impact of the implementation of the Eleventh Amendment in transitioned markets (in thousands):

	Three Months Ended March 31,	
	2016	**2017**
Cost of revenue — TAC in transitioned markets(*)	$ -	$ 303,799
Reduction to revenue in transitioned markets	$ 271,328	$ -

(*) For the three months ended March 31, 2017, cost of revenue — TAC included $257 million in the Americas segment, $45 million in the EMEA segment, and $2 million in the Asia Pacific segment.

See Note 16 — “Microsoft Search Agreement” for a description of the Search Agreement with Microsoft.

***Recent Accounting Pronouncements*.** In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“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. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08 “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-10 “Identifying Performance Obligations and Licensing” which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. In May 2016, the FASB issued ASU 2016-12 “Narrow-Scope Improvements and Practical Expedients” which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. The standard is required to be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected the transition method. The Company will adopt the new revenue standards in its first quarter of 2018. 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.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. The new standard principally affects accounting standards for equity investments, financial liabilities where the fair value option has been elected, and the presentation and disclosure requirements for financial instruments. Upon the effective date of the new standards, all equity investments in unconsolidated entities, other than those accounted for using the equity method of accounting, will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification and therefore, no changes in fair value will be reported in other comprehensive income (loss) for equity securities with readily determinable fair values. The new guidance on the classification and measurement will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted. The Company is in the process of evaluating the impact of the adoption of ASU 2016-01 on the consolidated financial statements and currently anticipates the new guidance would significantly impact its consolidated statements of operations and consolidated statements of comprehensive income (loss) as the Company’s marketable equity securities, primarily the Company’s investments in Alibaba Group Holding Limited (“Alibaba Group”), Hortonworks Inc. (“Hortonworks”), and Snap Inc. (“Snap”) are currently classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income.

In February 2016, the FASB issued ASU 2016-02, “Leases” which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company’s consolidated financial position, results of operations and cash flows and anticipates the new guidance will significantly impact its consolidated financial statements given the Company has a significant number of leases.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting” as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax effects, statutory withholding requirements, forfeitures, and classification on the statement of cash flows. Under ASU 2016-09, stock based compensation excess benefits, net of detriments (if any) are now recorded to the condensed consolidated statements of operations. The ASU is effective for public companies for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company adopted this guidance as of January 1, 2017. The primary impact of adoption was the recognition of the cumulative tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable. As a result, the Company’s condensed consolidated balance sheet was adjusted on a modified retrospective basis as of the beginning of the period of adoption, resulting in an increase to retained earnings of approximately $108 million. Also, prospectively beginning January 1, 2017, excess tax benefits, net of detriments have been reflected as an income tax benefit/expense in the condensed consolidated statements of operations resulting in a $13 million tax benefit in the three months ended March 31, 2017. The Company’s adoption of this ASU also resulted in associated excess tax benefits being classified as an operating activity in the same manner as other cash flows related to income taxes in the statement of cash flows prospectively beginning January 1, 2017. Based on the adoption methodology applied, the statement of cash flows classification of prior periods has not been adjusted. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented on the Company’s condensed consolidated cash flows statements since such cash flows have historically been presented as a financing activity. Additional amendments to the accounting for minimum statutory withholding tax requirements had no impact to the Company’s condensed consolidated financial statements. In addition, the Company did not change its accounting principles relative to elements of this standard and continued its existing practice of estimating the number of awards that will be forfeited.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses”, which introduces new guidance for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables, held-to-maturity debt securities, loans and net investments in leases. The new guidance also modifies the impairment model for available-for-sale debt securities and requires the entities to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The standard also indicates that entities may not use the length of time a security has been in an unrealized loss position as a factor in concluding whether a credit loss exists. The ASU is effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230), a consensus of the FASB’s Emerging Issues Task Force.” The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including interim periods within those fiscal years. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires application using a retrospective transition method. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated cash flows.

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In October 2016, the FASB issued ASU 2016-16, “Income Taxes: Intra-Entity Transfers of Assets Other than Inventory” which amends the accounting for income taxes. The new guidance requires the recognition of the income tax consequences of an intra-entity asset transfer, other than transfers of inventory, when the transfer occurs. For intra-entity transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The new guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated financial position, results of operations and cash flows.

In November 2016, the FASB issued ASU No. 2016-18 “Statement of Cash Flows (Topic 230), Restricted Cash” which provides guidance on the presentation of restricted cash and restricted cash equivalents in the statements of cash flows. The new guidance requires restricted cash and restricted cash equivalents to be included within the cash and cash equivalents balances when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. The ASU is effective for reporting periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated cash flows.

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles — Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment,” which eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this ASU an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The ASU is effective for reporting periods beginning after December 15, 2019 with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated financial position, results of operations and cash flows.

Note 2 Marketable Securities, Investments and Fair Value Disclosures

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

	December 31, 2016			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$ 650,344	$ 43	$ (903)	$ 649,484
Corporate debt securities, commercial paper, time deposits, and bank certificates of deposit	6,144,991	812	(4,655)	6,141,148
Alibaba Group equity securities	2,713,484	30,967,395	-	33,680,879
Hortonworks equity securities	26,246	5,713	-	31,959
Other corporate equity securities	8,093	69	(3,057) (*)	5,105
Total available-for-sale marketable securities	$ 9,543,158	$ 30,974,032	$ (8,615)	$ 40,508,575

(*) Relates to the other corporate equity securities in an unrealized loss position for less than 12 months.

	March 31, 2017			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$ 532,678	$ 21	$ (980)	$ 531,719
Corporate debt securities, commercial paper, time deposits, and bank certificates of deposit	6,162,799	1,074	(3,277)	6,160,596
Alibaba Group equity securities	2,713,484	38,646,375	-	41,359,859
Hortonworks equity securities	26,246	11,481	-	37,727
Snap equity securities	50,000	53,749	-	103,749
Other corporate equity securities	8,150	-	(3,042) (*)	5,108
Total available-for-sale marketable securities	$ 9,493,357	$ 38,712,700	$ (7,299)	$ 48,198,758

(*) Relates to the other corporate equity securities in an unrealized loss position for less than 12 months.

	December 31, 2016	March 31, 2017
Reported as:		
Short-term marketable securities	$ 5,700,925	$ 5,582,149
Long-term marketable securities	1,089,707	1,110,166
Investment in Alibaba Group	33,680,879	41,359,859
Other long-term assets and investments	37,064	146,584
Total	$ 40,508,575	$ 48,198,758

Short-term, highly liquid investments of $415 million and $632 million as of December 31, 2016 and March 31, 2017, 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 debt securities were not material for both the three months ended March 31, 2016 and 2017.

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

	December 31, 2016	March 31, 2017
Due within one year	$5,700,925	$ 5,582,149
Due after one year through five years	1,089,707	1,110,166
Total available-for-sale marketable debt securities	$6,790,632	$ 6,692,315

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The following tables show all available-for-sale marketable debt 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, 2016					
	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	$ 543,605	$ (903)	$ -	$ -	$ 543,605	$ (903)
Corporate debt securities, commercial paper, and bank certificates of deposit	2,355,935	(4,638)	46,438	(17)	2,402,373	(4,655)
Total available-for-sale marketable debt securities	$2,899,540	$ (5,541)	$46,438	$ (17)	$2,945,978	$ (5,558)

	March 31, 2017					
	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	$ 486,628	$ (980)	$ -	$ -	$ 486,628	$ (980)
Corporate debt securities, commercial paper, and bank certificates of deposit	2,380,497	(3,265)	32,038	(12)	2,412,535	(3,277)
Total available-for-sale marketable debt securities	$ 2,867,125	$ (4,245)	$32,038	$ (12)	$2,899,163	$ (4,257)

The Company's investment portfolio includes equity securities of Alibaba Group, Snap, Hortonworks and other corporate equity securities, as well as liquid high-quality fixed income debt securities including government, agency and corporate debt, money market funds, commercial paper, certificates of deposit and time deposits held with financial institutions. The fair value of any debt or equity security 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 the Company's investment portfolio will vary over time as the value of the various marketable securities changes.

Investments in instruments that earn a fixed rate or a floating rate 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.

Available-for-sale marketable debt securities 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.

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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, 2016 (in thousands):

	Fair Value Measurements at Reporting Date Using			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds(1)	$ 375,286	$ -	$ -	$ 375,286
Available-for-sale marketable debt securities:				
Government and agency securities(1)	-	649,484	-	649,484
Commercial paper and bank certificates of deposit(1)	-	3,008,971	-	3,008,971
Corporate debt securities(1)	-	3,132,177	-	3,132,177
Time deposits(1)	-	39,598	-	39,598
Available-for-sale equity securities:				
Other corporate equity securities (2)	5,105	-	-	5,105
Alibaba Group equity securities	33,680,879	-	-	33,680,879
Hortonworks equity securities(2)	31,959	-	-	31,959
Hortonworks warrants	-	-	28,815	28,815
Foreign currency derivative contracts(3)	-	11,684	-	11,684
Financial assets at fair value	$ 34,093,229	$ 6,841,914	$ 28,815	$ 40,963,958
Liabilities				
Foreign currency derivative contracts(3)	-	(9,333)	-	(9,333)
Total financial assets and liabilities at fair value	$ 34,093,229	$ 6,832,581	$ 28,815	$ 40,954,625

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of March 31, 2017 (in thousands):

	Fair Value Measurements at Reporting Date Using			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds(1)	$ 533,768	$ -	$ -	$ 533,768
Available-for-sale marketable debt securities:				
Government and agency securities(1)	-	531,719	-	531,719
Commercial paper and bank certificates of deposit(1)	-	2,892,727	-	2,892,727
Corporate debt securities(1)	-	3,313,247	-	3,313,247
Time deposits(1)	-	52,605	-	52,605
Available-for-sale equity securities:				
Other corporate equity securities (2)	5,108	-	-	5,108
Alibaba Group equity securities	41,359,859	-	-	41,359,859
Snap equity securities(2)	51,875	51,874	-	103,749
Hortonworks equity securities(2)	37,727	-	-	37,727
Hortonworks warrants	-	-	34,200	34,200
Foreign currency derivative contracts(3)	-	1,327	-	1,327
Financial assets at fair value	$ 41,988,337	$ 6,843,499	$ 34,200	$ 48,866,036
Liabilities				
Foreign currency derivative contracts(3)	-	(17,210)	-	(17,210)
Total financial assets and liabilities at fair value	$ 41,988,337	$ 6,826,289	$ 34,200	$ 48,848,826

(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 on the condensed consolidated balance sheets.

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(2) Hortonworks, Snap and other corporate equity securities are classified as part of other long-term assets and investments on the condensed consolidated balance sheets.

(3) Foreign currency derivative contracts are classified as part of either current or noncurrent assets or liabilities on the condensed consolidated balance sheets. The notional amounts of the foreign currency derivative contracts were: $0.6 billion, including contracts designated as net investment hedges of $0.2 billion, as of December 31, 2016; and $0.4 billion, including contracts designated as net investment hedges of $0.2 billion, as of March 31, 2017.

The amount of cash included in cash and cash equivalents as of December 31, 2016 and March 31, 2017 was $705 million and $697 million, respectively.

The fair values of the Company's Level 1 financial assets and liabilities are based on quoted prices in active markets for identical assets or liabilities. 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 marketable debt securities. The fair value for the Company's Level 3 financial asset was obtained using a Black-Scholes model.

Activity between Levels of the Fair Value Hierarchy

During the year ended December 31, 2016 and the three months ended March 31, 2017, the Company did not make any transfers between Level 1, Level 2, and Level 3 assets or liabilities.

Hortonworks Warrants

The estimated fair value of the Hortonworks warrants was $29 million and $34 million as of December 31, 2016 and March 31, 2017, respectively, which is included in other long-term assets and investments on the condensed consolidated balance sheets. During the three months ended March 31, 2016 and 2017, the Company recorded a loss of $39 million and a gain of $5 million, respectively, due to the change in estimated fair value of the Hortonworks warrants during the respective periods, which was included within other (expense) income, net in the Company's condensed consolidated statements of operations. The estimated fair value of the Hortonworks warrants was determined using a Black-Scholes model.

Assets and Liabilities at Fair Value on a Nonrecurring Basis

Convertible Senior Notes

In 2013, the Company issued $1.4 billion aggregate principal amount of 0.00% Convertible Senior Notes due in 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 both December 31, 2016 and March 31, 2017 was $1.3 billion. 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 10 — "Convertible Notes" for additional information related to the Notes.

Other Investments

As of December 31, 2016 and March 31, 2017, the Company held approximately $83 million and $33 million, respectively, of investments in equity securities of privately-held companies that are accounted for using the cost method. These investments are included within other long-term assets and investments on the condensed consolidated balance sheets. Such investments are reviewed periodically for impairment.

In March 2017, Snap Inc. ("Snap") completed its initial public offering ("IPO") and its Class A common shares are now listed for trading on the New York Stock Exchange ("NYSE"). As a result, the Company's investment in Snap, which consists of both Class A and Class B common shares, is no longer included in investments in equity securities of privately-held companies that are accounted for using the cost method. Commencing with Snap's IPO, the Company reflects its investment in Snap 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 (loss) income, net of tax. The Company obtains the fair value of its investment in Class B common shares using the quoted prices of Snap's Class A common shares on the NYSE since the shares are convertible into Class A common shares. Accordingly, the investment balance in Class B common shares is classified as a Level 2 fair value measurement in the fair value hierarchy as the Company is using the quoted prices for similar assets in active markets to calculate the fair value of its investment in Class B common shares of Snap.

Note 3 Consolidated Financial Statement Details

Accumulated Other Comprehensive Income

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

	December 31, 2016	March 31, 2017
Unrealized gains on available-for-sale securities, net of tax	$ 18,376,965	$ 22,964,176
Unrealized losses on cash flow hedges, net of tax	(19)	(19)
Foreign currency translation adjustments, net of tax	100,947	(351,899)
Accumulated other comprehensive income	$ 18,477,893	$ 22,612,258

Noncontrolling Interests

Noncontrolling interests were as follows (in thousands):

	March 31, 2016	March 31, 2017
Beginning noncontrolling interests	$ 35,883	$ 34,793
Distributions to noncontrolling interests	-	(3,823)
Net income attributable to noncontrolling interests	942	506
Ending noncontrolling interests	$ 36,825	$ 31,476

Other (Expense) Income, Net

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

	Three Months Ended March 31,	
	2016	2017
Interest and investment income	$ 11,482	$ 20,582
Interest expense	(18,393)	(18,844)
(Loss) gain on Hortonworks warrants	(39,150)	5,385
Foreign exchange (loss) gain	(2,138)	9,702
Other	783	1,997
Total other (expense) income, net	$ (47,416)	$ 18,822

Interest and investment income consists of income earned from cash and cash equivalents in bank accounts and investments made in marketable debt securities.

Interest expense is related to the Notes and notes payable related to building and capital lease obligations for data centers.

During the three months ended March 31, 2016 and 2017, the Company recorded a loss of $39 million and a gain of $5 million, respectively, due to the change in estimated fair value of the Hortonworks warrants during the respective periods. Changes in the estimated fair value of the Hortonworks warrants are recorded within other (expense) income, net in the Company's condensed consolidated statements of operations. See Note 2 — "Marketable Securities, Investments and Fair Value Disclosures" for additional information.

Foreign exchange (loss) gain consists of 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.

Other consists of gains from other non-operational items.

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2016 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized losses on cash flow hedges, net of tax	$ 501	Revenue
Realized losses on available-for-sale securities, net of tax	202	Other (expense) income, net
Total reclassifications for the period	$ 703	

Reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2017 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized losses on available-for-sale securities, net of tax	$ 178	Other (expense) income, net
Realized gains on foreign currency translation adjustments ("CTA"):		
Liquidation of foreign subsidiary CTA reclassification	(493)	Other (expense) income, net
Total reclassifications for the period	$ (315)	

Note 4 Acquisitions and Dispositions

The Company did not make any acquisitions during the three months ended March 31, 2016 or 2017.

Patent Sale and License Agreement

During 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 amounts allocated to the license of the Existing Patents are being recorded as revenue over the four-year payment period under the license when payments are due. The amounts allocated to the Capture Period Patents are being recorded as revenue over the five-year capture period. The Company recognized $22 million in revenue related to the Existing Patents and the Capture Period Patents during both the three months ended March 31, 2016 and 2017.

The Company sold certain patents and recorded gains on sales of patents of approximately $2 million for the three months ended March 31, 2016.

Pending Sale of the Operating Business to Verizon Communications Inc.

On July 23, 2016, the Company entered into a Stock Purchase Agreement (the “Original Stock Purchase Agreement”) with Verizon Communications Inc. (“Verizon”), pursuant to which the Company has agreed to sell, and Verizon has agreed to purchase (the “Sale Transaction”), all of the outstanding shares of Yahoo Holdings, Inc., a newly formed wholly-owned subsidiary of the Company (“Yahoo Holdings”) (and prior to the sale of Yahoo Holdings to cause Yahoo Holdings to sell to a foreign subsidiary of Verizon all of the equity interests in a foreign subsidiary of Yahoo Holdings that will hold certain foreign subsidiaries relating to the Company’s operating business), which, immediately prior to the consummation of the Sale Transaction, will own the Company’s operating business. Under the Original Stock Purchase Agreement, the aggregate consideration to be paid to the Company by Verizon in connection with the Sale Transaction was $4,825,800,000 in cash, subject to certain adjustments as provided in the Original Stock Purchase Agreement.

Concurrently with the execution of the Original Stock Purchase Agreement, the Company entered into a Reorganization Agreement (the “Original Reorganization Agreement”) with Yahoo Holdings, pursuant to which the Company will transfer to Yahoo Holdings prior to the consummation of the Sale Transaction all of its assets and liabilities relating to its operating business, other than specified excluded assets and retained liabilities (the “Reorganization”).

On February 20, 2017, the Company and Verizon entered into an Amendment to the Stock Purchase Agreement amending the Original Stock Purchase Agreement (the “SPA Amendment” and, together with the Original Stock Purchase Agreement, the “Amended Stock Purchase Agreement”), and, concurrently with the execution of the SPA Amendment, the Company and Yahoo Holdings entered into an Amendment to the Reorganization Agreement amending the Original Reorganization Agreement (the “RA Amendment”). Additionally, concurrently with the execution of the SPA Amendment and the RA Amendment, the Company, Yahoo Holdings, and Verizon entered into a Settlement and Release Agreement (the “Settlement and Release Agreement”).

The SPA Amendment, among other things, (i) reduced the consideration to be paid by Verizon to the Company in connection with the Sale Transaction by $350,000,000 to $4,475,800,000, (ii) provided that certain data security incidents to which the Company has been subject will be disregarded for purposes of determining whether certain closing conditions have been satisfied and in determining whether a “Business Material Adverse Effect” has occurred, and (iii) provided that the date after which each of Yahoo and Verizon may terminate the Amended Stock Purchase Agreement if the Closing (as defined in the Amended Stock Purchase Agreement) has not occurred has been extended to July 24, 2017.

The RA Amendment provides, among other things, that the Company and Verizon will each be responsible for 50 percent of certain post-closing cash liabilities related to certain data security incidents and other data breaches incurred by the Company.

Under the terms of the Settlement and Release Agreement, among other things, Verizon released certain claims, subject to certain exceptions, it (and its affiliates and representatives) may have against the Company (or its affiliates and representatives) relating to certain data security incidents and other data breaches incurred by the Company.

Upon completion of the Sale Transaction, Verizon will also receive for its benefit and that of its current and certain of its future affiliates, a non-exclusive, worldwide, perpetual, royalty-free license to certain intellectual property not core to the operating business held by Excalibur IP, LLC, a wholly-owned subsidiary of the Company (“Excalibur”), that is not being transferred to Yahoo Holdings with the operating business.

The excluded assets include the Company’s cash and marketable securities as of the closing of the Sale Transaction, the Company’s shares in Alibaba Group and Yahoo Japan, certain other minority equity investments, and all of the equity in Excalibur. The retained liabilities will include the Notes, securityholder litigation, certain director and officer indemnification obligations, and, pursuant to the RA Amendment, 50 percent of certain post-closing cash liabilities related to certain data security incidents and other data breaches incurred by the Company. Following the closing of the Sale Transaction, the excluded assets and retained liabilities will remain in the Company which will be renamed Altaba Inc. and will become an independent, publicly traded, management investment company registered under the Investment Company Act of 1940.

The closing of the Sale Transaction is subject to certain conditions, including, among others, the approval of the Sale Transaction by the Company's stockholders, the closing of the Reorganization, and certain other customary closing conditions. The special meeting of the Company's stockholders at which they will vote whether to approve the Sale Transaction has been scheduled for June 8, 2017.

Note 5 Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2017 were as follows (in thousands):

	Americas(1)	EMEA(2)	Asia Pacific(3)	Total
Net balance as of January 1, 2017	$ 123,985	$ -	$ 291,824	$ 415,809
Foreign currency translation adjustments	-	-	14,654	14,654
Net balance as of March 31, 2017	$ 123,985	$ -	$ 306,478	$ 430,463

(1) Gross goodwill balance for the Americas segment was $4.4 billion as of March 31, 2017. The Americas segment includes accumulated impairment losses of $4.3 billion as of March 31, 2017.

(2) Gross goodwill balance for the EMEA segment was $1.2 billion as of March 31, 2017. The EMEA segment includes accumulated impairment losses of $1.2 billion as of March 31, 2017.

(3) Gross goodwill balance for the Asia Pacific segment was $465 million as of March 31, 2017. The Asia Pacific segment includes accumulated impairment losses of $159 million as of March 31, 2017.

Given the partial impairment recorded in the Tumblr reporting unit in 2016, it is reasonably possible that changes in judgments, assumptions and estimates the Company made in assessing the fair value of goodwill could cause the Company to consider some portion or all of the remaining goodwill of the Tumblr reporting unit to become impaired. In addition, a future decline in market conditions and/or changes in the Company's market share could negatively impact the market comparables, estimated future cash flows and discount rates used in the market and income approaches to determine the fair value of the reporting unit and could result in an impairment charge in the foreseeable future.

Note 6 Intangible Assets, Net

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

	December 31, 2016	March 31, 2017		
	Net	Gross Carrying Amount	Accumulated Amortization(*)	Net
Customer, affiliate, and advertiser related relationships	$ 102,765	$ 349,293	$ (256,826)	$ 92,467
Developed technology and patents	47,243	122,182	(82,588)	39,594
Tradenames, trademarks, and domain names	11,636	66,631	(56,268)	10,363
Total intangible assets, net	$ 161,644	$ 538,106	$ (395,682)	$142,424

(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately $18 million as of March 31, 2017.

For the three months ended March 31, 2016 and 2017, the Company recognized amortization expense for intangible assets of $32 million and $19 million, respectively, including $14 million and $8 million in cost of revenue — other for the three months ended March 31, 2016 and 2017, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2017 and each of the succeeding years is as follows: nine months ending December 31, 2017: $56 million; 2018: $55 million; 2019: $30 million; 2020: $1 million; 2021 and cumulatively thereafter: less than $1 million.

Note 7 Basic and Diluted Net (Loss) Income Attributable to Yahoo! Inc. Common Stockholders per Share

Basic and diluted net (loss) 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 Directors' Stock Plan (the "Directors' Plan")). Diluted net (loss) 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 the incremental common shares issuable upon the exercise of stock options. As a result of the adoption of ASU 2016-09, the excess tax benefit from stock-based awards is no longer included in the calculation of diluted shares under the treasury stock method. This has been applied prospectively.

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

For the three months ended March 31, 2017, potentially dilutive securities representing approximately 2 million shares of common stock were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

The Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion of the Notes. The Company's intent is to settle the principal amount of the Notes in cash upon conversion. As a result, upon conversion of the Notes, only the amounts payable in excess of the principal amounts of the Notes are considered in diluted earnings per share under the treasury stock method.

The denominator for diluted net (loss) income per share also does not include any effect from the note hedges. In future periods, the denominator for diluted net (loss) income per share will exclude any effect of the note hedges, if their effect would be anti-dilutive. In the event an actual conversion of any or all of the Notes occurs, the shares that would be delivered to the Company under the note hedges are designed to neutralize the dilutive effect of the shares that the Company would issue under the Notes. See Note 10 — "Convertible Notes" for additional information.

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

	Three Months Ended March 31, 2016	2017
Basic:		
Numerator:		
Net (loss) income attributable to Yahoo! Inc.	$ (99,232)	$ 99,434
Net (loss) income attributable to Yahoo! Inc. common stockholders — basic	$ (99,232)	$ 99,434
Denominator:		
Weighted average common shares	945,719	955,859
Net (loss) income attributable to Yahoo! Inc. common stockholders per share — basic	$ (0.10)	$ 0.10
Diluted:		
Numerator:		
Net (loss) income attributable to Yahoo! Inc.	$ (99,232)	$ 99,434
Less: Net income attributable to participating securities	-	(1)
Less: Effect of dilutive securities issued by equity investees	-	(1,256)
Net (loss) income attributable to Yahoo! Inc. common stockholders — diluted	$ (99,232)	$ 98,177
Denominator:		
Denominator for basic calculation	945,719	955,859
Weighted average effect of Yahoo! Inc. dilutive securities:		
Restricted stock units	-	4,810
Stock options	-	2,500
Denominator for diluted calculation	945,719	963,169
Net (loss) income attributable to Yahoo! Inc. common stockholders per share — diluted	$ (0.10)	$ 0.10

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Note 8 Investments in Equity Interests Accounted for Using the Equity Method of Accounting

The following table summarizes the Company's investments in equity interests using the equity method of accounting (dollars in thousands):

	December 31, 2016	Percent Ownership	March 31, 2017	Percent Ownership
Yahoo Japan	$ 3,192,884	35.5%	$ 2,841,100	35.5%

Equity Investment in Yahoo Japan

The investment in Yahoo Japan is 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 operations.

The Company makes adjustments to the earnings in equity interests line in the condensed consolidated statements of operations for any material differences between U.S. GAAP and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, 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 $9.3 billion as of March 31, 2017.

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 summarized financial information to address differences between IFRS and U.S. GAAP that materially impact the summarized financial information below. Any other differences between U.S. GAAP and IFRS did not have any material impact on the Yahoo Japan's summarized financial information presented below:

	Three Months Ended December 31,	
	2015	2016
	(In thousands)	
Operating data:		
Revenue	$ 958,861	$ 1,232,624
Gross profit	$ 754,739	$ 959,969
Income from operations	$ 344,951	$ 450,513
Net income	$ 234,514	$ 320,141
Net income attributable to Yahoo Japan	$ 234,663	$ 321,283

	September 30, 2016	December 31, 2016
	(In thousands)	
Balance sheet data:		
Current assets	$ 7,155,657	$ 6,749,240
Long-term assets	$ 4,332,498	$ 3,823,752
Current liabilities	$ 2,866,924	$ 2,878,140
Long-term liabilities	$ 435,253	$ 380,635
Noncontrolling interests	$ 209,363	$ 176,597

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 $62 million and $66 million for the three months ended March 31, 2016 and 2017, respectively. As of both December 31, 2016 and March 31, 2017, the Company had net receivable balances from Yahoo Japan of approximately $46 million.

Note 9 Foreign Currency 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 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 (loss) 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 operations when the underlying hedged revenue is recognized. Any ineffective portions of net investment hedges and cash flow hedges are recorded in other (expense) income, net on the Company's condensed consolidated statements of operations. For balance sheet hedges, changes in the fair value are recorded in other (expense) income, net on the Company's condensed consolidated statements of operations.

The Company enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of foreign exchange contracts with the same counterparty, subject to applicable requirements. The Company presents its derivative assets and liabilities at their gross fair values on the condensed consolidated balance sheets. 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 currently hedges, on an after-tax basis, a portion of its net investment in Yahoo Japan with forward 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, 2016 and March 31, 2017. As such, the net investment hedge was considered to be effective.

Cash Flow Hedges. The Company entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through April 30, 2017. The cash flow hedges were considered to be effective as of December 31, 2016 and March 31, 2017. All of the forward contracts designated as cash flow hedges that were settled were reclassified to revenue during both the three months ended March 31, 2016 and 2017. All current outstanding cash flow hedges have been reclassified into revenue during the three months ended March 31, 2017. For the three months ended March 31, 2016 and 2017, the amounts recorded in other (expense) income, net as a result of hedge ineffectiveness were not material.

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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 monetary assets and liabilities, including intercompany transactions, which are denominated in foreign currencies.

Notional amounts of the Company's outstanding derivative contracts as of December 31, 2016 and March 31, 2017 were as follows (in millions):

	December 31, 2016	March 31, 2017
Derivatives designated as hedging instruments:		
Net investment hedge forward and option contracts	$ 200	$ 200
Cash flow hedge forwards	$ 19	$ 25
Derivatives not designated as hedging instruments:		
Balance sheet hedges	$ 342	$ 195

Foreign currency derivative activity for the three months ended March 31, 2016 was as follows (in millions):

	Beginning Fair Value	Settlement Payment (Receipt), Net	Gain (Loss) Recorded in Other (Expense) Income, Net	Gain (Loss) Recorded in Other Comprehensive (Loss) income	Gain (Loss) Recorded in Revenue	Ending Fair Value
Derivatives designated as hedging instruments:						
Net investment hedges	$ 74	$ (31)	$ -	$ (48) (*)	$ -	$ (5)
Cash flow hedges	$ 2	$ (1)	$ -	$ (3)	$ (1)	$ (3)
Derivatives not designated as hedging instruments:						
Balance sheet hedges	$ 2	$ (1)	$ (2)	$ -	$ -	$ (1)

(*) This amount does not reflect the tax impact of $17 million recorded during the three months ended March 31, 2016. The $31 million after tax impact of the loss recorded within other comprehensive (loss) income was included in accumulated other comprehensive income on the Company's condensed consolidated balance sheets.

Foreign currency derivative activity for the three months ended March 31, 2017 was as follows (in millions):

	Beginning Fair Value	Settlement Payment (Receipt), Net	Gain (Loss) Recorded in Other (Expense) Income, Net	Gain (Loss) Recorded in Other Comprehensive (Loss) income	Gain (Loss) Recorded in Revenue	Ending Fair Value
Derivatives designated as hedging instruments:						
Net investment hedges	$ (9)	$ -	$ -	$ (9) (*)	$ -	$ (18)
Cash flow hedges	$ -	$ -	$ -	$ -	$ -	$ -
Derivatives not designated as hedging instruments:						
Balance sheet hedges	$ 11	$ (7)	$ (2)	$ -	$ -	$ 2

(*) This amount does not reflect the tax impact of $3 million recorded during the three months ended March 31, 2017. The $6 million after tax impact of the loss recorded within other comprehensive (loss) income was included in accumulated other comprehensive income on the Company's condensed consolidated balance sheets.

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

	Balance Sheet Location	December 31, 2016	March 31, 2017
Derivatives designated as hedging instruments:			
Net investment hedges	Asset(1)	$ -	$ -
	Liability(2)	$ (9)	$ (18)
Cash flow hedges	Asset(1)	$ -	$ -
	Liability(2)	$ -	$ -
Derivatives not designated as hedging instruments:			
Balance sheet hedges	Asset(1)	$ 12	$ 2
	Liability(2)	$ (1)	$ -

(1) Included in prepaid expenses and other current assets or other long-term assets on the condensed consolidated balance sheets.

(2) Included in accrued expenses and other current liabilities or other long-term liabilities on the condensed consolidated balance sheets.

Note 10 Convertible Notes

0.00% Convertible Senior Notes

As of March 31, 2017, the Company had $1.4 billion in 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 was issued at par value. 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 the 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 with respect to the remainder of its conversion obligation in excess of the aggregate principal amount (conversion spread). As of March 31, 2017, none of the conditions allowing holders of the Notes to convert had been met.

The Notes consist of the following (in thousands):

	December 31, 2016	March 31, 2017
Liability component:		
Principal	$ 1,437,500	$ 1,437,500
Less: note discount	(137,555)	(120,388)
Net carrying amount	$ 1,299,945	$ 1,317,112
Equity component (*)	$ 305,569	$ 305,569

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

The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Accretion of convertible note discount	$ 16,290	$ 17,167

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 (carrying value excludes the equity component of the Notes classified in equity) were as follows (in thousands):

	December 31, 2016		March 31, 2017	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible senior notes	$ 1,314,876	$ 1,299,945	$ 1,329,882	$ 1,317,112

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Note 11 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 16 years which expire between 2017 and 2025. A summary of gross and net lease commitments as of March 31, 2017 was as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Nine months ending December 31, 2017	$ 77	$ (11)	$ 66
Years ending December 31,			
2018	76	(12)	64
2019	62	(9)	53
2020	48	(7)	41
2021	38	(6)	32
2022	27	(2)	25
Due after 5 years	60	-	60
Total gross and net lease commitments	$ 388	$ (47)	$ 341

	Capital Lease Commitments
Nine months ending December 31, 2017	$ 8
Years ending December 31,	
2018	9
2019	5
2020	-
2021	-
2022	-
Due after 5 years	3
Gross capital lease commitments	$ 25
Less: interest	4
Net capital lease commitments included in other accrued expenses and current liabilities and other long-term liabilities	$ 21

Affiliate Commitments**.** The Company is obligated to make payments, which represent traffic acquisition costs ("TAC"), to its Affiliates. As of March 31, 2017, these commitments totaled $850 million, of which $225 million will be payable in the remainder of 2017, $300 million will be payable in 2018, $300 million will be payable in 2019, and $25 million will be payable in 2020.

Non-cancelable Obligations**.** The Company is obligated to make payments under various non-cancelable arrangements with vendors and other business partners, principally for marketing, bandwidth, co-location, and content arrangements. As of March 31, 2017, these commitments totaled $168 million, of which $81 million will be payable in the remainder of 2017, $58 million will be payable in 2018, $16 million will be payable in 2019, $4 million will be payable in 2020, $2 million will be payable in 2021, and $7 million will be payable in 2022.

Intellectual Property Rights**.** The Company is committed to make certain payments under various intellectual property arrangements of up to $4 million through 2023.

Note Payable Obligations. The Company is obligated to make payments for notes payable related to two buildings in Sunnyvale, California. The estimated timing and amounts of payments totaled $51 million, of which $4 million will be payable in the remainder of 2017, $5 million will be payable in each year from 2018 through 2021, $6 million will be payable in 2022, and $21 million will be payable thereafter.

Standby Letters of Credit. As of March 31, 2017, the Company had outstanding potential obligations relating to standby letters of credit of $34 million. Standby letters of credit are financial guarantees provided by third parties for ongoing operating liabilities such as leases, utility bills, taxes, and insurance. If any letter of credit is drawn upon by a beneficiary, the Company is obligated to reimburse the provider of the guarantee. The standby letters of credit generally renew annually.

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 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 March 31, 2017, 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.

Legal Contingencies

Patent 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.

Stockholder and Securities Matters. On April 22, 2015, a stockholder action captioned *Cathy Buch v. David Filo, et al.*, was filed in the Delaware Court of Chancery against the Company and certain of its current and former directors. The complaint asserts both derivative claims, purportedly on behalf of Yahoo, and class action claims, purportedly on behalf of the plaintiff and all similarly situated stockholders, relating to the termination of, and severance payments made to, the Company's former chief operating officer, Henrique de Castro. The plaintiff claims that certain current and former board members allegedly violated or acquiesced in the violation of the Company's Bylaws when Mr. de Castro was terminated without cause, and breached fiduciary duties by allowing Yahoo to make allegedly false and misleading statements regarding the value of his severance. The plaintiff has also asserted claims against Mr. de Castro. The plaintiff seeks to have the full Board reassess the propriety of terminating Mr. de Castro without cause, potentially leading to disgorgement in favor of the Company of the severance paid to Mr. de Castro, an equitable accounting, monetary damages, declaratory relief, injunctive relief, and an award of attorneys' fees and costs. The Company and the individual defendants filed a motion to dismiss the action, which the Court denied in part and granted in part on July 27, 2016. On April 5, 2017, the Court denied the Company's motion for partial judgment on the pleadings.

On January 27, 2016, a stockholder action captioned UCFW *Local 1500 Pension Fund v. Marissa Mayer, et al.*, was filed in the U.S. District Court for the Northern District of California against the Company, and certain current and former officers and directors of the Company. On April 29, 2016, the plaintiff filed an amended complaint. The amended complaint asserts derivative claims, purportedly on behalf of Yahoo, for violations of the Investment Company Act of 1940, breach of fiduciary duty, unjust enrichment, violations of

Delaware General Corporation Law Section 124, and violations of California Business & Professions Code Section 17200. The amended complaint seeks to rescind Yahoo's employment contracts with the individual defendants because those defendants allegedly caused Yahoo to illegally operate as an unregistered investment company. The plaintiff seeks disgorgement in favor of Yahoo, rescission, and an award of attorneys' fees and costs. In addition, the amended complaint asserts a direct claim against Yahoo for alleged violation of Delaware General Corporation Law Section 124(1), based on the allegation that Yahoo has illegally operated as an unregistered investment company. Pursuant to this claim, the plaintiff seeks injunctive relief preventing Yahoo from entering into any future contracts, including any contracts to sell its assets. On October 19, 2016, the District Court dismissed the amended complaint, with leave to amend. On November 18, 2016, the plaintiff filed a second amended complaint seeking substantially the same relief as it did in the amended complaint. On February 10, 2017, the District Court dismissed the second amended complaint with prejudice. On March 10, 2017, the plaintiff filed a notice of appeal.

On January 24, 2017, a stockholder action captioned *Madrack v. Yahoo! Inc., et al.*, was filed in the U.S. District Court for the Northern District of California against the Company and certain of its current officers. On March 21, 2017, a similar stockholder action captioned *Talukder v. Yahoo! Inc., et al.*, was filed in the U.S. District Court for the Northern District of California. The plaintiffs in both actions purport to represent a class of investors who purchased or otherwise acquired the Company's stock between November 12, 2013 and December 14, 2016. The complaints assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaints allege that the Company's public disclosures about its business, operations, and compliance policies were materially misleading in light of the Security Incidents discussed under "Security Incidents Contingencies" below. The complaints seek class certification, damages, interest, and an award of attorneys' fees and costs. On April 24, 2017, the District Court consolidated the two actions, now styled as In re Yahoo! Inc. Securities Litigation, and appointed lead plaintiffs and lead counsel for plaintiffs.

On February 9, 2017, a stockholder derivative action captioned *The LR Trust, et al. v. Marissa Mayer, et al.*, was filed in the Superior Court of California for the County of Santa Clara. On March 29, 2017, plaintiffs in that action filed an amended complaint. The amended complaint asserts claims for breach of fiduciary duty and indemnification, purportedly on behalf of the Company, against certain of the Company's directors and officers. The amended complaint alleges that defendants failed to prevent and disclose the Security Incidents discussed under "Security Incidents Contingencies" below and caused or allowed the Company to issue materially false and misleading statements in its public filings and other public statements. The amended complaint seeks unspecified damages, to appoint a third party to review the terms of the proposed transaction with Verizon and the proxy statement filed in connection with the proposed transaction prior to the closing of the Sale Transaction, disgorgement of profits and compensation obtained by the defendants, an award of attorneys' fees and costs, and other equitable relief.

On February 16, 2017, a stockholder derivative action captioned *Summer v. Marissa Mayer, et al.*, was filed in the U.S. District Court for the Northern District of California purportedly on behalf of the Company against certain of its current and former directors and officers. On February 17, 2017, a substantially identical stockholder derivative action captioned *Bowser v. Marissa Mayer, et al.*, was filed in the U.S. District Court for the Northern District of California against the same defendants. The complaints allege that defendants failed to disclose the Security Incidents discussed under "Security Incidents Contingencies" below and caused or allowed the Company to issue materially false and misleading statements in its public filings and other public statements. The complaints assert derivative claims, purportedly on behalf of the Company, for breach of fiduciary duty, unjust enrichment, and violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934. The complaints seek unspecified damages, to enjoin defendants from proceeding with, consummating, or closing the transactions contemplated by the Amended Stock Purchase Agreement with Verizon, disgorgement of profits and compensation obtained by the defendants, an award of attorneys' fees and costs, and other related injunctive and equitable forms of relief.

On February 20, 2017, a stockholder derivative action captioned *Oklahoma Firefighters Pension and Retirement System v. Eric Brandt, et al.*, was filed in the Delaware Court of Chancery purportedly on behalf of the Company and against certain of its current officers and directors. The complaint asserts derivative claims for breach of fiduciary duty. The complaint alleges the defendants violated their fiduciary duties by, among other things, causing or allowing the Company to issue materially false and misleading public statements and failing to disclose the Security Incidents in the Company's public disclosures and in representations and warranties provided to Verizon in connection with the Original Stock Purchase Agreement. The complaint seeks unspecified damages, equitable and injunctive relief, and an award to plaintiff of the costs and disbursements of the action, including but not limited to attorneys' fees and expenses. On May 3, 2017, the Court appointed lead counsel and stayed the action in favor of the *Spain* and *Westgaard* actions currently pending in the Superior Court of California for the County of Santa Clara, described below.

On March 7, 2017, a stockholder derivative and class action captioned *Spain v. Marissa Mayer, et al.*, was filed in the Superior Court of California for the County of Santa Clara. On March 16, 2017, a similar stockholder derivative and class action captioned *Westgaard v. Marissa Mayer, et al.*, was filed in the Superior Court of California for the County of Santa Clara. The complaints assert claims for breach of fiduciary duty, purportedly on behalf of Yahoo, against certain of Yahoo's current and former directors and officers. The complaints allege that defendants failed to prevent and disclose the Security Incidents discussed under "Security Incidents Contingencies" below and caused or allowed Yahoo to issue materially false and misleading statements in its public filings and other public statements. The complaints also assert claims of insider trading, purportedly on behalf of Yahoo, against certain defendants under California Corporations Code sections 25402 and 25403. The complaints also assert direct claims, purportedly on behalf of all current Yahoo stockholders, against the individual defendants for breach of fiduciary duty relating to public disclosures concerning the negotiation and approval of the Stock Purchase Agreement and against Verizon for aiding and abetting the individual defendants' alleged breach of fiduciary duty. The complaints seek class certification, unspecified damages, to enjoin defendants from consummating the transactions contemplated by the Stock Purchase Agreement, an award of attorneys' fees and costs, and other related injunctive and equitable forms of relief.

TCPA Litigation Concerning Yahoo Messenger. On March 21, 2014 and April 16, 2014, civil complaints were filed in the U.S. District Court for the Northern District of Illinois by plaintiffs Rachel Johnson and Zenaida Calderin, respectively, against the Company, alleging that the process by which Yahoo Messenger sends a notification SMS message in addition to delivering a user's instant message to a recipient's cellular telephone constitutes a violation of the Telephone Consumer Protection Act ("TCPA"), 47 U.S.C. § 227. The penalty per violation ranges from $500 to $1,500. The complaints, which were consolidated, seek statutory damages for a purported class of plaintiffs. In January 2016, the District Court denied class certification treatment proposed by plaintiff Calderin, who accepted a $1,500 offer of judgment to resolve her case in its entirety. The District Court certified a class proposed by plaintiff Johnson comprising more than 300,000 potential members. The Company sought permission from the United States Court of Appeals for the Seventh Circuit to appeal the District Court's certification order, which the Court of Appeals denied. On March 1, 2017, the Company filed a motion for decertification of the class. No decision has been made on the merits of plaintiffs' claims, which the Company is defending vigorously. The Company also previously defended related litigation in the United States District Court for the Southern District of California, which denied class certification in September 2015; that case was dismissed with prejudice in March 2016.

General. The Company is regularly involved in claims, suits, government investigations, and proceedings arising from the ordinary course of the Company's 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 users, stockholder derivative actions, purported class action lawsuits, and other matters.

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, would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. Amounts accrued as of March 31, 2017 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.

Security Incidents Contingencies

On September 22, 2016, the Company disclosed that a copy of certain user account information for approximately 500 million user accounts was stolen from Yahoo's network in late 2014 (the "2014 Security Incident"). On December 14, 2016, the Company disclosed that, based on its outside forensic expert's analysis of data files provided to the Company in November 2016 by law enforcement, the Company believes an unauthorized third party stole data associated with more than one billion user accounts in August 2013 (the "2013 Security Incident"). In November and December 2016, the Company disclosed that based on an investigation by its outside forensic experts, it believes an unauthorized third party accessed the Company's proprietary code to learn how to forge certain cookies. The outside forensic experts have identified approximately 32 million user accounts for which they believe forged cookies were used or taken in 2015 and 2016 (the "Cookie Forging Activity"). The 2013 Security Incident, the 2014 Security Incident, and the Cookie Forging Activity are collectively referred to herein as the "Security Incidents."

To date, approximately 43 putative consumer class action lawsuits have been filed against the Company in U.S. federal and state courts, and in foreign courts, relating to the Security Incidents, two of which were voluntarily dismissed. The plaintiffs, who purport to represent various classes of users, generally claim to have been harmed by the Company's alleged actions and/or omissions in connection with the Security Incidents and assert a variety of common law and statutory claims seeking monetary damages or other related relief.

In addition, as described above, two putative stockholder class actions have been filed against Yahoo, and certain officers of Yahoo, on behalf of persons who purchased or otherwise acquired the Company's stock between November 12, 2013 and December 14, 2016, two additional putative class actions have been filed against certain current and former directors and officers of Yahoo on behalf of current shareholders of Yahoo, and six stockholder derivative actions have been filed purportedly on behalf of Yahoo against certain of its current and former directors and officers, each asserting claims related to the Security Incidents.

Additional lawsuits and claims related to the Security Incidents may be asserted by or on behalf of users, partners, shareholders, or others seeking damages or other related relief.

While a loss from these matters is reasonably possible, the Company cannot reasonably estimate a range of possible losses related to these legal proceedings at this time because the legal proceedings remain in the early stages, alleged damages have not been specified, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual and legal issues to be resolved. Based on current information, the Company does not believe that a loss from these matters is probable and therefore has not recorded an accrual for litigation or other contingencies relating to the Security Incidents. The Company will continue to evaluate information as it becomes known and will record an accrual for estimated losses at the time or times it is determined that a loss is both probable and reasonably estimable.

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Note 12 Stockholders' Equity and Employee Benefits

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 holdbacks by Yahoo of shares of Yahoo common stock issued to founders of acquired companies in connection with certain of the Company's acquisitions) are collectively referred to as the "Plans". Stock option activity under the Company's Plans for the three months ended March 31, 2017 is summarized as follows (in thousands, except per share amounts):

	Shares		Weighted Average Exercise Price Per Share
Outstanding at December 31, 2016	4,494	$	20.04
Options exercised[1]	(226)	$	13.68
Options expired	(7)	$	27.63
Options cancelled/forfeited	(4)	$	14.88
Outstanding at March 31, 2017	4,257	$	20.37

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

As of March 31, 2017, there was $3 million of unamortized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.2 years.

Restricted Stock and Restricted Stock Units. Restricted stock and restricted stock unit activity under the Plans for the three months ended March 31, 2017 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, 2016[1]	22,250	$	41.40
Granted[2]	6,793	$	45.70
Vested	(3,635)	$	34.94
Cancelled/forfeited	(2,128)	$	37.85
Awarded and unvested at March 31, 2017[1]	23,280	$	43.99

(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 three months ended March 31, 2017 (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 three months ended March 31, 2017.

As of March 31, 2017, there was $603 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 2.7 years.

During the three months ended March 31, 2016 and 2017, 3.4 million shares and 3.6 million shares, respectively, that were subject to previously granted restricted stock units, vested. These vested restricted stock awards were net share settled. During the three months ended March 31, 2016 and 2017, the Company withheld 1.4 million shares and 1.5 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 $42 million and $68 million, respectively, for the three months ended March 31, 2016 and 2017 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. 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 RSUs. In March 2017, the Compensation Committee approved a grant of annual financial performance-based RSU awards to Ms. Utzschneider and certain senior vice presidents, and established the 2017 annual performance goals for these awards as well as for the similar performance-based RSUs granted in February 2014, March 2015, and March 2016. The 2014, 2015, 2016, and 2017 performance-based RSU awards are generally eligible to vest in equal annual target amounts over four years (three years for Ms. Mayer's prior awards) 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 portion (or "tranche") of each RSU award related to that year's performance goal is treated as a separate annual grant for accounting purposes. The 2017 financial performance metrics (and their weightings) established for the performance RSUs are: GAAP revenue (one-third), revenue ex-TAC (one-third), and adjusted EBITDA (one-third). The grant date fair value of the first tranche of the March 2017 performance RSUs was $5 million, the grant date fair value of the second tranche of the March 2016 performance RSUs was $11 million, the grant date fair value of the third tranche of the March 2015 performance RSUs was $10 million, and the grant date fair value of the fourth tranche of the February 2014 performance RSUs was $2 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 March 2017, when the financial performance goals were established. All of the Company's outstanding performance-based RSUs (including the March 2017 awards) provide that upon a "change in control" (as defined for purposes of the awards) during a performance year, the performance goals for that year will cease to apply and, instead, the tranche of the award relating to that year will automatically convert into a time-based tranche at the target number of shares for such year, with vesting contingent upon the executive's continued employment through the end of the year, subject to acceleration in certain circumstances. The March 2017 awards are not subject to acceleration in connection with any termination of employment.

Stock Repurchases**.** In March 2015, the Board authorized a stock repurchase program with an authorized level of $2 billion. The March 2015 program, according to its terms, will expire in March 2018. The aggregate amount available under the March 2015 repurchase program was $2 billion at March 31, 2017. Repurchases under the repurchase program may take place in the open market, including under Rule 10b5-1 plans or in a tender offer, or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions. During the three month periods ended March 31, 2016 and 2017, the Company did not repurchase any of its outstanding common stock.

Note 13 Restructuring Charges, Net

Restructuring charges, net consists of employee severance pay and related costs, accelerations of stock-based compensation expense, facility restructuring costs, contract termination and other non-cash charges associated with the exit of facilities, as well as reversals of restructuring charges arising from changes in estimates.

For the three months ended March 31, 2016 and 2017, restructuring charges, net was comprised of the following (in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Employee severance pay and related costs	$ 44,796	$ 251
Non-cancelable lease, contract termination, and other charges	5,904	5,828
Reversals of previous charges	(1,206)	(267)
Non-cash accelerations of stock-based compensation expense	7,374	-
Other non-cash charges (credits), net	362	-
Restructuring charges, net	$ 57,230	$ 5,812

The Company has implemented multiple 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 March 31, 2016, the Company recorded expense of $48 million, $7 million, and $2 million related to the Americas, EMEA, and Asia Pacific segments, respectively. For the three months ended March 31, 2017, the Company recorded expense of $5 million and approximately $1 million related to the Americas and EMEA segments, respectively.

The Company's restructuring accrual activity for the three months ended March 31, 2017 is summarized as follows (in thousands):

Accrual balance as of December 31, 2016	$ 43,458
Restructuring charges	5,812
Cash paid	(10,288)
Foreign currency translation and other adjustments	157
Accrual balance as of March 31, 2017	$ 39,139

The $39 million restructuring liability as of March 31, 2017 consisted of $2 million for employee severance expenses, which the Company expects to pay out by the end of the second quarter of 2017, and $37 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 2025, less estimated sublease income. Restructuring accruals by segment consisted of the following (in thousands):

	December 31, 2016	March 31, 2017
Americas	$ 38,041	$ 36,009
EMEA	5,263	2,799
Asia Pacific	154	331
Total restructuring accruals	$ 43,458	$ 39,139

Note 14 Income Taxes

The Company's effective tax rate is the result of the mix of income earned and losses incurred 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 Company recorded income tax benefits of $35 million and $26 million for the three months ended March 31, 2016 and 2017, respectively. The income tax benefits for both periods were primarily due to the Company's loss before income taxes and earnings in equity interests. The tax benefit for the three months ended March 31, 2017 also included stock-based compensation benefits recognized resulting from the adoption of ASU 2016-09. For implications of ASU 2016-09 adoption, see Note 1 – "The Company and Summary of Significant Accounting Policies" for additional information.

As of December 31, 2016, the Company distributed most of the cumulative earnings in its wholly owned foreign subsidiaries. As of March 31, 2017, there is no cumulative taxable temporary difference with respect to these foreign subsidiaries and therefore no incremental U.S. taxes were accrued. As of March 31, 2017, the Company does not have a plan to repatriate approximately $3.4 billion of earnings related to its equity method investment in Yahoo Japan. If the Company's foreign earnings were to be distributed to the U.S. in the future, the Company may be subject to additional U.S. income taxes. 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 March 31, 2017 was $1.1 billion, of which $0.8 billion is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of March 31, 2017 decreased by less than $1 million from the recorded balance as of December 31, 2016.

The Company is in various stages of examination and appeal in connection with its taxes both in the United States and in foreign jurisdictions. Those audits generally span tax years 2005 through 2015. As of March 31, 2017, the Company's 2011 through 2015 U.S. federal income tax returns are currently under examination. The Company has appealed the proposed California Franchise Tax Board's adjustments to the 2005 through 2008 returns, but no conclusions have been reached to date. The Company's 2009 through 2010 California tax returns are currently under examination. The Company's 2011 through 2015 tax years remain subject to examination by the California Franchise Tax Board for California tax purposes. While it is difficult to determine when the examinations will be settled or their final outcomes, certain audits in various jurisdictions are expected to be resolved in the foreseeable future. The Company believes that it has adequately provided for any reasonably foreseeable adverse adjustment to its tax returns and that any settlement will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows. It is reasonably possible that the Company's unrecognized tax benefits could be reduced by up to approximately $9 million in the next twelve months.

As of December 31, 2016 and March 31, 2017, the Company accrued deferred tax liabilities of $13.6 billion and $16.8 billion, respectively, associated with the 384 million ordinary shares of Alibaba Group ("Alibaba Group shares") retained by the Company. Such deferred tax liabilities are subject to periodic adjustments due to changes in the fair value of the Alibaba Group shares.

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 American Depositary Shares in Alibaba Group's initial public offering that took place during the year ended December 31, 2014. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the United States through the use of foreign tax credits.

Tax authorities from the Brazilian State of Sao Paulo have assessed certain indirect taxes against the Company's Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment is for calendar years 2008 through 2012 and as of March 31, 2017 totals approximately $150 million. 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 15 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, revenue ex-TAC (which is defined as revenue less cost of revenue — TAC), direct costs excluding TAC by segment, and consolidated loss from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company's segments.

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

	Three Months Ended March 31, 2016	2017
Revenue by segment(1):		
Americas	$ 861,539	$ 1,083,458
EMEA	76,923	107,782
Asia Pacific	148,690	136,030
Total Revenue	$ 1,087,152	$ 1,327,270
TAC by segment(1):		
Americas	$ 204,871	$ 432,684
EMEA	12,509	51,914
Asia Pacific	10,383	8,904
Total TAC	$ 227,763	$ 493,502
Revenue ex-TAC by segment:		
Americas	$ 656,668	$ 650,774
EMEA	64,414	55,868
Asia Pacific	138,307	127,126
Total Revenue ex-TAC	859,389	833,768
Direct costs by segment(2) :		
Americas	72,508	59,313
EMEA	20,609	12,702
Asia Pacific	44,648	47,688
Global operating costs(3)	585,036	543,125
Gain on sale of patents	(1,500)	-
Depreciation and amortization	139,665	115,099
Stock-based compensation expense	108,407	108,776
Restructuring charges, net	57,230	5,812
Loss from operations	$ (167,214)	$ (58,747)

(1) Commencing in the second quarter of 2016, TAC payments related to the Microsoft Search Agreement, which previously would have been recorded as a reduction to revenue, began to be recorded as cost of revenue — TAC due to a required change in revenue presentation. See Note 1 — "The Company and Summary of Significant Accounting Policies" and Note 16 — "Microsoft Search Agreement" for additional information.

(2) Direct costs for each segment include certain cost of revenue — other and costs associated with the local sales teams. Prior to the second quarter of 2016, certain account management costs associated with Yahoo Properties were managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

(3) Global operating costs include product development, marketing, real estate workplace, general and administrative, account management costs, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment. Beginning in the second quarter of 2016, certain account management costs associated with Yahoo Properties are managed globally and included as global costs. Prior period amounts have been revised to conform to the current presentation.

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	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Capital expenditures, net:		
Americas	$ 64,344	$ 49,028
EMEA	4,870	4,852
Asia Pacific	6,885	6,330
Total capital expenditures, net	$ 76,099	$ 60,210

	December 31, 2016	March 31, 2017
Property and equipment, net:		
Americas:		
U.S.	$ 1,120,124	$ 1,080,472
Other	3,086	3,000
Total Americas	$ 1,123,210	$ 1,083,472
EMEA	28,360	30,115
Asia Pacific	58,367	64,136
Total property and equipment, net	$ 1,209,937	$ 1,177,723

See Note 5 — “Goodwill” and Note 13 — “Restructuring 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 March 31,	
	2016	2017
Search	$ 491,881	$ 744,738
Display	463,019	455,882
Other	132,252	126,650
Total revenue	$ 1,087,152	$ 1,327,270

	Three Months Ended March 31,	
	2016	2017
Revenue:		
U.S.	$ 840,799	$ 1,043,587
International	246,353	283,683
Total revenue	$ 1,087,152	$ 1,327,270

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 both the three months ended March 31, 2016 and 2017.

Note 16 Microsoft Search Agreement

On December 4, 2009, the Company entered into the Microsoft Search Agreement. On February 18, 2010, the Company received regulatory clearance from both the U.S. Department of Justice and the European Commission and on February 23, 2010 the Company commenced implementation of the Microsoft Search Agreement on a market-by-market basis.

The term of the Microsoft Search Agreement is 10 years from its commencement date, February 23, 2010, subject to earlier termination as provided in the Microsoft Search Agreement. As of October 1, 2015, either the Company or Microsoft may terminate the Microsoft Search Agreement by delivering a written notice of termination to the other party. The Microsoft Search Agreement will remain in effect for four months from the date of the termination notice to provide for a transition period; however, the Company's Volume Commitment will not apply in the third and fourth months of this transition period.

On April 15, 2015, the Company and Microsoft entered into the Eleventh Amendment pursuant to which the terms of the Microsoft Search Agreement were amended. Previously under the Microsoft Search Agreement, Microsoft was the exclusive algorithmic and paid search services provider to Yahoo on personal computers for Yahoo Properties and for search services provided by Yahoo to Affiliate sites. Microsoft was the non-exclusive provider on mobile devices. Pursuant to the Eleventh Amendment, Microsoft will provide such services on a non-exclusive basis for Yahoo Properties and Affiliate sites on all devices. Commencing on May 1, 2015, Yahoo is required to request paid search results from Microsoft for 51 percent of search queries originating from desktop computers accessing Yahoo Properties and Affiliate sites (the "Volume Commitment") and will display only Microsoft's paid search results on such search result pages.

Prior to the Eleventh Amendment, the Company was entitled to receive a percentage of the revenue (the "Revenue Share Rate") with respect to revenue generated from paid search results on Yahoo Properties and on Affiliate sites after deduction of the Affiliate sites' share of revenue and certain Microsoft costs. The Revenue Share Rate was 88 percent for the first five years of the Microsoft Search Agreement and then increased to 90 percent on February 23, 2015. Pursuant to the Eleventh Amendment, the Revenue Share Rate increased to 93 percent, but Microsoft now receives its 7 percent revenue share before deduction of the Affiliate site's share of revenue. The Company is responsible for paying the Affiliate for the Affiliate site's share of revenue.

Previously under the Microsoft Search Agreement, Yahoo had sales exclusivity for both the Company's and Microsoft's premium advertisers. For reporting periods ended December 31, 2014 and 2015, and March 31, 2016, TAC related to the Company's Microsoft Search Agreement was recorded as a reduction to revenue. Pursuant to the Eleventh Amendment, the Company completed the transition of its exclusive sales responsibilities to Microsoft for Microsoft's paid search services to premium advertisers in the United States, Canada, and Europe on April 1, 2016 and in its remaining markets (other than Taiwan and Hong Kong) on June 1, 2016.

Following the transition in each respective market, Yahoo is considered the principal in the sale of traffic to Microsoft and other customers. As a result, the amounts paid to Affiliates under the Microsoft Search Agreement in the transitioned markets are recorded as cost of revenue — TAC rather than as a reduction to GAAP revenue, resulting in GAAP revenue from the Microsoft Search Agreement being reported on a gross rather than net basis.

Approximately 29 percent and 42 percent of the Company's revenue for the three months ended March 31, 2016 and 2017, respectively, was attributable to the Microsoft Search Agreement. Commencing in the second quarter of 2016, TAC payments related to the Microsoft Search Agreement for transitioned markets, which previously would have been recorded as a reduction to revenue, began to be recorded as a cost of revenue due to a required change in revenue presentation. During the three months ended March 31, 2017, $304 million of GAAP revenue and cost of revenue — TAC was due to the change in revenue presentation. See Note 1 — "The Company and Summary of Significant Accounting Policies" for additional information on change in revenue presentation.

The Company's uncollected revenue share in connection with the Microsoft Search Agreement was $392 million and $364 million, which is included in accounts receivable, net, as of December 31, 2016 and March 31, 2017, respectively.

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

Overview

Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo," the "Company," "we," or "us"), is a guide to digital information discovery, focused on informing, connecting, and entertaining our users through our search, communications, and digital content products. By creating highly personalized experiences, we help users discover the information that matters most to them around the world — on mobile or desktop. We create value for advertisers with a streamlined, simple advertising technology that leverages Yahoo's data, content, and technology to connect advertisers with their target audiences. Advertisers can build their businesses through advertising to targeted audiences on our online properties and services ("Yahoo Properties") and 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 search and display advertising. We continue to manage and measure our business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. As of March 31, 2017, we had approximately 8,600 full-time employees and approximately 700 contractors.

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

- Recent Developments;
- Significant Transactions;
- Key Financial Metrics;
- Results of Operations;
- Segment Reporting;
- Liquidity and Capital Resources;
- Critical Accounting Policies and Estimates; and
- Recent Accounting Pronouncements.

Recent Developments

Pending Sale of the Operating Business to Verizon Communications Inc.

On July 23, 2016, we entered into a Stock Purchase Agreement (the "Original Stock Purchase Agreement") with Verizon Communications Inc. ("Verizon"), pursuant to which we have agreed to sell, and Verizon has agreed to purchase (the "Sale Transaction"), all of the outstanding shares of Yahoo Holdings, Inc., a newly formed wholly-owned subsidiary of Yahoo ("Yahoo Holdings") (and prior to the sale of Yahoo Holdings, to cause Yahoo Holdings to sell to a foreign subsidiary of Verizon all of the equity interests in a foreign subsidiary of Yahoo Holdings that will hold certain foreign subsidiaries relating to our operating business), which, immediately prior to the consummation of the Sale Transaction, will own our operating business. Under the Original Stock Purchase Agreement, the aggregate consideration to be paid to us by Verizon in connection with the Sale Transaction was $4,825,800,000 in cash, subject to certain adjustments as provided in the Original Stock Purchase Agreement.

Concurrently with the execution of the Original Stock Purchase Agreement, we entered into a Reorganization Agreement (the "Original Reorganization Agreement") with Yahoo Holdings, pursuant to which we will transfer to Yahoo Holdings prior to the consummation of the Sale Transaction all of our assets and liabilities relating to our operating business, other than specified excluded assets and retained liabilities (the "Reorganization").

On February 20, 2017, Yahoo and Verizon entered into an Amendment to the Stock Purchase Agreement amending the Original Stock Purchase Agreement (the "SPA Amendment" and, together with the Original Stock Purchase Agreement, the "Amended Stock Purchase Agreement"), and, concurrently with the execution of the SPA Amendment, Yahoo and Yahoo Holdings entered into an

Amendment to the Reorganization Agreement amending the Original Reorganization Agreement (the “RA Amendment”). Additionally, concurrently with the execution of the SPA Amendment and the RA Amendment, Yahoo, Yahoo Holdings, and Verizon entered into a Settlement and Release Agreement (the “Settlement and Release Agreement”).

The SPA Amendment, among other things, (i) reduced the consideration to be paid by Verizon to Yahoo in connection with the Sale Transaction by $350,000,000 to $4,475,800,000, (ii) provided that certain data security incidents to which Yahoo has been subject will be disregarded for purposes of determining whether certain closing conditions have been satisfied and in determining whether a “Business Material Adverse Effect” has occurred, and (iii) provided that the date after which each of Yahoo and Verizon may terminate the Amended Stock Purchase Agreement if the Closing (as defined in the Amended Stock Purchase Agreement) has not occurred has been extended to July 24, 2017.

The RA Amendment provides, among other things, that Yahoo and Verizon will each be responsible for 50 percent of certain post-closing cash liabilities related to certain data security incidents and other data breaches incurred by the Company.

Under the terms of the Settlement and Release Agreement, among other things, Verizon released certain claims, subject to certain exceptions, it (and its affiliates and representatives) may have against the Company (or its affiliates and representatives) relating to certain data security incidents and other data breaches incurred by the Company.

Upon completion of the Sale Transaction, Verizon will also receive for its benefit and that of its current and certain of its future affiliates, a non-exclusive, worldwide, perpetual, royalty-free license to certain intellectual property not core to the operating business held by Excalibur IP, LLC, a wholly-owned subsidiary of the Company (“Excalibur”), that is not being transferred to Yahoo Holdings with the operating business.

The excluded assets include our cash and marketable securities as of the closing of the Sale Transaction, our shares in Alibaba Group Holding Limited (“Alibaba Group”) and Yahoo Japan Corporation (“Yahoo Japan”), certain other minority equity investments, and all of the equity in Excalibur. The retained liabilities will include the 0.00% Convertible Senior Notes due 2018 (“Notes”) we issued in November 2013, securityholder litigation, certain director and officer indemnification obligations, and, pursuant to the RA Amendment, 50 percent of certain post-closing cash liabilities related to certain data security incidents and other data breaches incurred by Yahoo. Following the closing of the Sale Transaction, the excluded assets and retained liabilities will remain in Yahoo which will be renamed Altaba Inc. and will become an independent, publicly traded, management investment company registered under the Investment Company Act of 1940.

The closing of the Sale Transaction is subject to certain conditions, including, among others, the approval of the Sale Transaction by our stockholders, the closing of the Reorganization, and certain other customary closing conditions.

The Amended Stock Purchase Agreement may be terminated by us or Verizon in certain circumstances. If the Amended Stock Purchase Agreement is terminated, we may be required to pay Verizon a termination fee of $134,274,000 (which was reduced from $144,744,000 pursuant to the SPA Amendment) in certain circumstances, including if we terminate the Amended Stock Purchase Agreement to enter into a superior proposal satisfying certain requirements.

Under the terms of the Amended Stock Purchase Agreement, each of our stock options outstanding immediately prior to the closing will, if not already vested, become fully vested as of the closing and will remain outstanding in accordance with its terms, and we will retain all liabilities and obligations with respect to such outstanding stock options. Each restricted stock unit (an “RSU”) of the Company that is outstanding immediately prior to the closing generally will be replaced with a cash-settled Verizon RSU award, and will be subject to the same vesting and other terms and conditions as the Yahoo RSUs.

We filed a definitive proxy statement soliciting stockholders’ approval of the Sale Transaction with the U.S. Securities and Exchange Commission on April 24, 2017. The special meeting of the Company’s stockholders at which they will vote whether to approve the Sale Transaction has been scheduled for June 8, 2017. The Sale Transaction is expected to close in June 2017.

Security Incidents

Description of Events

On September 22, 2016, we disclosed that a copy of certain user account information for approximately 500 million user accounts was stolen from Yahoo's network in late 2014 (the "2014 Security Incident"). The Company believes the user account information was stolen by a state-sponsored actor. The user account information taken included names, email addresses, telephone numbers, dates of birth, hashed passwords (the vast majority with the "bcrypt" hashing algorithm) and, in some cases, encrypted or unencrypted security questions and answers. Our forensic investigation indicates that the stolen information did not include unprotected passwords, payment card data, or bank account information. Payment card data and bank account information are not stored in the system that the investigation found to be affected. We have no evidence that the state-sponsored actor is currently in or accessing the Company's network.

On December 14, 2016, we disclosed that, based on our outside forensic expert's analysis of data files provided to the Company in November 2016 by law enforcement, we believe an unauthorized third party stole data associated with more than one billion user accounts in August 2013 (the "2013 Security Incident"). We have not been able to identify the intrusion associated with this theft, and we believe this incident is likely distinct from the 2014 Security Incident. For potentially affected accounts, the user account information stolen included names, email addresses, telephone numbers, dates of birth, hashed passwords (using the MD5 algorithm) and, in some cases, encrypted or unencrypted security questions and answers. The stolen information did not include passwords in clear text, payment card data, or bank account information.

In November and December 2016, we disclosed that our outside forensic experts were investigating the creation of forged cookies that could allow an intruder to access users' accounts without a password. Based on the investigation, we believe an unauthorized third party accessed the Company's proprietary code to learn how to forge certain cookies. The outside forensic experts have identified approximately 32 million user accounts for which they believe forged cookies were used or taken in 2015 and 2016 (the "Cookie Forging Activity"). We believe that some of this activity is connected to the same state-sponsored actor believed to be responsible for the 2014 Security Incident. The forged cookies have been invalidated by the Company so they cannot be used to access user accounts.

The 2013 Security Incident, the 2014 Security Incident, and the Cookie Forging Activity are collectively referred to herein as the "Security Incidents."

Current and Future Expenses and Losses

We recorded expenses of $16 million related to the Security Incidents in the three months ended March 31, 2017, of which $5 million was associated with the forensic investigation and remediation activities and $11 million was associated with nonrecurring legal costs. The Security Incidents did not have a material adverse impact on our business, cash flows, financial condition, or results of operations for the three months ended March 31, 2017. We have subsequently incurred additional expenses related to the Security Incidents to investigate and take remedial actions to notify and protect our users and systems, and expect to continue to incur legal, investigation, remediation, and other expenses associated with the Security Incidents in the foreseeable future. We will recognize and include these expenses as part of our operating expenses as they are incurred. The Company does not have cybersecurity liability insurance.

Litigation, Claims, and Governmental Investigations

To date, approximately 43 putative consumer class action lawsuits have been filed against the Company in U.S. federal and state courts, and in foreign courts, relating to the Security Incidents, two of which were voluntarily dismissed. The plaintiffs, who purport to represent various classes of users, generally claim to have been harmed by the Company's alleged actions and/or omissions in connection with the Security Incidents and assert a variety of common law and statutory claims seeking monetary damages or other related relief. In addition, two putative stockholder class actions have been filed against the Company, and certain officers of the Company, on behalf of persons who purchased or otherwise acquired the Company's stock between November 12, 2013 and December 14, 2016, two additional putative class actions have been filed against certain current and former directors and officers of the Company on behalf of current stockholders of the Company, and six stockholder derivative actions have been filed purportedly on behalf of the Company against certain of its current and former directors and officers, each asserting claims related to the Security Incidents. See Note 11 — "Commitments and Contingencies" in the Notes to our condensed consolidated financial statements for additional information. Additional lawsuits and claims related to the Security Incidents may be asserted by or on behalf of users, partners, shareholders, or others seeking damages or other related relief.

In addition, the Company is cooperating with federal, state, and foreign governmental officials and agencies seeking information and/or documents about the Security Incidents and related matters, including the U.S. Securities and Exchange Commission ("SEC"), the U.S. Federal Trade Commission, the U.S. Attorney's Office for the Southern District of New York, and two State Attorneys General.

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Significant Transactions

Microsoft Search Agreement

The term of the Search and Advertising Services and Sales Agreement (“Microsoft Search Agreement”) with Microsoft Corporation (“Microsoft”) is 10 years from its commencement date, February 23, 2010, subject to earlier termination as provided in the Microsoft Search Agreement. Under the current terms of the Microsoft Search Agreement, as amended on April 15, 2015 by the Eleventh Amendment to the Microsoft Search Agreement (the “Eleventh Amendment”), we are entitled to receive a percentage of the revenue (the “Revenue Share Rate”) generated from Microsoft’s services on Yahoo Properties and on Affiliate sites equal to 93 percent. Microsoft receives its 7 percent revenue share before deduction of the Affiliate site’s share of revenue. Yahoo is responsible for paying the Affiliate for the Affiliate site’s share of revenue. Pursuant to the Eleventh Amendment, commencing on May 1, 2015, we also agreed to request paid search results from Microsoft for 51 percent of our search queries originating from personal computers accessing Yahoo Properties and our Affiliate sites and will display only Microsoft’s paid search results on such search result pages.

Traffic acquisition costs (“TAC”) related to our Microsoft Search Agreement were recorded as a reduction to revenue through March 31, 2016. Pursuant to the Eleventh Amendment to the Microsoft Search Agreement, we completed the transition of our exclusive sales responsibilities to Microsoft for Microsoft’s paid search services to premium advertisers in the United States, Canada, and Europe on April 1, 2016 and in the remaining markets (other than Taiwan and Hong Kong) on June 1, 2016. Following the transition in each respective market, we are considered the principal in the sale of traffic to Microsoft and other customers because we are the primary obligor in our arrangements with Microsoft and have discretion in how search queries from Affiliate sites will be fulfilled and monetized. As a result, amounts paid to Affiliates under the Microsoft Search Agreement in the transitioned markets are recorded as cost of revenue — TAC rather than as a reduction to revenue, resulting in GAAP revenue from the Microsoft Search Agreement being reported on a gross rather than a net basis.

Effective June 3, 2016, Yahoo and Microsoft further amended the Microsoft Search Agreement to provide that sales responsibilities for premium advertisers in Taiwan and Hong Kong will not be transitioned. TAC in those markets will continue to be reported as a reduction to revenue.

The table below presents how we accounted for amounts paid to Affiliates related to the Microsoft Search Agreement in transitioned markets, and shows the impact of the implementation of the Eleventh Amendment in transitioned markets (in thousands):

	Three Months Ended March 31,	
	2016	2017
Cost of revenue — TAC in transitioned markets(*)	$ -	$ 303,799
Reduction to revenue in transitioned markets	$ 271,328	$ -

(*) Includes $257 million in the Americas segment, $45 million in the EMEA segment, and $2 million in the Asia Pacific segment.

Revenue under the Microsoft Search Agreement represented approximately 29 percent and 42 percent of our revenue for the three months ended March 31, 2016 and 2017, respectively. The increase in revenue from Microsoft was due to the change in revenue presentation related to the Eleventh Amendment that took place in the second quarter of 2016 for which we now account for amounts paid to Affiliates in transitioned markets as cost of revenue — TAC. Excluding the impact of the change in revenue presentation related to the Eleventh Amendment, revenue under the Search Agreement declined year-over-year, representing approximately 25 percent of our revenue for the three months ended March 31, 2017, due to a shift in composition of revenue from Microsoft to Google Inc. (“Google”) and Yahoo Gemini (our unified marketplace for search and native advertising on Yahoo Properties and Affiliate sites) from which we can source search results and advertisements as allowed by the Eleventh Amendment.

See Note 16 — “Microsoft Search Agreement” in the Notes to our condensed consolidated financial statements for additional information.

Key Financial Metrics

The key financial metrics we use are as follows: revenue; revenue less traffic acquisition costs (“TAC”), or revenue ex-TAC; loss from operations; net (loss) income attributable to Yahoo! Inc.; adjusted EBITDA; net cash provided by (used in) 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 U.S. generally accepted accounting principles (“GAAP”). 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.

	Three Months Ended March 31,	
	2016	2017
	(in thousands)	
Revenue	$ 1,087,152	$ 1,327,270
Revenue ex-TAC	$ 859,389	$ 833,768
Loss from operations(1)	$ (167,214)	$ (58,747)
Net (loss) income attributable to Yahoo! Inc.	$ (99,232)	$ 99,434
Adjusted EBITDA	$ 147,072	$ 188,297
Net cash provided by operating activities	$ 365,768	$ 214,455
Free cash flow(2)	$ 297,195	$ 154,245
(1) Includes:		
Stock-based compensation expense	$ 108,407	$ 108,776
Restructuring charges, net	$ 57,230	$ 5,812

(2) During the three months ended March 31, 2016, we received a $190 million cash tax refund associated with our claim to carry back 2015 losses and tax attributes to earlier taxable years.

Revenue ex-TAC. Revenue ex-TAC is a non-GAAP financial measure defined as GAAP revenue less TAC that has been recorded as a cost of revenue. TAC consists of payments made to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo Properties. TAC is recorded either as a reduction to revenue or as cost of revenue.

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

Free Cash Flow. Free cash flow is defined as net cash provided by operating activities (adjusted for periods prior to the first quarter of 2017 to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net (i.e., acquisition of property and equipment less proceeds received from disposition of property and equipment) and dividends received from equity investee. Commencing in the first quarter of 2017, we have prospectively adopted changes to the statement of cash flows prescribed by Accounting Standards Update (ASU) 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which require us to classify excess tax benefits along with other income tax cash flows as an operating activity in the statement of cash flows. As a result, we no longer present excess tax benefits from stock-based awards as an outflow in operating activities and as an inflow in financing activities on the statement of cash flows and, accordingly, there is no adjustment for excess tax benefits from stock-based awards in the calculation of free cash flow for the first quarter of 2017.

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, 2016 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

In this Management’s Discussion and Analysis, we also present adjusted GAAP revenue and cost of revenue — TAC amounts for the three months ended March 31, 2017 that exclude the effect of the change in revenue presentation related to implementation of the Eleventh Amendment to the Microsoft Search Agreement. We believe providing this additional information to investors is useful because it provides investors with comparable revenue and cost of revenue — TAC measures for comparison to our historical reported financial information.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017	2016-2017 % Change
	(dollars in thousands)		
Revenue	$ 1,087,152	$ 1,327,270	22%
Less: TAC	227,763	493,502	117%
Revenue ex-TAC	$ 859,389	$ 833,768	(3)%

For the three months ended March 31, 2017, revenue and TAC increased $240 million and $266 million, respectively, compared to the same period of 2016. For the three months ended March 31, 2017, revenue ex-TAC decreased $26 million, compared to the same period of 2016.

The increase in revenue for the three months ended March 31, 2017 was primarily attributable to an increase in search revenue of $253 million, partially offset by declines in display and other revenue of $7 million and $6 million, respectively. The increase in search revenue was primarily due to the change in revenue presentation related to the implementation of the Eleventh Amendment to the Microsoft Search Agreement, as noted above. The revenue and TAC increase from the change in revenue presentation was $304 million for the three months ended March 31, 2017. Excluding the impact of the change in revenue presentation, search revenue declined $51 million, or 10 percent, primarily in the Americas segment due to a decline in Paid Clicks (as defined under “Search and Display Metrics” below) on Yahoo Properties driven by a decline in traffic, partially offset by an increase in Affiliate site revenue due to improved volume and pricing. Additionally, search revenue was impacted by a decline of $20 million in revenue driven by a decline in Firefox browser search volume associated with the agreement (the “Mozilla Agreement”) we entered into with Mozilla Corporation (“Mozilla”) in November 2014 to compensate Mozilla for making us the default search provider on certain of Mozilla’s products in the United States. The decline in display revenue was primarily due to a decline in revenue from Affiliate sites, partially offset by an increase in advertising revenue from Yahoo Properties. The decline in other revenue was primarily attributable to a decline in listings-based revenue.

The increase in TAC for the three months ended March 31, 2017 was primarily associated with the change in revenue presentation, noted above, and an increase in other search TAC, partially offset by a decline in display TAC of $25 million and TAC associated with the Mozilla Agreement of $19 million due to an amendment to the agreement in the third quarter of 2016.

See “Results of Operations” for a more detailed discussion of the factors that contributed to the changes in revenue and TAC during this period.

Mavens Revenue

One of our primary strategies is to invest in and grow our Mavens offerings. Revenue from our Mavens offerings is generated from, without duplication, (i) mobile (as defined below), (ii) video ads and video ad packages, (iii) native ads, and (iv) Tumblr and Polyvore ads and fees.

Mavens revenue for the three months ended March 31, 2017 increased to $529 million, compared to $390 million for the three months ended March 31, 2016. The change in revenue presentation associated with the Eleventh Amendment to the Microsoft Search Agreement contributed $138 million to Mavens revenue in the three months ended March 31, 2017. Excluding the impact of the revenue presentation noted above, Mavens revenue would have been $391 million for the three months ended March 31, 2017. For the three months ended March 31, 2017, excluding the change in revenue presentation, Mavens revenue was flat, compared to the same period of 2016. This was primarily attributable to a decline in video advertising on Affiliate sites associated with a decline in demand, offset by an increase in mobile search advertising (excluding the impact of the change in revenue presentation noted above).

Mobile Revenue

With the significant platform shift to mobile devices, including smartphones and tablets, we continue to focus on mobile products and mobile ad formats. As of March 31, 2017, we had more than 650 million monthly mobile users (including mobile Tumblr users).

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Mobile revenue is generated in connection with user activity on mobile devices, including smartphones and tablets (a “device-based” approach), regardless of whether the device is accessing a mobile-optimized service. Mobile revenue is primarily generated by search and display advertising. Mobile revenue also includes leads, listings and fees revenue and e-commerce revenue allocated to user activity on mobile devices. For additional information about how we generate and recognize mobile revenue, see “Key Financial Metrics — *Revenue and Revenue ex-TAC (a non-GAAP Financial Measure) — Mobile Revenue*” included in our Annual Report on Form 10-K for the year ended December 31, 2016 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Mobile revenue for the three months ended March 31, 2017 increased to $412 million, compared to $260 million for the three months ended March 31, 2016. The change in revenue presentation associated with the Eleventh Amendment to the Microsoft Search Agreement contributed $138 million to mobile revenue in the three months ended March 31, 2017. Excluding the impact of the revenue presentation, noted above, mobile revenue would have been $274 million for the three months ended March 31, 2017. For the three months ended March 31, 2017, excluding the change in revenue presentation, mobile revenue increased $14 million, or 5 percent, compared to the same periods of 2016, primarily attributable to growth in search advertising revenue (excluding the impact of the change in revenue presentation).

TAC rates that we pay to Affiliates for Mavens and mobile are substantially consistent with our TAC rates for our other revenue streams.

Results of Operations

	Three Months Ended March 31,	
	2016	2017
	(dollars in thousands)	
Total revenue	$ 1,087,152	$ 1,327,270
Total operating expenses(1)	1,254,366	1,386,017
Loss from operations	$ (167,214)	$ (58,747)
(1) Includes:		
Stock-based compensation expense	$ 108,407	$ 108,776
Restructuring charges, net	$ 57,230	$ 5,812
Items as a percentage of revenue		
Total revenue	100%	100%
Total operating expenses	115%	104%
Loss from operations	(15)%	(4)%
Includes:		
Stock-based compensation expense	10%	8%

Revenue

We generate revenue principally from search and display advertising on Yahoo Properties and Affiliate sites, with the majority of our revenue coming from advertising on Yahoo Properties. Our margins on revenue from advertising on Yahoo Properties are higher than our margins on revenue from advertising on Affiliate sites, as we pay TAC to our Affiliates. Additionally, we generate revenue from other sources including listings-based services, e-commerce transactions, royalties, patent licenses, and consumer and business fee-based services. For additional information about how we generate and recognize revenue, see “Results of Operations — Revenue — Search Revenue, — Display Revenue, and — Other Revenue included in our Annual Report on Form 10-K for the year ended December 31, 2016, under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Search Revenue

The following table presents search revenue and search revenue as a percentage of total revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Search		
Yahoo Properties	$ 399,307	$ 448,685
Affiliate sites	92,574	296,053
Total search revenue	$ 491,881	$ 744,738
Search as a percentage of total revenue		
Yahoo Properties	37%	34%
Affiliate sites	8%	22%
Total search revenue	45%	56%

Search revenue for the three months ended March 31, 2017 increased $253 million, compared to the same period of 2016. The increase in search revenue was primarily due to the change in the revenue presentation associated with the Eleventh Amendment to the Microsoft Search Agreement. The revenue and TAC increase from the change in revenue presentation was $304 million for the three months ended March 31, 2017. See "Significant Transactions — Microsoft Search Agreement" above for further detail. Excluding the impact of the change in revenue presentation, search revenue for the three months ended March 31, 2017 declined $51 million, or 10 percent, primarily in the Americas segment due to a decline in Paid Clicks on Yahoo Properties driven by a decline in traffic and a decline in revenue of $20 million associated with the Mozilla Agreement. This was partially offset by an increase in Affiliate site revenue of $16 million due to improved volume and pricing.

Display Revenue

The following table presents display revenue and display revenue as a percentage of total revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Display		
Yahoo Properties	$ 327,140	$ 375,390
Affiliate sites	135,879	80,492
Total display revenue	$ 463,019	$ 455,882
Display as a percentage of total revenue		
Yahoo Properties	30%	28%
Affiliate sites	13%	6%
Total display revenue	43%	34%

Display revenue for the three months ended March 31, 2017 decreased $7 million, or 2 percent, compared to the same period of 2016, due to a decline in advertising revenue from Affiliate sites of $55 million, partially offset by an increase in advertising revenue from Yahoo Properties of $48 million. The decline in display revenue on Affiliate sites was attributable to a decline in native advertising driven by pricing declines. The increase in display revenue on Yahoo Properties was primarily due to an increase in audience advertising, partially offset by a decline in premium advertising.

Other Revenue

The following table presents other revenue and other revenue as a percentage of total revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Other revenue	$ 132,253	$ 126,650
Other revenue as a percentage of total revenue	12%	10%

Other revenue for the three months ended March 31, 2017 decreased $6 million, or 4 percent, compared to the same period of 2016, primarily attributable to a decline in listings-based revenue.

Search and Display Metrics

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

“Paid Clicks” are defined as clicks by end-users on sponsored search listings (excluding native ad units, which are defined as display ads that appear in the content streams viewed by users) 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 (GAAP search revenue plus the related revenue share with third parties), excluding search revenue from Yahoo Japan. “Price-per-Click” is defined as search click-driven revenue divided by our total number of Paid Clicks.

“Ads Sold” consist of display ad impressions for paying advertisers on Yahoo Properties and Affiliate sites. “Price-per-Ad” is defined as display revenue from Yahoo Properties and Affiliate sites 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 and Affiliate sites.

We periodically review, refine and update our methodologies for monitoring, gathering, and counting number of Paid Clicks and Ads Sold 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.

Search Metrics

For the three months ended March 31, 2017, Paid Clicks decreased 12 percent and Price-per-Click increased 10 percent, compared to the same period of 2016. The decline in Paid Clicks was primarily due to a decline on Yahoo Properties, partially offset by an increase on Affiliate sites. The increase in Price-per-Click was due to a mix shift in Affiliate clicks toward the Americas segment, which is higher monetizing compared to other segments. Search click-driven revenue declined 3 percent for the three months ended March 31, 2017, as compared to the same period of 2016, driven by the decline in traffic on Yahoo Properties.

Display Metrics

For the three months ended March 31, 2017, the number of Ads Sold increased 2 percent and Price-per-Ad was flat, respectively, compared to the same period of 2016. The increase in number of Ads Sold was primarily due to an increase in the supply of ads on Yahoo Properties. Native ad units maintained a similar proportion of total Ads Sold compared to the same period of 2016 with Native ads units representing approximately 48 percent of total Ads Sold for the three months ended March 31, 2017 compared to 47 percent of total Ads Sold for the three months ended March 31, 2016. Price-per-Ad remained flat due to an increase in the pricing of audience advertising offset by a decline in the pricing of premium advertising.

Operating Costs and Expenses

Cost of Revenue — TAC

Cost of revenue — 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 also have an agreement to compensate Mozilla for making us the default search provider on certain of Mozilla’s products in the United States. We record those payments as cost of revenue — TAC. Additionally, pursuant to the Eleventh Amendment to the Microsoft Search Agreement, we now record amounts paid to Affiliates under the Microsoft Search Agreement in transitioned markets as cost of revenue — TAC rather than as a reduction to revenue.

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The following table presents cost of revenue — TAC and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	2017
Cost of revenue — TAC	$ 227,763	$ 493,502
Cost of revenue — TAC as a percentage of revenue	21%	37%

Cost of revenue — TAC for the three months ended March 31, 2017 increased $266 million, compared to the same period of 2016, primarily due to the change in revenue presentation related to the implementation of the Eleventh Amendment to the Microsoft Search Agreement. The revenue and TAC increase from the change in revenue presentation was $304 million for the three months ended March 31, 2017. See "Significant Transactions — Microsoft Search Agreement" above for further detail. For the three months ended March 31, 2017, excluding the impact of the change in revenue presentation, TAC decreased $38 million, or 17 percent, primarily due to a decline in display TAC of $25 million and TAC associated with the Mozilla Agreement of $19 million due to an amendment entered into in the third quarter of 2016, partially offset by an increase in other search TAC.

Cost of Revenue — Other

Cost of revenue — other consists of bandwidth costs, stock-based compensation, content and other expenses associated with the production and usage of Yahoo Properties, including content expense and 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.

The following table presents cost of revenue — other and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	2017
Cost of revenue — other	$ 282,587	$ 256,774
Cost of revenue — other as a percentage of revenue	26%	19%

Cost of revenue — other for the three months ended March 31, 2017 decreased $26 million, or 9 percent, compared to the same period of 2016, primarily due to declines in connection costs associated with lower bandwidth usage of $10 million, content costs of $6 million, and depreciation and amortization of $7 million.

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.

The following table presents sales and marketing expenses and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	2017
Sales and marketing expenses	$ 236,033	$ 209,366
Sales and marketing expenses as a percentage of revenue	22%	16%

Sales and marketing expenses for the three months ended March 31, 2017 decreased $27 million, or 11 percent, compared to the same period of 2016, primarily due to declines in compensation costs of $28 million and outside service provider expense of $3 million, partially offset by an increase in marketing expense of $6 million. The decline in compensation costs was primarily attributable to a 7 percent decrease in headcount year-over-year.

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, research and development, and Yahoo's technology platforms and infrastructure. Depreciation expense and other operating costs are also included in product development.

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The following table presents product development expenses and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Product development expenses	$ 278,029	$ 252,220
Product development expenses as a percentage of revenue	26%	19%

Product development expenses for the three months ended March 31, 2017 decreased $26 million, or 9 percent, compared to the same period of 2016, due to declines in compensation costs of $19 million and depreciation and amortization expense of $12 million, partially offset by an increase in outside service provider expense of $4 million. The decline in compensation costs was primarily attributable to a 9 percent decline in headcount year-over-year. The decline in depreciation and amortization expense was primarily associated with assets that have fully depreciated in 2016.

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.

The following table presents general and administrative expenses and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
General and administrative expenses	$ 155,451	$ 156,837
General and administrative expenses as a percentage of revenue	14%	12%

General and administrative expenses for the three months ended March 31, 2017 increased $1 million, or 1 percent, compared to the same period of 2016, primarily attributable to an increase in outside service provider expense of $11 million (including legal costs associated with the Security Incidents) and an increase in non-income tax expense, depreciation and amortization expense, and stock-based compensation expense of $7 million, partially offset by declines in facilities and equipment expense of $6 million, compensation costs of $5 million, and travel and entertainment expense of $4 million.

Amortization of Intangibles

We have purchased assets and/or businesses, which have included 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.

The following table presents amortization of intangibles and those expenses as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
Amortization of intangibles	$ 18,773	$ 11,506
Amortization of intangibles as a percentage of revenue	2%	1%

Amortization of intangibles for the three months ended March 31, 2017 decreased $7 million, or 39 percent, compared to the same period of 2016, driven by a decline in amortizable Tumblr assets as a result of the intangible assets impairment charge recorded in the second quarter of 2016.

Gain on Sale of Patents

The following table presents gain on sale of patents and those gains as a percentage of revenue for the periods presented (dollars in thousands):

	Three Months Ended March 31, 2016	2017
Gain on sale of patents	$ (1,500)	$ -
Gain on sale of patents as a percentage of revenue	0%	0%

During the three months ended March 31, 2016, we sold certain patents and recorded gains on sale of patents described above.

Restructuring Charges, Net

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

	Three Months Ended March 31, 2016	2017
Employee severance pay and related costs	$ 44,796	$ 251
Non-cancelable lease, contract termination, and other charges	5,904	5,828
Reversals of previous charges	(1,206)	(267)
Non-cash accelerations of stock-based compensation expense	7,374	-
Other non-cash charges (credits), net	362	-
Restructuring charges, net	$ 57,230	$ 5,812

We have implemented multiple 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 March 31, 2017, we recorded expenses of $5 million and $1 million related to the Americas and EMEA segments, respectively. For the three months ended March 31, 2016, we recorded expense of $48 million, $7 million, and $2 million related to Americas, EMEA, and Asia Pacific segments, respectively.

The $39 million restructuring liability as of March 31, 2017 consisted of $2 million for employee severance pay expenses, which we expect to pay out by the end of the second quarter of 2017, and $37 million relating to non-cancelable lease costs, which we expect to pay over the terms of the related obligations through the fourth quarter of 2025, less estimated sublease income.

See Note 13 — “Restructuring Charges, Net” in the Notes to our condensed consolidated financial statements for additional information.

Other (Expense) Income, Net

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

	Three Months Ended March 31, 2016	2017
Interest and investment income	$ 11,482	$ 20,582
Interest expense	(18,393)	(18,844)
(Loss) gain on Hortonworks warrants	(39,150)	5,385
Foreign exchange (loss) gain	(2,138)	9,702
Other	783	1,997
Total other (expense) income, net	$ (47,416)	$ 18,822

Interest and investment income increased $9 million primarily due to an increase in interest income on our portfolio of investments as a result of increases in short-term interest rates as well as a higher average invested balance.

Interest expense was flat for the three months ended March 31, 2017, compared to the same period of 2016. Interest expense is primarily related to the accreted non-cash interest expense related to the 0.00% Convertible Senior Notes due 2018 (“Notes”) we issued in November 2013.

During the three months ended March 31, 2017, we recorded a gain of $5 million due to the increase in fair value of the Hortonworks warrants.

Foreign exchange (loss) gain consists of 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.

Other consists of gains from other non-operational items.

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 and adjustments to unrecognized tax benefits.

We recorded income tax benefits of $35 million and $26 million for the three months ended March 31, 2016 and 2017, respectively. The income tax benefits for both periods were primarily due to our loss before income taxes and earnings in equity interests. The tax benefit for the three months ended March 31, 2017 also included stock-based compensation benefits recognized resulting from the adoption of Accounting Standards Update No. 2016-09 (ASU 2016-09). See Note 1 — “The Company and Summary of Significant Accounting Policies” in the Notes to our condensed consolidated financial statements for more detail.

As of December 31, 2016, we distributed most of the cumulative earnings in our wholly owned foreign subsidiaries. As of March 31, 2017, there is no cumulative taxable temporary difference with respect to these foreign subsidiaries and therefore no incremental U.S. taxes were accrued. As of March 31, 2017, we do not have a plan to repatriate approximately $3.4 billion of earnings related to our equity method investment in Yahoo Japan. If our foreign earnings were to be distributed to the U.S. in the future, we may be subject to additional U.S. income taxes. 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 March 31, 2017 was $1.1 billion, of which $0.8 billion is recorded on our condensed consolidated balance sheets. The gross unrecognized tax benefits as of March 31, 2017 decreased by less than $1 million from the recorded balance as of December 31, 2016.

We are in various stages of examination and appeal in connection with our taxes both in the United States and in foreign jurisdictions. Those audits generally span tax years 2005 through 2015. As of March 31, 2017, our 2011 through 2015 U.S. federal income tax returns are currently under examination. We have appealed the proposed California Franchise Tax Board’s adjustments to the 2005 through 2008 returns, but no conclusions have been reached to date. Our 2009 through 2010 California tax returns are currently under examination. Our 2011 through 2015 tax years remain subject to examination by the California Franchise Tax Board for California tax purposes. While it is difficult to determine when the examinations will be settled or their final outcomes, certain examinations in various jurisdictions are expected to be resolved in the foreseeable future. We believe that we have adequately provided for any reasonably foreseeable adverse adjustment to our tax returns and that any settlement will not have a material adverse effect on our condensed consolidated financial position, results of operations, or cash flows. It is reasonably possible that our unrecognized tax benefits could be reduced by up to approximately $9 million in the next twelve months.

As of December 31, 2016 and March 31, 2017, we accrued deferred tax liabilities of $13.6 billion and $16.8 billion, respectively, associated with the 384 million ordinary shares of Alibaba Group (“Alibaba Group shares”) that we own. Such deferred tax liabilities will be subject to periodic adjustments due to changes in the fair value of the Alibaba Group shares.

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 140 million Alibaba Group American Depositary Shares in Alibaba Group’s initial public offering (“Alibaba Group IPO”) that took place during the year ended December 31, 2014. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the United States through the use of foreign tax credits.

Tax authorities from the Brazilian State of Sao Paulo have assessed certain indirect taxes against our Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment is for calendar years 2008 through 2012 and, translated into U.S. dollars as of March 31, 2017, totals approximately $150 million. 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

We record our share of the results of earnings in equity interests, including tax impacts, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of operations.

The following table presents earnings in equity interests for the periods presented (in thousands):

	Three Months Ended March 31,	
	2016	2017
Earnings in equity interests	$ 81,574	$ 113,688

Earnings in equity interests increased $32 million for three months ended March 31, 2017, compared to the same period of 2016, due to the financial performance of Yahoo Japan. See Note 8 — "Investments in Equity Interests Accounted for Using the Equity Method of Accounting" 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. Noncontrolling interests recorded in the three months ended March 31, 2016 and 2017 were related to the Yahoo!7 venture in Australia and New Zealand.

Net (Loss) Income Attributable to Yahoo! Inc.

Net income attributable to Yahoo! Inc. for the three months ended March 31, 2017 was $99 million, compared to a loss of $99 million in the three months ended March 31, 2016, an increase of $198 million year-over-year, primarily due to a decrease in restructuring charges, sales and marketing expense, cost of revenue — other, and product development expense, as well as an increase in other (expense) income, net and earnings in equity interests. This was partially offset by a decline in revenue ex-TAC.

Adjusted EBITDA (a Non-GAAP Financial Measure)

	Three Months Ended March 31,	
	2016	2017
	(dollars in thousands)	
Net (loss) income attributable to Yahoo! Inc.	$ (99,232)	$ 99,434
Advisory fees	8,984	6,077
Security incidents costs	-	11,280
Depreciation and amortization	139,665	115,099
Stock-based compensation expense	108,407	108,776
Restructuring charges, net	57,230	5,812
Other (expense) income, net	47,416	(18,822)
Benefit for income taxes	(34,766)	(26,177)
Earnings in equity interests	(81,574)	(113,688)
Net income attributable to noncontrolling interests	942	506
Adjusted EBITDA	$ 147,072	$ 188,297
Net (loss) income attributable to Yahoo! Inc. as a percentage of revenue	(9)%	7%
Adjusted EBITDA as a percentage of revenue ex-TAC[1]	17%	23%

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

For the three months ended March 31, 2017, adjusted EBITDA increased $41 million, or 28 percent, compared to the same period of 2016, mainly due to a decline in global operating costs and direct costs in the Americas and EMEA segments, partially offset by a decline in revenue ex-TAC.

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Segment 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, revenue ex-TAC, direct costs excluding TAC by segment, and consolidated loss from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017	2016-2017 % Change
	(dollars in thousands)		
Revenue by segment(1):			
Americas	$ 861,539	$ 1,083,458	26%
EMEA	76,923	107,782	40%
Asia Pacific	148,690	136,030	(9)%
Total revenue	$ 1,087,152	$ 1,327,270	22%
TAC by segment(1):			
Americas	$ 204,871	$ 432,684	111%
EMEA	12,509	51,914	315%
Asia Pacific	10,383	8,904	(14)%
Total TAC	$ 227,763	$ 493,502	117%
Revenue ex-TAC by segment:			
Americas	$ 656,668	$ 650,774	(1)%
EMEA	64,414	55,868	(13)%
Asia Pacific	138,307	127,126	(8)%
Total revenue ex-TAC	859,389	833,768	(3)%
Direct costs by segment(2):			
Americas	72,508	59,313	(18)%
EMEA	20,609	12,702	(38)%
Asia Pacific	44,648	47,688	7%
Global operating costs(3)	585,036	543,125	(7)%
Gain on sale of patents	(1,500)	-	(100)%
Depreciation and amortization	139,665	115,099	(18)%
Stock-based compensation expense	108,407	108,776	0%
Restructuring charges, net	57,230	5,812	(90)%
Loss from operations	$ (167,214)	$ (58,747)	(65)%

(1) Commencing in the second quarter of 2016, TAC payments related to the Microsoft Search Agreement, which previously would have been recorded as a reduction to revenue, began to be recorded as cost of revenue — TAC due to a required change in revenue presentation. See Note 1 — "The Company and Summary of Significant Accounting Policies" and Note 16 — "Microsoft Search Agreement" in the Notes to our condensed consolidated financial statements for additional information.

(2) Direct costs for each segment include certain cost of revenue — other and costs associated with the local sales teams. Prior to the second quarter of 2016, certain account management costs associated with Yahoo Properties were managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

(3) Global operating costs include product development, marketing, real estate workplace, general and administrative, account management costs, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment. Beginning in the second quarter of 2016, certain account management costs associated with Yahoo Properties are managed globally and included as global costs. Prior period amounts have been revised to conform to the current presentation.

Revenue and Revenue ex-TAC by Segment

Americas

Americas revenue for the three months ended March 31, 2017 increased $222 million, or 26 percent, compared to the same period of 2016, attributable to increases in search and display revenue of $213 million and $11 million, respectively, partially offset by a decline in other revenue of $2 million. The increase in Americas search revenue was primarily due to the change in revenue presentation associated with the implementation of the Eleventh Amendment to the Microsoft Search Agreement. The revenue and TAC increase from the change in revenue presentation was $257 million for the three ended March 31, 2017. See “Significant Transactions — Microsoft Search Agreement” above for further detail. Excluding the impact of the change in revenue presentation, search revenue declined $44 million, or 11 percent, for the three months ended March 31, 2017 primarily due to a decline in Paid Clicks on Yahoo Properties driven by a decline in traffic, partially offset by an increase in Affiliate site revenue due to improved volume and pricing. The decline in search revenue in the Americas segment was also attributable to a $20 million decline in revenue associated with a decline in Firefox browser search volume. The increase in Americas display revenue for the three months ended March 31, 2017 was attributable to an increase in volume and pricing of audience advertising on Yahoo Properties.

Revenue in the Americas accounted for approximately 82 percent of total revenue for the three months ended March 31, 2017, compared to 79 percent for the three months ended March 31, 2016.

Americas revenue ex-TAC for the three months ended March 31, 2017 decreased $6 million, or 1 percent, compared to the same period of 2016, primarily due to declines in revenue of $35 million, excluding the impact of the change in revenue presentation (described further above). TAC decreased $29 million (excluding the impact of the change in revenue presentation) due to a decline in display TAC of $17 million and TAC associated with the Mozilla Agreement of $19 million associated with an amendment entered into in the third quarter of 2016, partially offset by an increase in other search TAC.

Revenue ex-TAC in the Americas accounted for approximately 78 percent of total revenue ex-TAC for the three months ended March 31, 2017, compared to 76 percent for the three months ended March 31, 2016.

EMEA

EMEA revenue for the three months ended March 31, 2017 increased $31 million, or 40 percent, compared to the same period of 2016, primarily due to an increase in search revenue of $42 million, partially offset by a decline in display revenue of $10 million. The increase in EMEA search revenue was primarily due to the change in revenue presentation associated with the implementation of the Eleventh Amendment to the Microsoft Search Agreement. The revenue and TAC increase from the change in revenue presentation was $44 million. Excluding the impact of the change in revenue presentation, search revenue declined $3 million, or 10 percent, primarily due to unfavorable foreign exchange fluctuations of $7 million using the foreign exchange rates from the three months ended March 31, 2016 and a decline in Paid Clicks. The decline in display revenue was primarily due to a decline in native, audience, and premium advertising. Additionally, the decline in display revenue in the EMEA segment was partially due to unfavorable foreign exchange fluctuations of $5 million using the foreign exchange rates from the three months ended March 31, 2016.

Revenue in EMEA accounted for approximately 8 percent of total revenue for the three months ended March 31, 2017, compared to 7 percent for the three months ended March 31, 2016.

EMEA revenue ex-TAC for the three months ended March 31, 2017 decreased $9 million, or 13 percent, compared to the same period of 2016, primarily due to revenue declines exceeding the TAC declines (excluding the impact of the change in revenue presentation). TAC declined $5 million (excluding the impact of the change in revenue presentation) due to a decline in display TAC in the segment.

Revenue ex-TAC in EMEA accounted for approximately 7 percent of total revenue ex-TAC for both the three months ended March 31, 2017 and 2016.

Asia Pacific

Asia Pacific revenue for the three months ended March 31, 2017 decreased $13 million, or 9 percent, compared to the same period of 2016, primarily due to declines in display and other revenue of $9 million and $3 million, respectively. The decline in Asia Pacific display revenue for the three months ended March 31, 2017 was primarily attributable to a decline in premium and audience advertising on Yahoo Properties due to a decline in Ads Sold.

Revenue in Asia Pacific accounted for approximately 10 percent of total revenue for the three months ended March 31, 2017, compared to 14 percent for the three months ended March 31, 2016.

We expect Asia Pacific revenue to decline following the expiration of a revenue sharing arrangement with Yahoo Japan in August 2017, under which we recognized approximately $113 million in 2016.

Asia Pacific revenue ex-TAC for the three months ended March 31, 2017 decreased $11 million, or 8 percent, compared to the same period of 2016, primarily due to a decrease in revenue, as discussed above, and a decrease in TAC of $2 million.

Revenue ex-TAC in Asia Pacific accounted for approximately 15 percent of total revenue ex-TAC for the three months ended March 31, 2017, compared to 16 percent for the three months ended March 31, 2016.

Direct Costs by Segment

Americas

For the three months ended March 31, 2017, direct costs attributable to the Americas segment decreased $13 million, or 18 percent, compared to the same period of 2016, primarily due to declines in compensation costs of $8 million and other cost of revenue of $2 million.

Direct costs attributable to the Americas segment represented approximately 9 percent of Americas revenue ex-TAC for the three months ended March 31, 2017, compared to 11 percent for the three months ended March 31, 2016.

EMEA

For the three months ended March 31, 2017, direct costs attributable to the EMEA segment decreased $8 million, or 38 percent, compared to the same period of 2016, due to declines in compensation costs.

Direct costs attributable to the EMEA segment represented approximately 23 percent of EMEA revenue ex-TAC for the three months ended March 31, 2017, compared to 32 percent for the three months ended March 31, 2016.

Asia Pacific

For the three months ended March 31, 2017, direct costs attributable to the Asia Pacific segment increased $3 million, or 7 percent, compared to the same period of 2016, primarily attributable to an increase in content costs and other cost of revenue associated with e-commerce.

Direct costs attributable to the Asia Pacific segment represented approximately 38 percent of Asia Pacific revenue ex-TAC for the three months ended March 31, 2017, compared to 32 percent for the three months ended March 31, 2016.

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Liquidity and Capital Resources

	December 31, 2016	March 31, 2017
	(dollars in thousands)	
Cash and cash equivalents	$ 1,119,469	$ 1,328,913
Short-term marketable securities	5,700,925	5,582,149
Long-term marketable securities	1,089,707	1,110,166
Total cash, cash equivalents, and marketable securities	$ 7,910,101	$ 8,021,228
Percentage of total assets	16%	14%

Cash Flow Highlights	Three Months Ended March 31, 2016	2017
	(in thousands)	
Net cash provided by operating activities	$ 365,768	$ 214,455
Net cash (used in) provided by investing activities	$ (496,936)	$ 46,001
Net cash (used in) financing activities	$ (33,496)	$ (71,755)

In the first quarter of 2017 and 2016, our operating activities generated adequate cash to meet our operating needs.

As of March 31, 2017, we had cash, cash equivalents, and marketable securities (excluding Alibaba Group, Hortonworks, Snap and other corporate equity securities) totaling $8 billion, compared to $7.9 billion at December 31, 2016. The increase was primarily due to cash provided by operating activities.

Our foreign subsidiaries held $313 million of our total $8 billion of cash and cash equivalents and marketable securities (excluding Alibaba Group, Hortonworks, Snap and other corporate equity securities) as of March 31, 2017. In 2016, we repatriated cumulative earnings from our wholly owned foreign subsidiaries. This resulted in a $17 million tax expense (primarily related to $172 million of dividend income recognizable in the U.S. with an associated $67 million U.S. tax credit for foreign income taxes that have been paid on such earnings) related to this repatriation. As of March 31, 2017, we do not have a plan to repatriate approximately $3.4 billion of earnings related to our equity method investment in 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.

We currently hedge a portion of our net investment in Yahoo Japan with forward 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.

While we have evaluated possible acquisitions of, or strategic investments in, businesses, products, and technologies that are complementary to our business in the past, we do not anticipate pursuing any acquisitions and/or investments that may require the use of cash at this time.

We use cash generated by operations as our primary source of liquidity and believe that existing cash, cash equivalents, and investments in marketable securities, together with any cash generated from operations will be sufficient to meet normal operating requirements and capital expenditures for the next twelve months.

Cash Flow Changes

Net cash provided by operating activities. Cash flows from operating activities for the three months ended March 31, 2017 were driven by net income of $100 million, non-cash adjustments of $180 million, and net source of cash from working capital of $48 million, reduced by earnings in equity interests of $114 million.

Cash flows from operating activities for the three months ended March 31, 2016 were driven by a net source of cash from working capital of $274 million (which included a $190 million cash tax refund) and non-cash adjustments of $272 million, reduced by a net loss of $98 million and earnings in equity interests of $82 million.

***Net cash (used in) provided by investing activities*.** In the three months ended March 31, 2017, the $46 million provided by investing activities was due to proceeds from sales and maturities of marketable securities, net of purchases, of $99 million and net proceeds from settlement of derivative hedge contracts of $7 million, partially offset by $60 million used for capital expenditures.

In the three months ended March 31, 2016, the $497 million used in investing activities was due to purchases of marketable securities, net of sales and maturities, of $454 million, $76 million used for capital expenditures, net, and $2 million in purchases of intangibles and other investing activities, partially offset by $33 million in net proceeds from settlement of derivative hedge contracts, and $2 million in proceeds from the sale of patents.

***Net cash used in financing activities*.** In the three months ended March 31, 2017, the $72 million used in financing activities was due to $68 million used for tax withholding payments related to net share settlements of restricted stock units and $4 million used for distribution to noncontrolling interests.

In the three months ended March 31, 2016, the $33 million used in financing activities was due to $46 million used for tax withholding payments related to net share settlements of restricted stock units and other activities. This was partially offset by $5 million in cash proceeds received from employee stock option exercises and an excess tax benefit from stock-based awards of $8 million.

Capital Expenditures, Net

Capital expenditures, net are generally comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, real estate, and capitalized software and labor for internal use software projects.

Capital expenditures, net, were $60 million for the three months ended March 31, 2017 compared to $76 million in the same period of 2016. The $16 million decrease in capital expenditures was primarily due to more efficient use of existing data center capacity and overall increased controls over expense and capital expenditures.

Free Cash Flow (a Non-GAAP Financial Measure)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2017
	(in thousands)	
Net cash provided by operating activities	$ 365,768	$ 214,455
Acquisition of property and equipment, net	(76,099)	(60,210)
Excess tax benefits from stock-based awards (*)	7,526	-
Free cash flow	$ 297,195	$ 154,245

(*) Commencing in first quarter of 2017, we have prospectively adopted changes to the statement of cash flows prescribed by Accounting Standards Update (ASU) 2016-09, "Improvements to Employee Share-Based Payment Accounting," which require us to classify excess tax benefits along with other income tax cash flows as an operating activity in the statement of cash flows. As a result, we no longer present excess tax benefits from stock-based awards as an outflow in operating activities and as an inflow in financing activities on the statement of cash flows and, accordingly, there is no adjustment for excess tax benefits from stock-based awards in the calculation of free cash flow for the first quarter of 2017.

For the three months ended March 31, 2017, free cash flow decreased $143 million, compared to the same period of 2016, primarily due to a cash tax refund of $190 million in the first quarter of 2016 for which there were no similar transaction in 2017.

Stock Repurchases

In March 2015, the Board authorized a stock repurchase program with an authorized level of $2 billion. The March 2015 program, according to its terms, will expire in March 2018. The aggregate amount available under the March 2015 repurchase program was $2 billion at March 31, 2017. During the three months ended March 31, 2017, we did not repurchase any shares of our common stock.

Contractual Obligations and Commitments

The following table presents certain payments due under contractual obligations with minimum commitments as of March 31, 2017 (in millions):

	Payments Due by Period				
	Total	Due in 2017	Due in 2018-2019	Due in 2020-2021	Thereafter
Convertible notes(1)	$ 1,438	$ -	$ 1,438	$ -	$ -
Note payable obligations	51	4	10	10	27
Operating lease obligations(2)	388	77	138	86	87
Capital lease obligations	25	8	14	-	3
Affiliate commitments(3)	850	225	600	25	-
Non-cancelable obligations(4)	168	81	74	6	7
Intellectual property rights(5)	4	3	1	-	-
Uncertain tax positions, including interest and penalties(6)	1,039	2	-	-	1,037
Total contractual obligations	$ 3,963	$ 400	$ 2,275	$ 127	$ 1,161

(1) During the year ended December 31, 2013, we completed an offering of the Notes, which are due in 2018. The amount above represents the principal balance to be repaid. See Note 10 — "Convertible Notes" in the Notes to our condensed consolidated financial statements for additional information.

(2) We have entered into various non-cancelable operating lease agreements for our offices throughout the Americas, EMEA, and Asia Pacific regions with original lease periods up to 16 years, expiring between 2017 and 2025. See Note 11 — "Commitments and Contingencies" in the Notes to our condensed consolidated financial statements for additional information.

(3) We are obligated to make minimum payments under contracts to provide sponsored search and/or display advertising services to our Affiliates, which represent TAC.

(4) We are obligated to make payments under various arrangements with vendors and other business partners, principally for content, bandwidth, and marketing arrangements.

(5) We are committed to make certain payments under various intellectual property arrangements.

(6) As of March 31, 2017, unrecognized tax benefits and potential interest and penalties resulted in accrued liabilities of $1,039 million, classified as other accrued expenses and current liabilities and deferred and other long-term tax liabilities, net on our condensed consolidated balance sheets. As of March 31, 2017, the settlement period for the $1,037 million income tax liabilities cannot be determined. See Note 14 — "Income Taxes" in the Notes to our condensed consolidated financial statements for additional information.

***Standby Letters of Credit*.** As of March 31, 2017, we had outstanding potential obligations relating to standby letters of credit of $34 million. Standby letters of credit are financial guarantees provided by third parties for ongoing operating liabilities such as leases, utility bills, taxes, and insurance. If any letter of credit is drawn upon by a beneficiary, we are obligated to reimburse the provider of the guarantee. The standby letters of credit generally renew annually.

***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 the sale of a subsidiary, matters related to our conduct of the business and tax matters prior to the sale, lease, or assignment of assets. 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 material liabilities related to such indemnification obligations in our condensed consolidated financial statements.

As of March 31, 2017, 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, 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 such relationships. In addition, we identified no variable interests currently held in entities for which we are the primary beneficiary. In addition, as of March 31, 2017, 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.

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.

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, 2016 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, 2016.

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

We are exposed to various risks that relate to our marketable securities portfolio, including market and interest rate risk. While our interest rate risk relates primarily to the marketable debt securities in which we invest, interest rates may also impact our costs associated with foreign exchange hedging. We invest excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, and high credit-quality corporate issuers which are classified as cash equivalents and/or marketable securities.

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 or changes in credit quality. A hypothetical 100 basis point increase in interest rates would result in a $35 million and $31 million decrease in the fair value of our available-for-sale debt securities as of December 31, 2016 and March 31, 2017, respectively.

In November 2013, we issued $1.4375 billion of the Notes. We carry the Notes at face value less unamortized discount on our condensed consolidated balance sheets. The fair value of the Notes fluctuates due to changes in interest rates, credit spreads, and time to maturity. There is no coupon payment associated with the Notes.

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—“Foreign Currency 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.

We had net realized and unrealized foreign currency transaction loss of $2 million and a gain of $10 million for the three months ended March 31, 2016 and 2017, respectively, which include the impact of balance sheet hedging and remeasurements of foreign denominated assets and liabilities on the balance sheets of the Company and our subsidiaries.

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 foreign currency translation adjustments, net of tax within accumulated other comprehensive income which is part of stockholders’ equity.

A Value-at-Risk (“VaR”) sensitivity analysis was performed on all of our foreign currency derivative positions 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 $7 million and $6 million, respectively, at March 31, 2017 and December 31, 2016. The maximum one-day loss in the cash flow hedge portfolio was $1 million at both March 31, 2017 and December 31, 2016. The maximum one-day loss in the balance sheet hedge portfolio was $3 million and $5 million, respectively, at March 31, 2017 and December 31, 2016. Actual future gains and losses associated with our derivative positions may differ materially from the sensitivity analysis performed as of March 31, 2017 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, Taiwan dollars, Hong Kong dollars, Canadian dollars and Singapore dollars. The statements of operations 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 months ended March 31, 2016, revenue ex-TAC for the Americas segment for the three months ended March 31, 2017 would have been lower than we reported by $2 million; revenue ex-TAC for the EMEA segment would have been higher than we reported by $6 million; and revenue ex-TAC for the Asia Pacific segment would have been lower than we reported by $4 million. Using the foreign currency exchange rates from the three months ended March 31, 2016, direct costs for the Americas segment for the three months ended March 31, 2017 would have been lower than we reported by $1 million; direct costs for the EMEA segment would have been higher than we reported by $1 million; and direct costs for the Asia Pacific segment would have been lower than we reported by $2 million.

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 debt securities and equity instruments of public and private companies. As of the date of the Alibaba Group IPO, we no longer account for our remaining investment in Alibaba Group using the equity method and no longer record our proportionate share of Alibaba Group's financial results in the consolidated financial statements. Instead, we now reflect our remaining investment in Alibaba Group as an available-for-sale equity security on the consolidated balance sheet and adjust the investment to fair value each quarterly reporting period with changes in fair value recorded within other comprehensive (loss) income, net of tax. The change in the classification of our investment in Alibaba Group from an equity method investment to an available-for-sale equity 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: company performance, macro-economic, regulatory, industry, and systemic risks of the equity markets overall.

The objective of our corporate investment policy is to preserve capital, meet liquidity requirements, and provide a reasonable rate of return. A large portion of our cash and cash equivalents and short-term and long-term investments is managed by external managers according to the guidelines of our corporate 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 marketable debt securities, including both government and corporate obligations and money market funds. As of December 31, 2016, net unrealized losses on these investments were $5 million. As of March 31, 2017, net unrealized losses on these investments were $3 million.

A sensitivity analysis was performed on our marketable equity securities portfolio to assess the potential impact of fluctuations in stock price. Hypothetical declines in stock price of ten percent, twenty percent, and thirty percent were selected based on potential near-term changes in the stock price that could have an adverse effect on our marketable equity securities portfolio. As of March 31, 2017 and December 31, 2016, the fair value of our marketable equities security portfolio was approximately $42 billion and $34 billion, respectively. As of March 31, 2017, declines in stock prices of ten percent, twenty percent and thirty percent would result in a $4 billion, $8 billion and $12 billion decline, respectively, in the total value of our marketable equity securities portfolio.

We performed a separate sensitivity analysis on our Hortonworks warrants for which we estimate fair value using the Black-Scholes model. We have held all other inputs constant and determined the impact of hypothetical declines in stock price of ten percent, twenty percent, and thirty percent, based on potential near-term changes in the stock price that could have an adverse effect on the fair value of the warrants and result in a loss recorded to the consolidated statements of operations. As of March 31, 2017 and December 31, 2016, the fair value of the Hortonworks warrants was approximately $34 million and $29 million, respectively. As of March 31, 2017, declines in stock prices of ten percent, twenty percent and thirty percent would result in a $4 million, $7 million and $11 million decline, respectively, in the total value of the Hortonworks warrants.

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 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.

The Company has taken actions to remediate deficiencies in its security incident response protocols disclosed in its Annual Report on Form 10-K for the year ended December 31, 2016 to ensure that material information about cybersecurity incidents required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules. These actions include revised and enhanced procedures and protocols to ensure escalation of cybersecurity incidents to the appropriate senior executives, investigation of cybersecurity incidents including engaging legal counsel and outside forensic experts as appropriate, and cross-functional communication regarding cybersecurity incidents. The Company will continue to revise and enhance its procedures and protocols as it determines is appropriate going forward.

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.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

For a description of our material legal proceedings, see the section captioned “Legal Contingencies” included in Note 11 — “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, 2016, which was filed with the Securities and Exchange Commission on March 1, 2017 (“2016 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 2016 Annual Report.

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

We face significant competition from online search engines, sites offering integrated internet products and services, social media and networking sites, e-commerce sites, companies providing analytics, monetization and marketing and publishing tools for mobile and desktop advertisers, publishers, developers, and distributors and digital, broadcast and print media. 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 entities 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. 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, content, and online advertising dollars.

A key element of our strategy is increasing revenue growth. As part of this strategy, we are focusing on mobile products and mobile advertising formats, as well as increasing our revenue from mobile. A number of our competitors also have devoted significant resources to the development of products, services and apps 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 our operating results could be harmed.

In addition, a number of competitors offer products, services and apps that directly compete for users with our offerings, including e-mail, search, video, social, sports, news, finance, micro-blogging, and messaging. Similarly, our competitors or other participants in the online advertising 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. Additionally, as the use of programmatic advertising continues to increase, we compete with companies that have also invested in programmatic platform 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 have greater brand recognition for certain products, services and apps, 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, services and apps 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 search and display 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 months ended March 31, 2017, 90 percent of our total revenue came from search and display advertising. Our ability to retain and grow search and display revenue depends upon:

- maintaining and increasing our daily active users, logged in users, page views and engagement;
- introducing engaging new products that are popular with users and advertisers and are distributable on mobile and other alternative devices and platforms;
- maintaining and expanding our advertiser base on desktop computers and mobile devices;
- achieving a better traffic mix from our Yahoo Properties and Affiliates and improving our monetization rates on such traffic;
- broadening our relationships with advertisers to small- and medium-sized businesses;
- successfully implementing changes and improvements to our advertising management platforms and formats and obtaining the acceptance of our advertising management platforms by advertisers, website publishers, and online advertising networks;
- successfully acquiring, investing in, and implementing new technologies;
- successfully implementing changes in our sales force, sales development teams, and sales strategy;
- continuing to innovate and improve the monetization capabilities of our display and native advertising and our mobile products;
- effectively monetizing mobile and other search queries;
- improving the quality of our user and advertiser products;
- 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, more personalized and targeted 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. Payments under our agreements with advertisers often depend upon performance and click-through levels. Accordingly, it is difficult to forecast search and display revenue accurately. In addition, our expense levels are based in part on expectations of future revenue, including any guaranteed minimum payments and other traffic acquisition costs to our Affiliates in connection with search and/or display advertising, and in some cases, the expenses could exceed the revenue that we generate. The state of the global economy, growth rate of the online advertising market, and availability of capital impacts 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.

As more people access our products via mobile devices rather than desktop computers and mobile advertising continues to evolve, if we do not continue to attract and retain mobile users and grow mobile revenue, our financial results will be adversely impacted.

The number of people who access the Internet through mobile devices rather than a desktop computer, including mobile telephones, smartphones and tablets, is increasing and will likely continue to increase dramatically. More than 650 million of our monthly users (including Tumblr users) are now accessing us on mobile devices. In addition, search queries are increasingly being undertaken through mobile devices. As a result, our ability to grow advertising revenue increasingly depends 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, services and apps. However, if our new mobile products, services and apps, including new forms of Internet advertising for mobile devices, do not continue to attract and retain mobile users, advertisers and device manufacturers and to generate and grow mobile revenue, our operating and financial results will be adversely impacted. We are dependent on the interoperability of our products and services with mobile operating systems we do not control and we may not be successful in maintaining relationships with the key participants in the mobile industry that control such mobile operating systems. The manufacturer or access provider might promote a competitor's or its own products and services, impair users' access to our services by blocking access through their devices, make it hard for users to readily discover, install, update or access our products on their devices, or charge us for delivery of ads, or limit our ability to deliver ads or measure their effectiveness. If distributors impair access to or refuse to distribute our services or apps, or charge for or limit our ability to deliver ads or measure the effectiveness of our ads, then our user engagement and revenue could decline.

If we do not manage our operating expenses effectively, our profitability could fail to improve and could decline.

We plan to continue to seek to operate efficiently and to manage our costs effectively. However, we are also investing in areas we believe will grow revenue and our operating expenses might increase as a result of these investments. We have also incurred significant costs in connection with the Sale Transaction with Verizon and in connection with the Security Incidents, and we expect these costs will continue in the foreseeable future. If our operating expenses or other expenses increase at a greater pace than our revenue grows, or if we fail to manage costs effectively, our profitability could fail to improve and could decline.

Risks and uncertainties associated with the pending Sale Transaction with Verizon may adversely affect our business, financial performance and stock price.

There is no assurance that the Sale Transaction will be consummated in a timely manner or at all. In addition, the anticipated benefits of the Sale Transaction may not be realized. Potential risks and uncertainties related to the Sale Transaction include, among others:

- the inability to consummate the transaction in a timely manner or at all, due to the inability to obtain or delays in obtaining the approval of our stockholders, the necessary regulatory approvals, or satisfaction of other conditions to the closing of the Sale Transaction;
- the existence or occurrence of any event, change, or other circumstance that could give rise to the termination of the Amended Stock Purchase Agreement, which, in addition to other adverse consequences, could result in the Company incurring substantial fees, including, in certain circumstances, the payment of a termination fee to Verizon under the Amended Stock Purchase Agreement;
- potential adverse effects on our relationships with our existing and potential advertisers, suppliers, customers, vendors, distributors, landlords, licensors, licensees, joint venture partners, and other business partners;
- the implementation of the Sale Transaction will require significant time, attention, and resources of our senior management and others within the Company, potentially diverting their attention from the conduct of our business;
- risks related to our ability to retain or recruit key talent;
- costs, fees, expenses and charges related to or triggered by the Sale Transaction;
- the net proceeds that the Company will receive from Verizon is subject to uncertainties as a result of the purchase price adjustments in the Amended Stock Purchase Agreement;
- restrictions on the conduct of our business, including the ability to make certain acquisitions and divestitures, enter into certain contracts, and incur certain indebtedness and expenditures until the earlier of the completion of the Sale Transaction or the termination of the Amended Stock Purchase Agreement;
- potential adverse effects on our business, properties or operations caused by us implementing the Sale Transaction or foregoing opportunities that we might otherwise pursue absent the pending Sale Transaction;
- the initiation or outcome of any legal proceedings or regulatory proceedings that may be instituted against us and our directors and/or officers relating to the Sale Transaction as well as certain liabilities arising out of governmental or third party investigations, litigation or claims related to certain data security incidents for which the Company will retain liability following the closing; and
- following the closing of the Sale Transaction, the Company will be required to register and be regulated as an investment company under the Investment Company Act of 1940, which will result in, among other things, the Company having to comply with the regulations thereunder, certain stockholders potentially being prohibited from holding or acquiring shares of the Company, and the Company likely being removed from the Standard and Poor's 500 Index and other indices which could have an adverse impact on the Company's share price following the Sale Transaction.

All of these risks and uncertainties could potentially have an adverse impact on our business and financial performance, and could cause our stock price to decline.

We are still in the process of assessing the full extent of the impact of the Security Incidents and the related government investigations and civil litigation on our results of operations, which could be material.

We are still in the process of assessing the financial and other effects of the Security Incidents (See Item 2 — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Security Incidents"), which may have an adverse impact on our business, results of operations and reputation. As a result of the Security Incidents, we are facing approximately 41 putative consumer class action lawsuits, two putative stockholder class actions on behalf of persons who purchased or otherwise acquired our stock between November 12, 2013 and December 14, 2016, two additional putative class actions against certain current and former directors and officers of the Company on behalf of current stockholders of the Company, and six stockholder derivative actions. Other lawsuits and claims may be asserted by or on behalf of users, partners, shareholders, or others seeking damages or other related relief, allegedly arising out of the Security Incidents. We are also facing investigations by a number of federal, state, and foreign governmental officials and agencies. These claims and investigations may adversely affect how we operate our business, divert the attention of management from the operation of the business, and result in additional costs and potential fines. In addition, the governmental agencies investigating the Security Incidents may seek to impose injunctive relief, consent decrees, or other civil or criminal penalties which could, among other things, materially increase our data security costs, and affect how we operate our systems and collect and use customer and user information.

Our security measures may be breached as they were in the Security Incidents and user data accessed, which may cause users and customers to curtail or stop using our products and services, and may cause us to 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. Yahoo is routinely targeted by outside third parties, including technically sophisticated and well-resourced state-sponsored actors, attempting to access or steal our user and customer data or otherwise compromise user accounts. We believe such a state-sponsored actor was responsible for the theft involved in the 2014 Security Incident and for at least some of the Cookie Forging Activity. Security breaches or other unauthorized access or actions expose us to a risk of theft of user data, regulatory actions, litigation, investigations, remediation costs, damage to our reputation and brand, loss of user and partner confidence in the security of our products and services and resulting fees, costs, and expenses, loss of revenue, damage to our reputation, and other potential liability. Outside parties may attempt to fraudulently induce our employees, users, partners, customers, or other parties to disclose sensitive information or take other actions to gain access to our data or our users' or customers' data, and such unauthorized access may continue undetected for an extended period of time and may be subject to exploitation for an extended period of time. In addition, hardware, software, or applications we procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise network and data security. In addition, systems and software implemented by us or our partners may contain security vulnerabilities, or may be implemented improperly due to human error or limitations in affected systems. Additionally, some third parties, such as our distribution partners, service providers, vendors, and app developers, may receive, transmit, process, access or store information provided by us or by our users through systems and applications that are integrated with Yahoo systems, properties and services. If these third parties fail to adopt or adhere to adequate data security practices, or in the event of a breach of their networks, our data or our users' data may be improperly accessed, used, or disclosed. Security breaches or other unauthorized data disclosure, acquisition or access (such as the Security Incidents) 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 a significantly adverse effect on our business. We take steps to prevent unauthorized data disclosure or access to our systems; however, because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be disguised or difficult to detect, or designed to remain dormant until a triggering event, we may be unable to anticipate these techniques or implement adequate preventative measures. Breaches of our security measures, such as the Security Incidents, or perceived breaches, have caused and may in the future cause, the market perception of the effectiveness of our security measures to be harmed and could cause us to lose users and customers, or detrimentally affect our relationships with distribution partners, service providers, vendors and app developers.

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, services and apps are offered. Any failure, or perceived failure, by us to comply with or to make effective modifications to our policies, or to comply with any applicable 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, data transfer 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 or have enacted 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. In addition, there currently is a data protection regulation, known as the General Data Protection Regulation, which has been finalized and is pending implementation by the member states of the European Union by May 2018 that includes operational and compliance requirements that are different than those currently in place and that also includes significant penalties for non-compliance. The European Union is also considering an update to its Privacy and Electronic Communications (e-Privacy) Directive to, among other things, amend the current directive's rules on the use of cookies.

The European Court of Justice invalidated the European Commission's 2000 Safe Harbor Decision that we had previously relied on for data transfers between the European Union and United States. The model contractual clauses and other mechanisms that we currently rely on to address European Union data protection requirements for transfers of data are subject to uncertainty and legal challenges. The European Union and United States recently agreed to the Privacy Shield Framework, an alternative mechanism to comply with European Union data protection requirements. We are not currently relying on the Privacy Shield Framework. Challenges to our existing data transfer mechanisms, and any future legal challenges to data transfer mechanisms that we may adopt, could cause us to incur additional costs, require us to change business practices in a manner adverse to our business, or affect the manner in which we provide our services.

The interpretation and application of privacy, data protection, data transfer and data retention laws and regulations are often uncertain and in flux in the United States 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, data transfer or data retention laws are interpreted and applied in a manner 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.

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 and 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 11 — "Commitments and Contingencies" in the Notes to our condensed consolidated financial statements.

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

Under our Search Agreement with Microsoft, Microsoft was the exclusive provider of algorithmic and paid search services for Yahoo Properties and Affiliate sites on personal computers and the non-exclusive provider of such services on mobile devices. As of April 15, 2015, Microsoft became the non-exclusive provider of such services on all devices. Commencing on May 1, 2015, the Company is required to request paid search results from Microsoft for 51 percent of its search queries originating from personal computers accessing Yahoo Properties and its Affiliate sites (the "Volume Commitment") and will display only Microsoft's paid search results on such search result pages. Approximately 42 percent and 37 percent of our revenue for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively, were attributable to the Microsoft Search Agreement (or approximately 25 percent for both the three months ended March 31, 2017 and the year ended December 31, 2016 after excluding the impact of the change in revenue presentation related to the implementation of the Eleventh Amendment to the Microsoft Search Agreement during the second quarter of 2016). Our business and operating results would be adversely affected by a significant decline in or loss of this revenue if we are not able to successfully replace this revenue with revenue from search results displayed through our Yahoo Gemini platform or our Services Agreement with Google.

As a result of the Volume Commitment, we continue to be 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.

The term of the Microsoft Search Agreement is 10 years from its commencement date, February 23, 2010, subject to earlier termination as provided in the Microsoft Search Agreement. On or after October 1, 2015, either the Company or Microsoft may terminate the Microsoft Search Agreement by delivering a written notice of termination to the other party. The Microsoft Search Agreement will remain in effect for four months from the date of a termination notice to provide for a transition period. If Microsoft terminated the Microsoft Search Agreement and the Company was unable to rely on its own services or the Services Agreement with Google, the termination could have an adverse impact on our business, revenue and operating results.

Risks associated with our Services Agreement with Google may adversely affect our business and operating results.

Under our Services Agreement with Google, Google will provide us with search advertisements through Google's AdSense for Search service, web algorithmic search services through Google's Websearch Service, and image search services. We entered into the Services Agreement with Google in the fourth quarter of 2015. In addition, if Microsoft were to terminate its Search Agreement with us, we would be required to rely on the Services Agreement and our Yahoo Gemini platform to replace the search revenue we currently receive under the Microsoft Search Agreement.

We are dependent on Google continuing to invest and innovate to maintain and improve its algorithmic and paid search services and to be competitive with other search providers. If Google fails to do this, our revenue and profitability could decline. Further, Google has a number of termination rights under the Services Agreement. If Google terminated the Services Agreement and we were unable to rely on our Yahoo Gemini platform or the Microsoft Search Agreement, the termination could have an adverse impact on our business, revenue and operating results.

If we are unable to provide innovative search experiences and other products and services that differentiate our services and 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. Although we have agreements with Microsoft and Google to use their paid search platforms, we still need to continue to invest in our Yahoo Gemini search platform and to innovate to improve our users' search experience (especially on mobile) to continue to differentiate our services and attract, retain, and expand our user base and paid search advertiser base. We also generate revenue through other online products, services and apps, and continue to innovate the products, services and apps in our portfolio. 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 search experiences and other products and services which differentiate our services, gain user acceptance and generate significant traffic to our websites, or if we are unable to effectively monetize the traffic from such products and services, our business could be harmed, causing our revenue to decline.

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.

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 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, publisher, and advertiser 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. For mobile app distribution, we depend on a limited number of distributors, primarily the developers of the operating systems or device manufacturers. If we are unable to reach agreements with these distributors for distribution of our mobile apps or they refuse to distribute or block our mobile apps, our operating results will be harmed. 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.

Distribution agreements often involve revenue sharing. Competition to enter into distribution arrangements has caused and may in the future 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 which case our payments could exceed the revenue that we receive. 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.

If we are unable to license, acquire, create or aggregate compelling content and services at reasonable cost, or receive compelling content, 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 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, stock quotes, weather, sports, video, and photos. In addition, our users also contribute content to us, and our employees and contractors produce unique content for us. 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 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, stop offering their content or services to us, or offer their content and services on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers or in the costs we incur to produce our own content could harm our operating results and financial condition. Further, because many of our licenses for our content and services 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 receive compelling content from our users, the number of users of our services may not grow as anticipated, or may decline, users' level of engagement with our services may decline, clicks on our ads may decrease, or advertisers may reduce future purchases of our ads, all or any of which could harm our operating results.

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 security measures, our servers and platforms 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 (including through social engineering such as phishing attacks), 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, information systems, or platforms, including changes to security measures, to deploy additional personnel, to defend litigation or regulatory actions or to protect against similar future events, and may cause damage to our reputation or loss of revenue.
- 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.

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 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 search and display 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.

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 pending Sale Transaction with Verizon; the intense competition for such highly skilled personnel in the San Francisco Bay Area and other metropolitan areas where our offices are located; competitors' hiring practices; the effectiveness of our compensation and retention programs; and fluctuations in global economic and industry conditions. 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.

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.

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, e-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 other claims against us over the display of content or search results triggered by search terms.

As we 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.

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

We have previously recorded charges to earnings when our goodwill, intangible assets, investments in equity interests, including investments held by any equity method investee, and other investments became impaired. For example, we recorded a $4.461 billion non-cash goodwill impairment charge during the fourth quarter of 2015 and a non-cash goodwill impairment charge of $395 million and a non-cash intangible assets impairment charge of $87 million during the second quarter of 2016. We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our intangible assets, investments in equity interests (including investments held by any equity method investee), 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, 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 current assets, include any downgrade of U.S. government debt or concern about the creditworthiness of the U.S. government. We may be required in the future to record additional charges to earnings if our goodwill, intangible assets, investments in equity interests, including investments held by any equity method investee, 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 any equity method investee 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 any equity method investee 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 any equity investee 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 Corporation ("Yahoo Japan") with currency forward contracts. If the Japanese yen has appreciated at maturity beyond the contract execution rate, 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 Quarterly Report.

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). Such acquisitions and strategic investments to date were accompanied by a number of risks, including:

- the difficulty of integrating the operations, personnel, systems, and controls of acquired companies as a result of cultural, regulatory, systems, and operational differences;
- 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;
- 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;
- the impairment of goodwill and/or purchased long-lived assets;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- 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.

Our failure to be successful in addressing these risks or other problems encountered in connection with our 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.

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 forms of advertising (such as native advertising), 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, data transfer, data localization, security, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, fantasy sports, 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. For example, paid fantasy sports contests are an area of current regulatory uncertainty, with various government authorities having taken positions that some types of contests are unlawful and/or subject to licensing requirements. Similarly, there are a number of legislative proposals in the European Union and its member states that could impose new obligations in areas affecting our business, including, but not limited to, copyright. 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.

Various U.S. and international laws restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. These laws currently impose restrictions and requirements on our business, and future federal, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us.

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, 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 (including actions restricting access to our products or services), required compliance with local laws or lack of legal precedent.

The advisory referendum on the United Kingdom's membership in the European Union, and any resulting changes to UK or EU policies, may, among other things, adversely affect business activity and economic conditions, cause unfavorable exchange rate fluctuations, create uncertainty regarding international data protection and transfer, government requests for information, advertising regulations, and tax rates, and affect our ability to recruit and retain employees.

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 United States and internationally. As a publisher, producer, and distributor of 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, 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 could also face restrictions or blocking of our services in particular countries as a result of content hosted on our services. 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 or search results, 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.

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 unique users, number of Ads Sold, number of Paid Clicks, Search click-driven revenue, Price-per-Click, Price-per-Ad, page views, mail messages sent and read, and searches that are calculated using unaudited internal company data. We periodically review, refine and update our methodologies for monitoring, gathering, and calculating these metrics. In addition, from time to time we provide, or rely on, certain other metrics, including those relating to the reach and effectiveness of our ads.

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. Furthermore, over time we may revise or cease reporting certain metrics that we no longer believe are useful or meaningful measures of our performance and add new metrics which we believe are better measurements of performance.

If advertisers, publishers or partners 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 or platform 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 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 mobile devices such as 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 the majority of the 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 may take, 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. The adoption of any laws or regulations that limit access to the Internet by blocking, degrading or charging access fees to us or our users for certain services could decrease the demand for, or the usage of, our products, services and apps, increase our cost of doing business and adversely affect our operating results.

Any failure to manage 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, our business may be adversely affected. 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.

We have dedicated resources to provide a variety of premium enhancements to our products, services and apps, 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, services and apps. Some of these premium products, services and apps 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 United States 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. Our income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, or accounting principles.

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 United States. 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. In addition, the Organization for Economic Co-operation and Development ("OECD"), which represents a coalition of member countries, is supporting changes to numerous long-standing tax principles through its base erosion and profit shifting (BEPS) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. To the extent any of these proposals are enacted into legislation by OECD member countries, or if other international, consensus-based tax policies and principles are amended or implemented, they could adversely affect the amount of tax we pay and thereby our financial position and results of operations.

We earn a material amount of our income from outside the United States. As of March 31, 2017, we had undistributed foreign earnings of approximately $3.4 billion, 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 United States 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 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.

The pending transaction with Verizon requires significant legal entity restructuring and realignment of corporate assets. While the restructuring and realignment are intended to be performed in a tax efficient manner, there is no assurance that additional cash taxes won't become due.

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.

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 March 31, 2017, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $38.90 to $46.78 per share and the closing sale price on April 28, 2017 was $48.21 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 operating performance and market valuation of Alibaba Group Holding Limited ("Alibaba Group") and Yahoo Japan in which we have investments. Following the closing of the Sale Transaction with Verizon, our stock price will be materially impacted by the operating performance and market valuation of Alibaba Group and Yahoo Japan. The equity valuation of our investment in Yahoo Japan may be impacted due to fluctuations in foreign currency exchange rates. We present our investment in Alibaba Group on our consolidated balance sheet as an available-for-sale marketable security. Consequently, the carrying value of this investment on our consolidated balance sheet will vary over time and fluctuations in its valuation may cause our stock price to fluctuate.

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 0.00% Convertible Senior Notes due 2018 that we issued in November 2013 (the "Notes"). 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. The initial strike price of the warrants was $71.24. Counterparties to the warrants may make adjustments to certain terms of the warrants upon the occurrence of specified events, including the announcement of the Stock Purchase Agreement, if the event results in a material change to the trading price of our common stock or the value of the warrants. To date, two counterparties have given us notices of adjustments reducing their warrant exercise prices.

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 or the Company may cause their trading price to decline.

While we did not solicit a credit rating on the Company or on the Notes, one rating service has rated both the Notes and the Company. If that rating service announces its intention to put the Company or the Notes on credit watch or lowers its rating on the Company or the Notes below any rating initially assigned to the Company or 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 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.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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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.

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SIGNATURES

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

Yahoo! Inc.

Dated: May 9, 2017

By: /s/ MARISSA A. MAYER

Marissa A. Mayer
Chief Executive Officer
(Principal Executive Officer)

Dated: May 9, 2017

By: /s/ KEN GOLDMAN

Ken Goldman
Chief Financial Officer
(Principal Financial Officer)

Yahoo! Inc.

Index to Exhibits

Exhibit Number	Description
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 Yahoo! Inc. (previously filed as Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed March 30, 2016 and incorporated herein by reference).
10.2(N)+*	Form of Performance Restricted Stock Unit Award Agreement, including Notice of Grant (for certain grants made after the Registrant's entry into the Stock Purchase Agreement with Verizon), under the Yahoo! Inc. Stock Plan.
10.2(O) +*	Form of Amendment to Option Award Agreement in connection with the closing of the Sale Transaction with Verizon.
10.4(D)+*	Resolutions of the Yahoo! Inc. Board of Directors, adopted on March 10, 2017, amending the Directors' Stock Plan in connection with the closing of the Sale Transaction with Verizon.
10.4(E)+*	Form of Restricted Stock Unit Amendment under the Directors' Stock Plan in connection with the closing of the Sale Transaction with Verizon.
10.4(F)+*	Form of Notice of Option Exercise Deadline under the Directors' Stock Plan in connection with the closing of the Sale Transaction with Verizon.
10.12(B)+*	Yahoo! Inc. Executive Incentive Plan for 2017.
10.13(C)+*	Form of Amendment to Executive Severance Agreement in connection with the closing of the Sale Transaction with Verizon.
10.26+	Employment Offer Letter, dated March 10, 2017, between Yahoo! Inc. and Thomas J. McInerney (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 10, 2017 and incorporated herein by reference).
10.27+	Employment Offer Letter, dated March 10, 2017, between Yahoo! Inc. and Arthur Chong (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed March 10, 2017 and incorporated herein by reference).
10.28+	Employment Offer Letter, dated March 10, 2017, between Yahoo! Inc. and Alexi A. Wellman (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed March 10, 2017 and incorporated herein by reference).
10.29+	Employment Offer Letter, dated March 10, 2017, between Yahoo! Inc. and DeAnn Fairfield Work (previously filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed March 10, 2017 and incorporated herein by reference).

Exhibit Number	Description
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 May 9, 2017.
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 May 9, 2017.
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 May 9, 2017.
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

* Filed herewith.

** Furnished herewith.

\+ Indicates a management contract or compensatory plan or arrangement.

Exhibit 10.2(N)

YAHOO! INC.

NOTICE OF RESTRICTED STOCK UNIT GRANT

[grantee name]
Employee ID: [number]

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

Date of Grant:	[date]
Total Number of Restricted Stock Units Granted:	[number]
Type of RSU:	U.S. Executive Performance RSU (Transaction Form)
Vesting Commencement Date:	[date]
Vesting Schedule:	Shares / Vesting Date [#] [Date] [#] [Date] [#] [Date] [#] [Date] These RSUs are subject to performance-based vesting. The actual number of shares vesting will be 0% to 200% of the target amounts shown above depending on the achievement of performance goals and time-based vesting requirements as described in the award agreement. The vesting dates shown above are approximate.
Manner of Payment by Company:	Stock
Governing Documents:	Yahoo Stock Plan (the "Plan") Performance RSU Award Agreement (Transaction Form) for U.S. Executives

By your acceptance of this award through the Company's online acceptance procedure (or by your signature and the signature of the Company's representative below):

- you acknowledge receiving and reviewing the Governing Documents (listed above) and the Supplemental Documents (listed below);
- you agree that the Restricted Stock Units are granted under and governed by the terms and conditions of the Governing Documents and you agree to be bound by the terms of this agreement and the Governing Documents, all of which are hereby incorporated by reference into this agreement; and
- **you consent to the collection, use and transfer, in electronic or other form, of your personal data as described in the Governing Documents for the purpose of implementing, administering and managing your participation in the Plan.**

This agreement shall be construed and determined in accordance with the laws of the U.S. State of Delaware (without giving effect to the conflict of laws principles thereof) and shall be deemed to have been executed and delivered by the parties hereto as of the Date of Grant.

GRANTEE:	YAHOO! INC.
Click here to accept	By: Marissa A Mayer
Signature	Marissa A. Mayer
[grantee name]	Title: Chief Executive Officer
Name	
Supplemental Documents:	Insider Trading Policy U.S. Prospectus

NOTE: This award is excluded from the Yahoo! Inc. Change in Control Employee Severance Plans (the “CIC Plans”) and will not be eligible for accelerated vesting under the CIC Plans nor under any other pre-existing plan, policy, or agreement.

YAHOO! INC. STOCK PLAN

PERFORMANCE RESTRICTED STOCK UNIT AWARD AGREEMENT
FOR U.S. EXECUTIVES
(Transaction Form)

Section 1. Grant of Restricted Stock Unit Award

(a) *Grant of Restricted Stock Units (“RSUs”).* Yahoo! Inc., a Delaware corporation (the “Company”), hereby grants to the grantee (the “Grantee”) named in the Notice of Restricted Stock Unit Grant (the “Notice of Grant”) the number of RSUs (such number, the “Target Number” of RSUs; and one-fourth of the Target Number being the “Annual Target Number” of RSUs for each “Performance Year” identified in Section 2(c)(i) hereof) set forth in the Notice of Grant, on the terms and conditions set forth in this Performance Restricted Stock Unit Award Agreement for U.S. Executives (this “Agreement”) and as otherwise provided in the Yahoo! Inc. Stock Plan, as amended (the “Award”).

(b) *Incorporation of Plan; Capitalized Terms.* The provisions of the Yahoo! Inc. Stock Plan, as amended (the “Plan”) are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. The Administrator shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Grantee and his/her legal representative in respect of any questions arising under the Plan or this Agreement.

Section 2. Terms and Conditions of Award

The grant of RSUs provided in Section 1(a) shall be subject to the following terms, conditions and restrictions:

(a) *Limitations on Rights Associated with RSUs.* The RSUs are bookkeeping entries only. The Grantee shall have no rights as a stockholder of the Company, no dividend rights and no voting rights with respect to the RSUs.

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

(c) *Performance-Based Requirements; Lapse of Restrictions*.

(i) Subject to Section 2(c)(ii) below, for each of 2017, 2018, 2019, and 2020 (each such year, a “Performance Year”), the Grantee shall be credited with a number of RSUs equal to the Annual Target Number of RSUs for the applicable Performance Year multiplied by a percentage that (A) will be determined by the Administrator after the Performance Year based on the Company’s achievement of financial performance goals established for that Performance Year and (B) will be between 0% and 200%. The performance goals and the methodology for establishing the number of RSUs to be credited will be established by the Administrator not later than ninety (90) days after the start of the applicable Performance Year (and in any event at a time when it is substantially uncertain whether the performance targets will be achieved). The methodology to determine the RSU crediting percentage will be communicated to the Grantee after it is established by the Administrator. The Administrator shall, following the end of each Performance Year, determine whether and the extent to which the performance targets for that Performance Year have been satisfied and the RSU crediting percentage for that Performance Year. Such determinations by the Administrator shall be final and binding. The date of such determinations by the Administrator for the Performance Year is referred to as the “Determination Date.” Any of the Annual Target Number of RSUs for a particular Performance Year that are not credited to the Grantee in accordance with the foregoing provisions of this Section 2(c)(i) shall terminate as of the last day of the Performance Year.

(ii) Subject to Sections 2(e) through 2(f) below, the RSUs credited to the Grantee pursuant to Section 2(c)(i) for a particular Performance Year shall vest and become non-forfeitable upon the Vesting Date for that Performance Year; *provided, however*, that if a Change in Control (as defined in Section 2(g)) occurs during the Performance Year, the Annual Target Number of RSUs for such Performance Year shall vest upon the final day of such Performance Year. The “Vesting Date” for a Performance Year shall be the Determination Date as to that Performance Year unless otherwise expressly provided in this Agreement.

(d) *Timing and Manner of Payment of RSUs.*

(i) In the event that the Notice of Grant specifies that the manner of payment by the Company shall be stock, as soon as practicable after (and in no case more than seventy-four days after) the date any RSUs subject to the Award become non-forfeitable (the “Payment Date”), such RSUs shall be paid by the Company delivering to the Grantee a number of Shares equal to the number of RSUs that become non-forfeitable upon that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (A) in certificate form or (B) in book entry form, registered in the name of the Grantee. Delivery of any certificates will be made to the Grantee’s last address reflected on the books of the Company and its Subsidiaries unless the Company is otherwise instructed in writing. The Grantee shall not be required to pay any cash consideration for the

RSUs or for any Shares received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding the foregoing, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

(ii) In the event that the Notice of Grant specifies that the manner of payment by the Company shall be cash, as soon as practicable after (and in no case more than seventy-four days after) the Payment Date, such RSUs shall be paid in a lump sum cash payment equal in the aggregate to the Fair Market Value of a Share on the Payment Date multiplied by the number of such RSUs that become non-forfeitable upon that Payment Date. The Grantee shall not be required to pay any cash consideration for the RSUs or for any cash received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid.

(iii) In the event that the Notice of Grant specifies that the manner of payment by the Company shall be cash or stock at the Company's election, as soon as practicable after (and in no case more than seventy-four days after) the Payment Date, such RSUs shall be paid, at the Company's option, (A) in a lump sum cash payment equal in the aggregate to the Fair Market Value of a Share on the Payment Date multiplied by the number of such RSUs that become non-forfeitable upon that Payment Date or (B) by the Company delivering to the Grantee a number of Shares equal to the number of RSUs that become non-forfeitable upon that Payment Date (rounded down to the nearest whole share). If the RSUs are paid in Shares, the Company shall issue the Shares either (1) in certificate form or (2) in book entry form, registered in the name of the Grantee. Delivery of any certificates will be made to the Grantee's last address reflected on the books of the Company and its Subsidiaries unless the Company is otherwise instructed in writing. The Grantee shall not be required to pay any cash consideration for the RSUs or for any Shares or cash received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

(e) *Termination of Employment Generally; Leaves of Absence.* The following provisions shall apply in the event of the termination of the Grantee's employment or service with the Company, Parent or any Subsidiary, or should the Grantee take a leave of absence from employment with the Company, Parent or any Subsidiary:

(i) *General*. In the event of the termination of the Grantee's employment or service with the Company, Parent or any Subsidiary for any reason prior to the lapsing of the restrictions in accordance with Section 2(c) hereof with respect to any of the RSUs granted hereunder, such portion of the RSUs held by the Grantee shall be automatically forfeited by the Grantee as of the date of termination. (The date of any such termination of the Grantee's employment or service is referred to in this Agreement as the "Termination Date.") Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any rights or interests in any RSUs that are forfeited pursuant to any provision of this Agreement.

(ii) *Previously Adopted Yahoo Severance Plans and Policies Do Not Apply to This Award.* This Award of RSUs shall *not* be subject to the acceleration of vesting provisions of any Yahoo! Inc. Amended and Restated Change in Control Employee Severance Plan or of any other plan, policy, or agreement in effect on the date of grant specified in the Notice of Grant (the "Date of Grant") (such as, to the extent otherwise applicable and without limitation, the Yahoo! Inc. Employee Severance Plan for Vice Presidents and Employees, any Key Employee Income Protection Benefits letter, any executive severance agreement letter, or any other agreement between the Grantee and the Company or any Subsidiary, or any amendment to any of the foregoing).

(iii) *Leaves of Absence*. The provisions of this paragraph are subject to compliance with all applicable laws relating to the Grantee's employment by the Company, Parent or Subsidiary (as applicable), and shall apply to the Award unless otherwise expressly provided in a Company leave of absence vesting policy approved by the Administrator or otherwise by the Administrator. In the event the Grantee is on an authorized leave of absence from the Company, Parent or Subsidiary (as applicable) at any time on or after the first day of a Performance Year, the Vesting Date for that Performance Year shall be the date that is X days following the Determination Date for that Performance Year (where "X" equals the total number of calendar days that the Grantee is on such a leave of absence in the period of time commencing with the first day of that Performance Period through and including the Determination Date for that Performance Period or, if the Grantee is on such a leave of absence on the Determination Date for that Performance Period, through and including the last day of such leave of absence), but in no event shall the Vesting Date be later than the last day of the maximum term of this Award as provided in the Plan (and any RSUs that have not vested and become non-forfeitable when such maximum term is reached shall be automatically forfeited by the Grantee).

(f) *Corporate Transactions.* The following provisions shall apply to the corporate transactions described below:

(i) In the event of a proposed dissolution or liquidation of the Company, the Award will terminate and be forfeited immediately prior to the consummation of such proposed transaction, unless otherwise provided by the Administrator.

(ii) In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Award shall be assumed or substituted with an equivalent award by such successor corporation, parent or subsidiary of such successor corporation; provided that the Administrator may determine, in the exercise of its sole discretion in connection with a transaction that constitutes a permissible distribution event under Section 409A(a)(2)(A)(v) of the Code, that in lieu of such assumption or substitution, the Award shall be vested and non-forfeitable and any conditions or restrictions on the Award shall lapse, as to a number of RSUs equal to the sum of (A) the number of RSUs (if any) that would have vested in accordance with Section 2(c) with respect to any Performance Year ended prior to the year in which such transaction occurs (to the extent not previously paid and assuming the Grantee's employment had continued through the applicable Vesting Date), and (B) the Annual Target Number of RSUs for the Performance Year in which such transaction occurs and any subsequent Performance Year(s).

(g) *Certain Definitions.*

(i) For purposes of this Agreement, "Change in Control" shall mean the first of the following events to occur after the Date of Grant:

(A) any person or group of persons (as defined in Section 13(d) and 14(d) of the Exchange Act) together with its Affiliates (as defined below), but excluding (1) the Company or any of its subsidiaries, (2) any employee benefit plans of the Company or (3) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company (individually a "Person" and collectively, "Persons"), is or becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates);

(B) the consummation of a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company, such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or

(C) the stockholders of the Company approve a plan of complete liquidation or winding-up of the Company; or

(D) the consummation of a sale or disposition (whether directly or by merger or other business combination) of all or substantially all of the assets of the Company to a Person or Persons in one or a series of related transactions; provided, however, that, for purposes of this paragraph (D), the assets of the Company shall not include the Company's direct and indirect equity interests in Alibaba Group Holding Limited and Yahoo Japan Corporation.

(ii) For purposes of this Agreement, "Affiliate" means, with respect to any individual or entity, any other individual or entity who, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such individual or entity.

(h) *Income Taxes.* Except as provided in the next three sentences, the Company shall withhold and/or reacquire a number of Shares issued in payment of (or otherwise issuable in payment of, as the case may be) the RSUs having a Fair Market Value equal to the taxes that the Company determines it or the Grantee's employer is required to withhold under applicable tax laws with respect to the RSUs (with such withholding obligation determined based on any applicable minimum statutory withholding rates) ("Net Share Settlement"). In the event that the Company cannot (under applicable legal, regulatory, listing or other requirements, or otherwise) satisfy such tax withholding obligation in such method or in the event that the RSUs are paid in cash (as opposed to Shares), the Company may satisfy such withholding by any one or a combination of the following methods: (i) by requiring the Grantee to pay such amount in cash or check; (ii) by reducing the amount of any cash otherwise payable to the Grantee with respect to the RSUs; (iii) by deducting such amount out of any other compensation otherwise payable to the Grantee; and/or (iv) by allowing the Grantee to surrender shares of Common Stock of the Company which (A) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Grantee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (B) have a Fair Market Value on the date of surrender equal to the amount required to be withheld. For these purposes, the Fair Market Value of the Shares to be withheld or repurchased, as applicable, shall be determined on the date that the amount of tax to be withheld is to be determined. Notwithstanding the foregoing, if the Grantee has been designated by the Company's Board of Directors as an "executive officer" (as such term is defined in Rule 3b-7 under the Securities Exchange Act of 1934, as amended) the Administrator may (but is under no obligation to) allow the Grantee, during such times and under such terms as the Administrator may provide, to elect in advance whether tax withholding obligations in connection with any payment of the RSUs in Shares will be satisfied (1) by Net Share Settlement, or (2) by the Grantee making a payment in cash to the Company (such election (2), a “Cash Election”); and if the Grantee has a Cash Election in effect on the Date of Grant as to other Company RSU awards, such election shall also apply to this Award, unless and until such election is modified in accordance with its terms.

(i) *No Advice Regarding Award*. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Grantee’s participation in the Plan, or the Grantee’s acquisition or sale of the underlying Shares. The Grantee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

Section 3. Miscellaneous

(a) *Notices.* Any and all notices, designations, consents, offers, acceptances and any other communications provided for herein shall be given in writing and shall be delivered either personally or by registered or certified mail, postage prepaid, which shall be addressed, in the case of the Company to both the Chief Financial Officer and the General Counsel of the Company at the principal office of the Company and, in the case of the Grantee, to the Grantee’s address appearing on the books of the Company or to the Grantee’s residence or to such other address as may be designated in writing by the Grantee. Notices may also be delivered to the Grantee, during his or her employment, through the Company’s inter-office or electronic mail systems.

(b) *No Right to Continued Employment.* The Grantee understands and agrees that the vesting of Shares pursuant to Section 2 above is not earned through the act of being hired, being granted the RSUs or being credited Shares under this Agreement. The Grantee further acknowledges and agrees that nothing in this Agreement, nor in the Plan which is incorporated in this Agreement by reference, shall confer upon the Grantee any right with respect to continuation as an employee or consultant with the Company, a Parent or any Subsidiary, nor shall it interfere with or restrict in any way the right of the Company, a Parent or any Subsidiary, which is hereby expressly reserved, to remove, terminate or discharge the Grantee at any time for any reason whatsoever, with or without Cause and with or without advance notice.

(c) *Bound by Plan.* By signing this Agreement, the Grantee acknowledges that he/she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.

(d) *Successors.* The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of the Grantee and the beneficiaries, executors, administrators, heirs and successors of the Grantee.

(e) *Headings.* The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.

(f) *Section 409A.* This Agreement and the Award are intended to comply with or be exempt from, as the case may be, Section 409A of the Code so as to not result in any tax, penalty or interest thereunder. This Agreement and the Award shall be construed and interpreted accordingly. Except for the Company's tax withholding rights, the Grantee shall be solely responsible for any and all tax liability with respect to the Award.

(g) *Invalid Provision.* The invalidity or unenforceability of any particular provision hereof shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision had been omitted.

(h) *Governing Law/Choice of Venue.*

(i) This Agreement and the rights of the Grantee hereunder shall be construed and determined in accordance with the laws of the State of Delaware (without giving effect to the conflict of laws principles thereof), as provided in the Plan.

(ii) For the purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the Award or this Agreement, the parties hereby submit and consent to the exclusive jurisdiction of the State of California where this grant is made and/or to be performed and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal court of the United States for the Northern District of California, and no other courts.

(i) *Imposition of Other Requirements*. If the Grantee relocates to another country after the Date of Grant, the Company reserves the right to impose other requirements on the Grantee's participation in the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

(j) *Insider Trading Restrictions/Market Abuse Laws*. The Grantee acknowledges that he or she is subject to the Company's Insider Trading Policy and may be or may become subject to the Company's 10b5-1 Trading Plan Policy, each as amended from time to time. In addition, the Grantee understands that he or she may be subject to insider trading restrictions under securities laws, market abuse laws, and/or other similar laws, and such restrictions may affect his or her ability to acquire or sell Shares or rights to Shares. The Grantee acknowledges that it is the Grantee's responsibility to comply with such Company policies and any additional restrictions that may apply under applicable laws with respect to the Grantee's acquisition, holding, and any disposition of Shares or rights to Shares.

(k) *Recoupment*. Notwithstanding any other provision herein, the recoupment or "clawback" policies adopted by the Administrator and applicable to equity awards, as such policies are in effect from time to time, shall apply to the Award and any Shares or cash that may be issued in respect of the Award.

(l) *Entire Agreement.* This Agreement, the Notice of Grant and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.

(m) *Modifications.* No change, modification or waiver of any provision of this Agreement shall be valid unless the same is in writing and signed by the parties hereto.

(n) *Counterparts*. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(o) *Signature.* This Agreement shall be deemed executed by the Company and the Grantee as of the Date of Grant upon execution by such parties (or upon the Grantee's online acceptance) of the Notice of Grant.

[OPTION AMENDMENT FOR OPTIONEES WHO REMAIN EMPLOYED BY ALTABA]

[date]

[Full Name]

Re: ***Amendment of Your Option Exercise Period***

Dear [First Name]:

This letter amends the award agreements that govern your outstanding stock options (your "Options") that were granted or assumed by Yahoo! Inc. (the "Company") as described below.

Your Options generally provide for a maximum term of seven years after the date of grant, subject to your continued employment with the Company. However, following the closing of the transaction contemplated by the Company's Stock Purchase Agreement with Verizon Communications Inc. (the "Closing"), applicable law will prohibit the Company from maintaining any outstanding stock option awards (after a limited grace period).

Accordingly, effective as of the Closing, the award agreements evidencing your Options are hereby amended to provide that your outstanding Options will remain exercisable in accordance with their terms for a period of up to ninety (90) days following the Closing (or, if earlier, until the expiration of the maximum term of the Option) and, to the extent not exercised by the last day of such exercise period, will terminate at the close of business on such day.

Except as expressly set forth above, this letter does not otherwise modify any other terms of your Option award agreements. If this letter accurately sets forth our agreement with respect to the foregoing matters, please sign below and return a copy of this letter to me.

Sincerely,

YAHOO! INC.

[Name]
[Title]

Acknowledged and Agreed:

By: ______________________________
[FULL NAME]

Exhibit 10.4(D)

**RESOLUTIONS OF THE BOARD OF DIRECTORS OF YAHOO! INC.
AMENDING THE DIRECTORS' STOCK PLAN**

March 10, 2017

WHEREAS, Yahoo! Inc. (the "Company") and Verizon Communications Inc. ("Verizon") entered into a Stock Purchase Agreement, dated July 23, 2016, as amended February 20, 2017 (the "Stock Purchase Agreement"), pursuant to which the Company has agreed to sell, and Verizon has agreed to purchase (the "Sale"), all of the outstanding shares of Yahoo Holdings, Inc., a wholly-owned subsidiary of the Company ("Yahoo Holdings") (and, prior to the sale of Yahoo Holdings, to cause Yahoo Holdings to sell to a foreign subsidiary of Verizon all of the equity interests in a newly formed foreign subsidiary of Yahoo Holdings that will hold certain foreign subsidiaries relating to the operating business), which, immediately prior to the consummation of the Sale, will own the Company's operating business;

<u>Directors' Stock Plan Matters</u>

WHEREAS, promptly following the completion of the Sale (the "Closing"), the Company will register with the U.S. Securities and Exchange Commission ("SEC") as an investment company (a "Registered Investment Company") under the Investment Company Act of 1940 (the "1940 Act");

WHEREAS, SEC rules applicable to Registered Investment Companies will generally prohibit the Company from having stock-settled equity awards outstanding more than 120 days following the Closing;

WHEREAS, the Directors' Stock Plan (the "Plan") provides for (a) automatic grants of restricted stock units to members of the Company's Board of Directors (the "Board") who are Outside Directors (as defined under the Plan) at each Annual Meeting (as defined under the Plan) and also upon an Outside Director first becoming a director on the Board, and (b) automatic grants of restricted stock units in lieu of cash fees for directors filing timely elections therefor (collectively, "Automatic Grants"); and

WHEREAS, the Board has determined it is in the best interests of the Company to provide that effective as of the Closing, Automatic Grants shall no longer be made under the Plan and Sections 4(b) and 11 of the Plan, which provide for such Automatic Grants, shall have no further force or effect following the Closing.

NOW, THEREFORE, BE IT RESOLVED, that that the Board hereby approves that, effective as of the Closing, Automatic Grants shall no longer be made under the Plan and Sections 4(b) and 11 of the Plan, which provide for such Automatic Grants, shall have no further force or effect following the Closing.

<u>General Authorizations</u>

RESOLVED, that any and all actions heretofore or hereafter taken by any of the officers of the Company (each, an "Authorized Officer" and collectively, the "Authorized Officers") in connection with the subject matter of these resolutions are hereby ratified and confirmed in all respects as the act and deed of the Company; and be it further

RESOLVED, that in order to fully carry out the intent and effectuate the purposes of the foregoing resolutions, the Authorized Officers be, and each of them hereby is, authorized, empowered and directed to take such other action and to execute, file and deliver (or cause to be executed, filed and delivered), in the name and on behalf of the Company, all such agreements, documents, certificates and instruments as any of them shall deem necessary or advisable to effectuate the intent and purposes of the foregoing resolutions, such determination to be conclusively evidenced by the performance of such acts and the execution, filing and delivery of such agreements, documents and instruments, and to pay all such fees and expenses, which shall in such Authorized Officer's judgment be necessary, proper or advisable.

[AMENDMENT TO DIRECTOR RSU AWARD]

[date]

[Director's Full Name]

Re: ***Amendment of Director RSU Awards***

Dear [First Name]:

I write concerning the awards of restricted stock units that have been granted to you by Yahoo! Inc. (the "Company") under the Yahoo! Inc. Directors' Stock Plan (the "Plan") and are currently outstanding (your "RSU Awards"). As you know, the Company has entered into an agreement to transfer certain of its assets to Yahoo Holdings, Inc., a wholly-owned subsidiary of the Company ("Holdings") and, following such transfer, to sell all of the shares of Holdings to Verizon Communications Inc. (together, the "Transaction").

As a result of the Transaction, each of your RSU Awards, to the extent outstanding immediately prior to the closing of the Transaction (the "Closing"), will fully vest immediately prior to the Closing (subject to any existing deferred payment terms). Following the Closing, applicable law will prohibit the Company from paying RSU Awards in shares of the Company's common stock after a limited grace period of 120 days. Therefore, subject to the Closing, each of your RSU Awards that is scheduled for payment 120 days or more following the Closing will be payable in cash (as opposed to shares of the Company's common stock) on the scheduled payment date, in a cash amount equal to the number of outstanding restricted stock units scheduled for payment, multiplied by the Fair Market Value (as defined under the Plan) of a share of the Company's common stock on the scheduled payment date.

This letter agreement does not modify any other terms of your RSU Awards except as expressly set forth above. If this letter accurately sets forth our agreement with respect to the foregoing matters, please sign below and return a copy of this letter to me.

By Order of the Board of Directors,

YAHOO! INC.

[Name]
[Title]

Acknowledged and Agreed:

By: ______________________________________
[FULL NAME]

[NOTICE OF OPTION EXERCISE DEADLINE FOR DIRECTORS]

[date]

[Director’s Full Name]

Re: ***Notice of Option Exercise Deadline***

Dear [First Name]:

I write regarding the stock options that were granted to you by Yahoo! Inc. (the “Company”) under the Yahoo! Inc. Directors’ Stock Plan (the “Plan”) and are currently outstanding (your “Options”). As you know, the Company has entered into an agreement to transfer certain of its assets to Yahoo Holdings, Inc., a wholly-owned subsidiary of the Company (“Holdings”) and, following such transfer, to sell all of the shares of Holdings to Verizon Communications Inc. (together, the “Transaction”).

Following the closing of the Transaction (the “Closing”), applicable law will prohibit the Company from maintaining any outstanding stock option awards after a limited grace period.

In connection with the Closing, the Plan authorizes the Board to establish an option exercise deadline. Accordingly the Board has determined that, effective as of the Closing, your outstanding Options will remain exercisable for a period of ninety (90) days following the Closing (or, if earlier, until their respective scheduled expiration dates) and, to the extent not exercised by the last day of such exercise period, will terminate at the close of business on such day.

By Order of the Board of Directors,

YAHOO! INC.

[Name]
[Title]

2017 Executive Incentive Plan

I. Introduction

A. Applicability

1. The Employees eligible to participate in the Yahoo! Inc. 2017 Executive Incentive Plan (the "Executive Incentive Plan" or this "Plan") are Marissa A. Mayer, Ken Goldman, David Filo, and Lisa Utzschneider, as well as any other employee who is designated by the Board of Directors (the "Board") of Yahoo! Inc. ("Yahoo" or the "Company") as an "Executive Officer" (as defined in Rule 3b-7 under the Securities Exchange Act of 1934 (the "Exchange Act")) and specifically designated as a Plan participant by the Plan administrator (the "Plan Administrator," and any such other employee a "New Participant"). Any employee eligible to Participate in this Plan is referred to as a "Participant." The Plan Administrator shall be the Compensation and Leadership Development Committee of the Board; provided however that following a Change in Control (as defined below) the Plan Administrator will be such person or committee as the Participants' employer may select.
2. The Plan Administrator reserves the right to amend, modify or terminate this Plan, in whole or in part, at any time, in its sole discretion including, without limitation, to comply with applicable local law, rules and regulations; provided that any such amendment will be consistent with the intent that each Participant's bonus opportunity under this Plan qualify (except as otherwise provided by Section III.E) as performance-based compensation under Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). The Plan Administrator may remove any individual from participation in this Plan at any time. All exceptions, adjustments, additions, or modifications to this Plan require the approval of the Plan Administrator.

B. Objectives of the Executive Incentive Plan

- To enhance the Company's competitiveness and the Company's ability to attract, motivate and retain top talent;
- To recognize the role of senior leadership in the success of the Company;
- To reward annual financial and individual performance that complements the Company's longer-term strategic focus; and
- To encourage collaboration and teamwork across the Company.

II. Executive Incentive Plan Elements

A. Target Awards

A target cash bonus award ("Target Award") has been established for each Participant by the Plan Administrator. Target Awards are typically expressed as a percentage of a Participant's annual base salary rate as of the last day of the applicable year, where such salary rate does not include other forms of compensation (such as, without limitation, expense reimbursements, superannuation, bonus payments, long-term incentives, overtime compensation, and other variable compensation). Target Awards may also be a specified fixed dollar (or local currency) amount. Target Awards may be reviewed and revised in the sole discretion of the Plan Administrator. Notwithstanding the foregoing, the Plan Administrator may determine that one or more Participants will not have a Target Award.

This Plan and Target Awards do not constitute a guarantee of or entitlement to a bonus payment. A Participant's actual bonus payment may vary from his or her Target Award.

B. Executive Incentive Plan Bonus Formula

Following the end of 2017, a "Company Performance Factor" (based on the Company's financial and operational performance during 2017) and an "Individual Performance Factor" (evaluating the individual's performance during the year) will be determined by the Plan Administrator. A Participant's Executive Incentive Plan bonus for 2017, subject to the other terms and conditions of this Plan, will equal the Participant's Target Award for 2017 multiplied by the Company Performance Factor and multiplied by the Participant's Individual Performance Factor; provided, however, that each Participant's Plan bonus shall not exceed 200 percent of his or her Target Award (or, as to any Participant for whom the Plan Administrator did not establish a Target Award, the applicable limits under Section II.C below).

The metrics used to determine the financial performance of the Company in determining the Company Performance Factor will be the Company's GAAP Revenue, Revenue ex-TAC, Adjusted EBITDA, and TSR (each as defined below) for 2017. The Plan Administrator will also assess (a) operational performance of the Company in determining the Company Performance Factor, and (b) individual performance in determining a Participant's Individual Performance Factor.

- "Adjusted EBITDA" as to a particular year means the Company's income from operations before depreciation, amortization, restructuring charges (and reversals), impairment charges, and stock-based compensation expense for such year, as such items are determined by the Company and reflected in its reporting of financial results.
- "GAAP" means U.S. generally accepted accounting principles.
- "GAAP Revenue" as to a particular year means the Company's worldwide revenue for such year, as determined by the Company in accordance with GAAP and reflected in its reporting of financial results.
- "Revenue ex-TAC" as to a particular year means the Company's worldwide GAAP Revenue less TAC that has been recorded as a cost of revenue for such year, as determined by the Company and reflected in its reporting of financial results.
- "TAC" means traffic acquisition costs.
- "TSR" means total shareholder return with respect to the Company's common stock for the Performance Period and shall be determined by dividing: (a) the sum of (i) the difference obtained by subtracting the Beginning Price from the Ending Price plus (ii) all Dividends for which the ex-Dividend date occurs during the Performance Period by (b) the Beginning Price. Such quotient shall be rounded to the nearest one percent.
    - "Performance Period" means the period commencing on January 1, 2017 and ending on December 31, 2017.

- "Beginning Price" means the average of the closing market prices of the Company's common stock on the Nasdaq Global Select Market ("Nasdaq") for the twenty (20) consecutive trading days ending with the last trading day prior to the Performance Period.
- "Ending Price" means the average of the closing market prices of the common stock of the Company (or any successor thereto) on the Nasdaq (or, if such common stock ceases trading on such market, the principal exchange on which such stock is traded) for the twenty (20) consecutive trading days ending with the last trading day of the Performance Period. In the event such common stock goes ex-Dividend during such 20-day period, the closing market prices for the portion of the 20-day period preceding the ex-Dividend date shall be equitably adjusted to exclude the value of the related Dividend.
- "Dividend" means any normal cash dividend on the Company's common stock (i.e., a dividend that does not trigger an adjustment under section 15(a) of the Stock Plan).

If during the Performance Period an equity award adjustment occurs pursuant to Section 15(a) of the Stock Plan (in connection with an extraordinary cash dividend, a dividend of stock or property (such as a spin-off), a stock split or reverse stock split, or any other event contemplated therein), then the Plan Administrator shall (to the extent necessary and without duplication) equitably adjust the Beginning Price or the Ending Price in a manner consistent with such 15(a) adjustment in order to preserve (but not increase) the level of incentive intended by this Plan.

GAAP Revenue, Revenue ex-TAC, and Adjusted EBITDA will be subject to the adjustment provisions set forth in Section II.C.

Notwithstanding the foregoing provisions, the Plan Administrator retains discretion (a) to reduce or eliminate the amount of any Executive Incentive Plan bonus otherwise payable, or (b) subject to Section II.C to below, to increase the amount of any Executive Incentive Plan bonus otherwise payable.

Any Executive Incentive Plan bonus payable to a Participant under this Plan shall not be considered as "salary" in any circumstance and shall not be included in calculations for overtime pay, retirement benefits, severance, or any other benefits under any applicable plan, policy, agreement or applicable law.

C. Bonus Limit

Subject to Sections II.D and III.E, each Participant's Executive Incentive Plan bonus for 2017 is (notwithstanding anything to the contrary above) subject to the limitations of this Section C. The intent of this Section C is to structure Executive Incentive Plan bonus opportunities to qualify as performance-based compensation within the meaning of Section 162(m) of the Code ("Section 162(m)"). Accordingly, this Plan will be construed and interpreted consistent with that intent. The Participants' Executive Incentive Plan bonus opportunities are structured as performance-based awards under Appendix A to the Yahoo! Inc. Stock Plan, as amended (the "Stock Plan"). Any determination contemplated by this Plan for the applicable year will be made by the Plan Administrator, and no Executive Incentive Plan bonus may be paid unless and until the Plan Administrator certifies, by resolution or other appropriate action in writing, that the bonus is not more than the Participant's maximum bonus determined pursuant to this Section C and that any other material terms applicable to the bonus were in fact satisfied.

The maximum aggregate bonus pool for 2017 under this Plan will equal 3 percent of Yahoo! Inc.'s Adjusted EBITDA for 2017 (the "Section 162(m) Bonus Pool Limit"). The Plan Administrator established each Participant's maximum Executive Incentive Plan bonus for 2017 as follows (in each case expressed as a portion of the Section 162(m) Bonus Pool Limit for that year): Marissa A. Mayer—seven-fifteenths (7/15); Ken Goldman—two-fifteenths (2/15); David Filo—two-fifteenths (2/15); and Lisa Utzschneider—two-fifteenths (2/15) (with the remaining two-fifteenths (2/15) held in reserve for any potential new Participant). (For example, if the Plan Administrator allocated two-fifteenths of the Section 162(m) Bonus Pool Limit to a particular Participant, the Participant's maximum Executive Incentive Plan bonus will equal two-fifteenths of 3 percent of Yahoo! Inc.'s Adjusted EBITDA, which is 0.4 percent of Yahoo's Adjusted EBITDA.) Notwithstanding the foregoing, in all cases each Participant's maximum Executive Incentive Plan bonus for 2017 will be subject to the limit of Section A.3 of the Stock Plan and any other maximum bonus amount established by the Plan Administrator for that Participant, in each case if lower than the amount determined pursuant to this Section C. The Plan Administrator has discretion to reduce (but not increase) the maximum amount of a Participant's bonus determined pursuant to this Section C. For purposes of clarity, if the Plan Administrator exercises its discretion to reduce the maximum amount of any Executive Incentive Plan bonus (or any Executive Incentive Plan bonus is otherwise not paid at the maximum amount), the amount of the difference may not be allocated to any other Participant.

Adjustment Provisions. When calculating GAAP Revenue, Revenue ex-TAC, and Adjusted EBITDA for purposes of determining actual performance for 2017, the Company's actual GAAP Revenue, Revenue ex-TAC, and Adjusted EBITDA for such year shall be adjusted (without duplication) for the following items to the extent such items were not included in the Financial Plan for 2017:

(a) increased or decreased to eliminate the financial statement impact of acquisitions with a GAAP purchase price of $500 million or more and costs associated with such acquisitions;

(b) increased or decreased to eliminate the financial statement impact of divestitures with a cumulative GAAP sale price of $500 million or more and costs associated with such divestitures;

(c) increased or decreased to eliminate the financial statement impact of any new changes in accounting standards announced during the year that are required to be applied during the year in accordance with GAAP;

(d) increased or decreased to eliminate the financial statement impact of legal settlements that have an impact on revenues or expenses under GAAP;

(e) increased or decreased to eliminate the financial statement impact of any changes in how the Company reports any portion of its GAAP revenue (i.e., whether on a gross or net (after TAC) basis) during the year; and

(f) increased or decreased to eliminate the financial statement impact of changes in foreign exchange rates (compared to the foreign exchange rates incorporated in the Financial Plan).

"Financial Plan" for 2017 means the Company's final financial plan for 2017 approved by the Board of Directors.

D. Change in Control

In the event of a Change in Control (as defined below) during 2017, the Company Performance Factor of Section II.B shall cease to apply such that each Participant's Plan bonus for 2017 shall, subject to the other terms and conditions of this Plan, equal the Participant's Target Award for 2017 multiplied by the Participant's Individual Performance Factor; provided, however, that each Participant's Plan bonus shall not exceed 200 percent of his or her Target Award (or, as to any Participant for whom the Plan Administrator did not establish a Target Award, the applicable limit under Section II.C) and the limit of Section II.C shall continue to apply.

"Change in Control" means the first of the following events to occur after March 6, 2017:

(a) any person or group of persons (as defined in Section 13(d) and 14(d) of the Exchange Act) together with its Affiliates (as defined below), but excluding (1) the Company or any of its subsidiaries, (2) any employee benefit plans of the Company or (3) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company (individually a "Person" and collectively, "Persons"), is or becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates);

(b) the consummation of a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or entity regardless of which entity is the survivor, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company, such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or

(c) the stockholders of the Company approve a plan of complete liquidation or winding-up of the Company; or

(d) the consummation of a sale or disposition (whether directly or by merger or other business combination) of all or substantially all of the assets of the Company to a Person or Persons in one or a series of related transactions; provided, however, that, for purposes of this paragraph (d), the assets of the Company shall not include the Company's direct and indirect equity interests in Alibaba Group Holding Limited and Yahoo Japan Corporation.

"Affiliate" means, with respect to any individual or entity, any other individual or entity who, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such individual or entity.

III. TERMS AND CONDITIONS

A. Executive Incentive Plan Effective Period

This Plan covers the period from January 1, 2017 to December 31, 2017. This Plan supersedes all previous executive cash incentive plans, management incentive plans (MIP), Yahoo Incentive Plans for Excellence and Execution (YIPEE), Sales Incentive Plans, or leadership bonus plans and agreements and all other previous or contemporaneous oral or written statements by the Company on this subject as to the Participants in this Plan.

B. Date for Incentive Payments

Executive Incentive Plan bonuses paid under this Plan are not earned until paid and in all events remain subject to Section III.J. It is a condition for Executive Incentive Plan eligibility that Participants must be employed, and to the extent permitted by applicable law, not under notice of termination given by the Company or the Participant (if applicable), on the payment date of the Executive Incentive Plan bonuses (except as otherwise provided below in Section G). Payment will not occur until after financial results for 2017 are determined by the Company and the year end review process for 2017 is completed.

C. Form and Timing of Payment

If the conditions for payment described above are met, the Executive Incentive Plan bonus will be payable in a lump sum cash payment (in local currency), subject to required payroll deductions and tax withholdings no later than March 15, 2018 (except that, in the case of any Participants not on the United States payroll of the Company at the start of the applicable year and who are not added to the United States payroll of the Company during the applicable year, payment will occur not later than March 31, 2018).

D. Adjustments to Target Awards

The Plan Administrator in its sole discretion can approve adjustments to Target Awards for Participants during 2017. Any such changes will be communicated to the Participant in writing.

E. New Participants; Changes in Position; Other Prorations

If an employee is designated by the Board as an Executive Officer during 2017 (due to being newly hired, promoted, or otherwise), the Plan Administrator may select the employee for participation in this Plan by notifying the employee that he or she has been designated as a Participant under this Plan. Unless otherwise provided by the Plan Administrator at the time a New Participant is selected for participation in this Plan (in which case the Plan Administrator shall also, at such time, specify the applicable Section 162(m) limitation(s) applicable to the New Participant), any New Participant's Executive Incentive Plan bonus for 2017 will not be subject to the limitations of Section II.C and, accordingly, will not qualify as performance-based compensation within the meaning of Section 162(m).

The following rules shall also apply except as otherwise determined by the Plan Administrator with respect to a particular Participant:

- If a Participant's Target Award as to the year changes during the year, or if a New Participant is added during the year, his/her annual Target Award amount shall be prorated based on the number of days each amount was in effect during the year.
- If a Participant transfers mid-year from an Executive Incentive Plan-eligible position to one that is not Executive Incentive Plan eligible (for example, if a Participant ceases to be designated as an Executive Officer by the Board but remains employed by the Company), the Plan Administrator, in its sole discretion, shall award the employee an Executive Incentive Plan bonus based on a prorated Executive Incentive Plan Target Award. Any such payment will be paid at the same time as other Executive Incentive Plan payments are paid.

The Plan Administrator has the sole discretion to prorate, reduce, offset, or eliminate Executive Incentive Plan bonuses to account for advances or payouts to employees under other bonus plans in effect during the same year, or for other reasons as it deems appropriate.

F. Leaves of Absence

To the extent permitted by applicable law, the amount of the Executive Incentive Plan bonus may be prorated for Participants who have been on an approved leave of absence during the year.

G. Terminations of Employment

To the extent permitted by applicable law, and except as otherwise approved by the Plan Administrator or expressly set forth in a written agreement between the Participant and the Company, Participants whose employment is voluntarily or involuntarily terminated (with or without cause) by the Participant or the Company or are under notice of termination given by either party (if applicable) prior to the payment date of the Executive Incentive Plan bonus will not be eligible for and shall not receive any Executive Incentive Plan bonus. Following a Change in Control, a Participant whose employment continues uninterrupted with the acquiring company (or any of its affiliates) will not be considered to have incurred a termination of employment for purposes of this Plan, notwithstanding the lack of any continuing employment relationship between such Participant and Yahoo! Inc.

Participants whose employment terminates due to the employee's total disability during 2017 will be eligible for a prorated Executive Incentive Plan bonus, based on the date of termination, and paid at the time other Executive Incentive Plan bonuses are paid under this Plan, to the extent permitted by applicable law. If a Participant dies during 2017, the Executive Incentive Plan bonus will be prorated based on the date of death and paid to the estate of the deceased Participant, at the time other Executive Incentive Plan bonuses are paid.

H. Executive Incentive Plan Interpretation

This Plan shall be interpreted by the Plan Administrator. The Plan Administrator has the sole discretion to interpret or construe ambiguous, unclear or implied (but omitted) terms and shall resolve any and all questions regarding interpretation and/or administration.

Participants who have issues regarding payments or the administration of this Plan may file a claim in writing to the Plan Administrator, c/o the Secretary of the Company, within 90 days of the date on which the Participant first knew (or should have known) of the facts on which the claim is based. The Plan Administrator or its designee(s) shall consider the claim and notify the Participant in writing of the determination and resolution of the issue. Claims that are not pursued through this procedure shall be treated as having been irrevocably waived. The determination of the Plan Administrator or its designee(s) as to any complaint or dispute will be final and binding and shall be upheld unless arbitrary or capricious or made in bad faith.

The provisions of this Plan are severable and if any provision is held to be unenforceable by any court of competent jurisdiction then such unenforceability shall not affect the enforceability of the remaining provisions of this Plan.

This Plan shall be construed and interpreted consistent with, and so as to avoid the imputation of any tax, penalty or interest under, Section 409A of the Code. However, other than the Company’s right to withhold required payroll deductions and tax withholdings, each Participant is solely responsible for his or her tax liability that may result from the payment of any bonus under this Plan.

I. Employment At-Will (U.S. Employees only)

The employment of all Participants in the United States is “at will” and is terminable by either the Participant or Yahoo! at any time, with or without advance notice and with or without cause. This Plan shall not be construed to create a contract of employment for a specified period of time between Yahoo! and any U.S. Participant.

J. Recoupment

Notwithstanding any other provision herein, the recoupment or “clawback” policies adopted by the Plan Administrator and applicable to incentive awards, as such policies are in effect from time to time, shall apply to this Plan and any bonuses paid or payable under this Plan.

[AMENDMENT FOR EXECUTIVES WITH EXTENDED OPTION EXERCISE PERIODS]

[date]

[Full Name]

Re: ***Amendment of Your Option Exercise Period***

Dear [First Name]:

This letter amends the Severance Agreement between you and Yahoo! Inc. (the “Company”) dated [date], as amended (your “Severance Agreement”). To the extent you hold outstanding stock options granted or assumed by the Company (your “Options”), the award agreements that govern your Options are also being amended as described below.

Your Severance Agreement currently provides that, upon a termination of your employment that triggers severance benefits under the agreement, your outstanding and vested Options will remain exercisable for a period of six months (the “Extended Exercise Period”). However, following the closing of the transaction contemplated by the Company’s Stock Purchase Agreement with Verizon Communications Inc. (the “Closing”), applicable law will prohibit the Company from maintaining any outstanding stock option awards (after a limited grace period).

Accordingly, effective as of the Closing, your Severance Agreement and the award agreements evidencing your Options are hereby amended to provide that your outstanding Options will remain exercisable in accordance with their terms for a period of up to ninety (90) days following the Closing (or, if earlier, until the expiration of the maximum term of the Option) and, to the extent not exercised by the last day of such exercise period, will terminate at the close of business on such day.

Except as expressly set forth above, this letter does not otherwise modify any other terms of your Severance Agreement or your Option award agreements. If this letter accurately sets forth our agreement with respect to the foregoing matters, please sign below and return a copy of this letter to me.

Sincerely,

YAHOO! INC.

[Name]
[Title]

Acknowledged and Agreed:

By: ____
[FULL NAME]

Exhibit 31.1

**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: May 9, 2017

By: /s/ MARISSA A. MAYER
Marissa A. Mayer
Chief Executive Officer

Exhibit 31.2

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: May 9, 2017

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 March 31, 2017 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:	**May 9, 2017**

	/s/ KEN GOLDMAN
Name:	**Ken Goldman**
Title:	**Chief Financial Officer**
Dated:	**May 9, 2017**

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.