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 June 30, 2004

OR

o **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 0-28018

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)

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

Indicate by check mark whether the Registrant (1) has filed all reports required 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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☒ No o

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 July 30, 2004
Common stock, $0.001 par value	1,360,577,284

YAHOO! INC.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.
Condensed Consolidated Statements of Operations
(unaudited, in thousands except per share amounts)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2004	Six Months Ended June 30, 2003	Six Months Ended June 30, 2004
Revenues	$ 321,406	$ 832,299	$ 604,354	$ 1,590,085
Cost of revenues	46,842	297,383	89,974	579,088
Gross profit	274,564	534,916	514,380	1,010,997
Operating expenses:				
Sales and marketing	122,106	191,875	235,585	358,170
Product development	45,099	87,140	81,497	164,129
General and administrative	33,934	63,159	62,574	120,715
Stock compensation expense (1)	891	7,140	1,466	19,712
Amortization of intangibles	9,762	36,108	15,509	66,620
Total operating expenses	211,792	385,422	396,631	729,346
Income from operations	62,772	149,494	117,749	281,651
Other income, net	10,334	13,179	22,864	27,557
Earnings in equity interests	10,001	24,108	19,730	43,976
Minority interests in operations of consolidated subsidiaries	(1,126)	(1,752)	(3,034)	(2,234)
Income before income taxes	81,981	185,029	157,309	350,950
Provision for income taxes	31,153	72,517	59,778	137,226
Net income	$ 50,828	$ 112,512	$ 97,531	$ 213,724
Net income per share—basic:	$ 0.04	$ 0.08	$ 0.08	$ 0.16
Net income per share—diluted:	$ 0.04	$ 0.08	$ 0.08	$ 0.15
Shares used in per share calculation—basic	1,208,036	1,347,459	1,200,660	1,337,807
Shares used in per share calculation—diluted	1,257,154	1,449,707	1,244,365	1,438,128
(1) Stock compensation expense by function:				
Sales and marketing	$ 112	$ 2,376	$ 321	$ 5,981
Product development	588	2,548	874	7,271
General and administrative	191	2,216	271	6,460
Total stock compensation expense	$ 891	$ 7,140	$ 1,466	$ 19,712

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

YAHOO! INC.
Condensed Consolidated Balance Sheets
(in thousands except par value)

	December 31, 2003	June 30, 2004 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 713,539	$ 707,880
Short-term investments in marketable securities	595,978	829,387
Accounts receivable, net	282,415	337,082
Prepaid expenses and other current assets	129,777	138,518
Total current assets	1,721,709	2,012,867

Long-term investments in marketable securities	1,261,693	1,112,556
Property and equipment, net	449,512	463,890
Goodwill	1,805,561	2,295,585
Intangible assets, net	445,640	504,841
Other assets	247,539	270,288
Total assets	$ 5,931,654	$ 6,660,027
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 31,890	$ 27,075
Accrued expenses and other current liabilities	483,628	552,867
Deferred revenue	192,278	213,378
Total current liabilities	707,796	793,320
Long-term debt	750,000	750,000
Other liabilities	72,890	111,768
Minority interests in consolidated subsidiaries	37,478	43,812
Stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,321,408 and 1,354,237 issued and outstanding, respectively	1,356	1,387
Additional paid-in capital	4,288,138	4,695,991
Treasury stock	(159,988)	(159,988)
Retained earnings	230,386	444,110
Accumulated other comprehensive income (loss)	3,598	(20,373)
Total stockholders' equity	4,363,490	4,961,127
Total liabilities and stockholders' equity	$ 5,931,654	$ 6,660,027

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

YAHOO! INC.
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Six Months Ended	
	June 30, 2003	June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 97,531	$ 213,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,576	143,620
Tax benefits from stock options	49,645	121,121
Earnings in equity interests	(19,730)	(43,976)
Minority interests in operations of consolidated subsidiaries	3,034	2,234
Stock compensation expense	1,466	19,712
Net losses on sale of assets and other, net	7,547	9,616
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(23,529)	(35,822)
Prepaid expenses and other assets	(3,965)	582
Accounts payable	(405)	(13,593)
Accrued expenses and other liabilities	(933)	51,869
Deferred revenue	16,514	16,590
Net cash provided by operating activities	190,751	485,677
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(41,273)	(94,388)
Purchases of marketable securities	(666,178)	(862,013)
Proceeds from sales and maturities of marketable securities	650,499	751,723
Acquisitions, net of cash acquired	(228,318)	(573,877)
Purchases of other investments	(6,274)	(491)
Proceeds from sales of other investments	—	16,979
Net cash used in investing activities	(291,544)	(762,067)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt, net	733,125	—
Proceeds from issuance of common stock, net	128,611	317,678
Structured stock repurchase	—	(50,000)
Net cash provided by financing activities	861,736	267,678
Effect of exchange rate changes on cash and cash equivalents	3,667	3,053
Net change in cash and cash equivalents	764,610	(5,659)
Cash and cash equivalents at beginning of period	310,972	713,539
Cash and cash equivalents at end of period	$ 1,075,582	$ 707,880

Supplemental schedule of investing activities:

Acquisition-related activities (in thousands):

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2004
Cash paid for acquisitions	$ 272,928	$ 619,611
Cash acquired in acquisitions	(44,610)	(45,734)
	$ 228,318	$ 573,877
Value of common stock options issued in connection with acquisitions	$ 13,367	$ 2,209

See Note 6 – "Acquisitions" for further information.

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

YAHOO! INC.
Condensed Consolidated Statements of Stockholders' Equity
(unaudited, in thousands)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2004	Six Months Ended June 30, 2003	Six Months Ended June 30, 2004
Common stock				
Balance, beginning of period	$ 1,228	$ 1,364	$ 1,222	$ 1,356
Common stock issued	20	23	26	31
Balance, end of period	1,248	1,387	1,248	1,387
Additional paid-in capital				
Balance, beginning of period	2,484,729	4,408,141	2,429,611	4,288,138
Common stock issued	105,024	226,232	145,285	321,386
Stock compensation expense	891	7,140	1,466	19,712
Tax benefit from stock options, net	30,292	49,760	49,368	113,303
Structured stock repurchase	—	—	—	(50,000)
Deferred stock-based compensation	—	4,963	(1,287)	4,098
Other	—	(245)	(3,507)	(646)
Balance, end of period	2,620,936	4,695,991	2,620,936	4,695,991
Treasury stock				
Balance, beginning and end of period	(159,988)	(159,988)	(159,988)	(159,988)
Retained earnings (accumulated deficit)				
Balance, beginning of period	39,210	331,598	(7,493)	230,386
Net income	50,828	112,512	97,531	213,724
Balance, end of period	90,038	444,110	90,038	444,110
Accumulated other comprehensive income (loss)				
Balance, beginning of period	(4,285)	10,376	(1,082)	3,598
Net unrealized gains (losses) on securities	2,593	(15,913)	(377)	(11,712)
Foreign currency translation adjustments	6,291	(14,836)	6,058	(12,259)
Balance, end of period	4,599	(20,373)	4,599	(20,373)
Total stockholders' equity	$ 2,556,833	$ 4,961,127	$ 2,556,833	$ 4,961,127
Other comprehensive income				
Net income	$ 50,828	$ 112,512	$ 97,531	$ 213,724
Other comprehensive income				
Net unrealized gains (losses) on securities	2,593	(15,913)	(377)	(11,712)
Foreign currency translation adjustment	6,291	(14,836)	6,058	(12,259)
Comprehensive income	$ 59,712	$ 81,763	$ 103,212	$ 189,753
	Number of Shares			
Common stock				
Balance, beginning of period	1,195,634	1,331,970	1,189,720	1,321,408
Common stock issued	19,066	22,267	24,980	32,829
Balance, end of period	1,214,700	1,354,237	1,214,700	1,354,237

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 Basis of Presentation

Yahoo! Inc. ("Yahoo!" or the "Company") is a leading provider of comprehensive online products and services to consumers and businesses worldwide. The Company, a Delaware corporation, commenced operations in 1995.

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 presentation 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 period.

The results of operations of companies acquired during the period have been included in the Company's consolidated statements of operations since the completion of the acquisitions. See Note 6 — "Acquisitions."

On April 7, 2004, the Yahoo! Board of Directors approved a two-for-one split of the Company's shares of common stock effected in the form of a stock dividend. As a result of the stock split, Yahoo! stockholders received one additional share of Yahoo! common stock for each share of common stock held of record on April 26, 2004. The additional shares of Yahoo! common stock were distributed on May 11, 2004. All share and per share amounts in these condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

These 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, 2003. Certain prior period balances have been reclassified to conform to the current year presentation.

Note 2—Summary of Significant Accounting Policies

Revenue Recognition. The Company's revenues are derived principally from services, which include marketing services, fees, and listings.

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 "Revenue Recognition," and Emerging Issues Task Force Issue 00-21, "Revenue Arrangements with Multiple Deliverables." In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility of the resulting receivable is reasonably assured.

Marketing services revenue is primarily generated from rich media advertisements (banner and other media advertisements), sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic search services and transactions. Banner advertising agreements typically range from one week to three years. The Company recognizes marketing services revenue related to banner advertisements as "impressions" are delivered by the Company. "Impressions" are defined as the number of times that an advertisement appears in pages viewed by users of the Yahoo! network. Sponsorship advertising agreements have longer terms than banner advertising agreements, typically ranging from three months to three years, and often involve multiple element arrangements (arrangements with more than one deliverable) that may include placement on specific properties, exclusivity and content integration. Sponsorship advertisement revenue is recognized as "impressions" are delivered or ratably over the contract period, where applicable. Text-link and hypertext link advertisements, including pay-for-performance search advertisements or results, are recognized in the period in which the "click-throughs" occur. "Click-throughs" are defined as the number of times a user clicks on an advertisement or search result. Per-query search fees are recognized based on the query volume in the period, and revenue from customers who pay a fixed fee to be included in the Web search index are recognized over the term of the agreement. Transactions revenue includes service fees for facilitating transactions through the Yahoo! network, principally from the Company's commerce properties. Transactions revenue is recognized when there is evidence that the qualifying transactions have occurred.

Fees revenue consists of revenues generated from a variety of consumer and business fee-based services, including SBC Yahoo! DSL and SBC Yahoo! Dial, BT Yahoo! Broadband and BT Yahoo! Internet, Yahoo! Personals, Small Business Services and Yahoo! Mail. Revenue is recognized in the month in which the services are performed, provided that no significant Company obligations remain and collection of the resulting receivable is reasonably assured.

Listings revenue consists of revenues generated from a variety of consumer and business listings-based services, including access to the HotJobs database and classifieds such as Yahoo! Autos, Yahoo! Real Estate and other search services. Revenue is recognized in the month in which the services are performed, provided that no significant Company obligations remain and collection of the resulting receivable is reasonably assured.

Deferred revenue primarily comprises contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Traffic Acquisition Costs. The Company enters into agreements of varying duration with third party affiliates that integrate the Company's pay-for-performance search service into their Web sites. There are generally three economic structures of the affiliate agreements: guaranteed fixed payments which often carry reciprocal performance guarantees from the affiliate, variable payments based on a percentage of the Company's revenue or based on a certain metric, such as number of searches or paid clicks, or a combination of the two.

The Company expenses, as cost of revenues, traffic acquisition costs under two methods; agreements with fixed payments are expensed pro-rata over the term the fixed payment covers, and agreements based on a percentage of revenue, number of paid introductions, number of searches, or other metric are expensed based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

Use of Estimates. The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, investment values, goodwill and intangible assets, income taxes, restructuring costs and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Basic and Diluted Net Income per Share. Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options (using the treasury stock method) and the conversion of the Company's zero coupon senior convertible notes (using the if-converted method). For the three and six month period ended June 30, 2003, potential common shares of 49 million and 44 million, respectively, were included in the computation of diluted net income per share and were related to shares issuable upon the exercise of stock options. For the three and six months ended June 30, 2003, 83 million and 101 million options to purchase common stock, respectively, were excluded from the calculation, as the effect was antidilutive. For the three month period ended June 30, 2004, total potential common shares of 102 million, consisting of 65 million issuable upon the exercise of stock options and 37 million issuable upon the conversion of the zero coupon senior convertible notes, were included in the computation of diluted net income per share. For the six month period ended June 30, 2004, total potential common shares of 100 million, consisting of 63 million issuable upon the exercise of stock options and 37 million issuable upon the conversion of the zero coupon senior convertible notes, were included in the computation of diluted net income per share. For the three and six months ended June 30, 2004, 58 million and 62 million options to purchase common stock respectively, were excluded from the calculation, as the effect was antidilutive. See Note 8—"Long-Term Debt" for additional information related to the zero-coupon senior convertible notes.

Stock-Based Compensation. The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. The Company recorded compensation expense of approximately $1 million and $7 million in the three months ended June 30, 2003 and 2004, respectively. The Company recorded compensation expense of approximately $1 million and $20 million in the six months ended June 30, 2003 and 2004, respectively.

As of June 30, 2004, approximately $26 million of deferred stock-based compensation expense remains to be amortized over the remaining vesting periods of the options and restricted stock, and is included in additional paid-in capital in the consolidated balance sheet.

If the Black-Scholes fair value based method had been applied in measuring stock compensation expense, the pro forma effect on net income and net income per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2004	Six Months Ended June 30, 2003	Six Months Ended June 30, 2004
Net income:				
As reported	$ 50,828	$ 112,512	$ 97,531	$ 213,724
Add: Stock compensation expense included in reported net income, net of related tax effects	891	4,284	1,466	11,827
Less: Stock compensation expense determined under fair value based method for all awards, net of related tax effects	(78,755)	(61,503)	(144,563)	(132,514)
Pro forma net income (loss)	$ (27,036)	$ 55,293	$ (45,566)	$ 93,037
Net income (loss) per share:				
As reported - basic	$ 0.04	$ 0.08	$ 0.08	$ 0.16
Pro forma - basic	$ (0.02)	$ 0.04	$ (0.04)	$ 0.07
As reported - diluted	$ 0.04	$ 0.08	$ 0.08	$ 0.15
Pro forma - diluted	$ (0.02)	$ 0.04	$ (0.04)	$ 0.06

Pro forma diluted net loss per share for the three and six months ended June 30, 2003 is computed excluding potential common shares of 49 million and 44 million, respectively, as their effect is anti-dilutive.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

Note 3—Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Certain provisions of FIN 46 became effective during the quarter ended March 31, 2004, the adoption of which did not have a material impact on the Company's financial position, cash flows or results of operations.

In March 2004, the FASB issued a proposed Statement, "Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95," that addresses the accounting for share-based payment transactions in which a Company receives employee services in exchange for either equity instruments of the Company or liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. The proposed statement would eliminate the ability to account for share-based compensation transactions using the intrinsic method currently used by the

Company and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the Company's consolidated statement of operations. The recommended effective date of the proposed standard is currently for fiscal years beginning after December 15, 2004. Should this proposed statement be finalized in its current form, it will have a significant impact on the Company's consolidated statement of operations, as the Company will be required to expense the fair value of its stock option grants and stock purchases under the Company's employee stock purchase plan.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on recognition and measurement guidance previously discussed under EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). The consensus clarifies the meaning of other-than-temporary impairment and its application to investments in debt and equity securities, in particular investments within the scope of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method. This consensus is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. The Company does not believe that this consensus will have a material impact on its consolidated results of operations.

In April 2004, the Emerging Issues Task Force issued Statement No. 03-06 "Participating Securities and the Two-Class Method Under FASB Statement No. 128, *Earnings Per Share*" ("EITF 03-06"). EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 became effective during the quarter ended June 30, 2004, the adoption of which did not have an impact on the Company's calculation of earnings per share.

In July 2004, the EITF issued a draft abstract for EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"). EITF 04-08 reflects the Task Force's tentative conclusion that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. If adopted, the consensus reached by the Task Force in this Issue will be effective for reporting periods ending after December 15, 2004. Prior period earnings per share amounts presented for comparative purposes would be required to be restated to conform to this consensus and the Company would be required to include the shares issuable upon the conversion of its zero coupon senior convertible notes (the "Notes") in its diluted earnings per share computation for all periods during which the Notes are outstanding. See Note 8 — "Long Term Debt."

Note 4—Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2004 are as follows (in thousands):

	United States	International	Total
Balance at December 31, 2003	$ 1,710,998	$ 94,563	$ 1,805,561
Acquisitions and other (1)	5,243	484,781	490,024
Reclassification (2)	(242,490)	242,490	—
Balance at June 30, 2004	$ 1,473,751	$ 821,834	$ 2,295,585

(1) Other primarily includes certain purchase price adjustments that affect existing goodwill, and foreign currency translation adjustments of ($14.4) million for the six months ended June 30, 2004. See also Note 6—"Acquisitions."

(2) Reclassification reflects the allocation of goodwill related to the Overture acquisition to our financial reporting segments.

Note 5—Intangible Assets, Net

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

	December 31, 2003	June 30, 2004		
	Net	Gross carrying amount	Accumulated amortization (1)	Net
Trademark, trade name and domain name	$ 56,830	$ 136,700	$ (26,509)	$ 110,191
Customer, affiliate, and advertiser related relationships	233,390	323,985	(81,642)	242,343
Developed technology and patents	155,420	184,845	(32,538)	152,307
Total intangible assets, net	$ 445,640	$ 645,530	$ (140,689)	$ 504,841

(1) Accumulated amortization includes foreign currency translation adjustments of less than $1 million for the six months ended June 30, 2004.

The intangible assets are all amortizable and have original estimated useful lives as follows: Trademark, trade name and domain name—four to seven years; Customer, affiliate, and advertiser related relationships—three to seven years; Developed technology and patents—two to five years. The Company recognized amortization expense on intangible assets of approximately $10 million and $36 million for the three months ended June 30, 2003 and 2004, respectively. The Company recognized amortization expense on intangible assets of approximately $16 million and $67 million for the six months ended June 30, 2003 and 2004, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows: Six months ending December 31, 2004: $73 million; years ending December 31, 2005: $141 million; 2006: $131 million; 2007: $98 million; and 2008: $57 million.

Note 6—Acquisitions

3721. On January 2, 2004, Yahoo! completed the acquisition of all of the outstanding capital shares of 3721 Network Software Company Limited, ("3721"), a Hong Kong-based software development company. The acquisition combined Yahoo!'s global audience and 3721's keyword search technology to enable Yahoo! to continue improving its global search services. These factors contributed to a purchase price in excess of the fair value of 3721's net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $54 million consisted of approximately $51 million in cash consideration, approximately $2 million related to stock options exchanged, and direct transaction costs of approximately $1 million. The value of the stock options was determined using the Black-Scholes option valuation model. Under the terms of the acquisition, Yahoo! has also contingently agreed to pay an additional amount up to a maximum of $70 million in cash, part of which will be an increase to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair values was as follows (in thousands):

Cash acquired	$ 6,917
Other tangible assets acquired	4,498
Amortizable intangible assets	
Trade name, trademark and domain name	1,000
Customer, affiliate, and advertiser related relationships	7,600
Developed technology and patents	3,800
Goodwill	39,397
Total assets acquired	63,212
Liabilities assumed	(11,186)
Deferred stock-based compensation	1,757
Total	$ 53,783

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $39 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for 3721 is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of 3721 will change the amount of the purchase price allocable to goodwill.

The results of operations of 3721 have been included in the Company's condensed consolidated statements of operations since the completion of the acquisition on January 2, 2004. Results of operations for 3721 for periods prior to the acquisition were not material to the Company and accordingly pro forma results of operations have not been presented.

Kelkoo. On April 5, 2004, the Company completed the acquisition of a majority interest in Kelkoo S.A. ("Kelkoo"), a leading European online comparison shopping service. On May 24, 2004, the Company completed the acquisition of an additional interest in Kelkoo, increasing the Company's total ownership interest in Kelkoo to 99.9 percent. The acquisition expands the Company's global commerce presence and together with the Company's current services is expected to increase the Company's competitive position in Europe. These factors contributed to a purchase price in excess of the fair value of Kelkoo's net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $577 million consisted of approximately $569 million in cash consideration, $5 million in incurred liabilities and direct transaction costs of approximately $3 million.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair values was as follows (in thousands):

Cash acquired	$ 38,817
Other tangible assets acquired	24,277
Amortizable intangible assets	
Trade name, trademark and domain name	61,300
Customer, affiliate, and advertiser related relationships	36,100
Developed technology and patents	9,100
Goodwill	458,519
Total assets acquired	628,113
Liabilities assumed	(51,326)
Total	$ 576,787

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $459 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for Kelkoo is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of Kelkoo will change the amount of the purchase price allocable to goodwill.

The results of operations of Kelkoo have been included in the Company's condensed consolidated statements of operations since the completion of the acquisition on April 5, 2004. Results of operations for Kelkoo for periods prior to the acquisition were not material to the Company and accordingly pro forma results of operations have not been presented.

Inktomi and Overture. In March and October 2003, we acquired Inktomi Corporation ("Inktomi") and Overture Services, Inc. ("Overture"), for aggregate purchase prices of approximately $290 million and $1.7 billion, respectively. Based on preliminary estimates, goodwill of approximately $217 million and $1.2 billion, and other intangible assets of approximately $49 million and $354 million, respectively, were recorded as a result of the Inktomi and Overture acquisitions. The purchase price allocation for Inktomi has been finalized without any significant changes, while the preliminary purchase price for Overture is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of Overture will change the amount of the purchase price allocable to goodwill.

The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisitions of Inktomi and Overture occurred on January 1, 2003 (in thousands, except per share amounts):

	Six Months Ended	
	June 30, 2003	June 30, 2004
Revenues	$ 994,756	$ 1,590,085
Net income	$ 78,473	$ 213,724
Net income per share — basic:	$ 0.06	$ 0.16
Net income per share — diluted:	$ 0.06	$ 0.15

Note 7 —Related Party Transactions

SOFTBANK Corp., including its consolidated affiliates ("SOFTBANK") was approximately a four percent stockholder of the Company at June 30, 2004. The Company has joint ventures with SOFTBANK in France, Germany, Japan, Korea and the United Kingdom to establish and manage versions of the Yahoo! Internet Guide for those countries. A Managing Partner of a SOFTBANK affiliate is also a member of the Company's Board of Directors. In March 2004, SOFTBANK and the Company entered into an agreement that provided that, so long as SOFTBANK directly or indirectly owns or controls any shares of the Company's common stock, SOFTBANK shall, at the Company's direction, either vote or cause to be voted such shares of common stock in accordance with any written voting recommendation of the Company's Board of Directors or grant a proxy to the Company entitling the Company to vote or cause to be voted such shares in proportion to the votes cast by the other stockholders of the Company. Revenues from SOFTBANK accounted for less than one percent of total revenues for the three and six months ended June 30, 2003 and 2004. The Company believes that contracted prices in the relevant transactions are comparable to those with other similarly situated customers.

The Company and other third parties are limited partners in Softbank Capital Partners LP ("Softbank Capital"), a venture capital fund for which a SOFTBANK affiliate is the General Partner. The Company initially committed in July 1999 to a total investment of $30 million in the fund, and subsequently committed to invest an additional $6 million. To date, the total investment by the Company in Softbank Capital is approximately $34 million. Pursuant to the Partnership Agreement, the Company invested on the same terms and on the same basis as all other limited partners.

The Company has a 34 percent share in Yahoo! Japan, its joint venture with SOFTBANK in Japan. The Company records its share of the results of Yahoo! Japan one quarter in arrears within earnings in equity interests. The earnings in equity interests related to Yahoo! Japan amounted to $24 million and $44 million for the three and six months ended June 30, 2004, respectively, compared to $10 million and $20 million for the three and six months ended June 30, 2003, respectively. The Company also has commercial arrangements with Yahoo! Japan, consisting of services and license fees for which the net cost was approximately $12 million and $20 million in the three and six months ended June 30, 2004, respectively, compared to net revenues of approximately $3 million and $7 million for the three and six months ended June 30, 2003, respectively.

Note 8—Long-Term Debt

In April 2003, the Company issued $750 million of zero coupon senior convertible notes (the "Notes") due April 2008, which resulted in net proceeds to the Company of approximately $733 million after transaction fees of approximately $17 million, which have been deferred and are included on the balance sheet in other assets. As of June 30, 2004, approximately $13 million of the transaction fees remain to be amortized. The Notes were issued at par and bear no interest. The Notes are convertible into Yahoo! common stock at a conversion price of $20.50 per share, which would result in the issuance of an aggregate of approximately 37 million shares, subject to adjustment upon the occurrence of specified events. Each $1,000 principal amount of the Notes will initially be convertible into 48.78 shares of Yahoo! common stock. The Notes will be convertible prior to the final maturity date (1) during any fiscal quarter if the closing sale price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the immediately preceding fiscal quarter exceeded 110 percent of the conversion price on that 30th trading day, (2) during the period beginning January 1, 2008 through the maturity date, if the closing sale price of the Company's common stock on the previous trading day was 110 percent or more of the then current conversion price, and (3) upon specified corporate transactions. Upon conversion, Yahoo! has the right to deliver cash in lieu of common stock. The Company may be required to repurchase all of the Notes following a fundamental change of the Company, such as a change of control, prior to maturity at face value. Yahoo! may not redeem the Notes prior to their maturity. For the three and six month periods ended June 30, 2004, the 37 million shares issuable upon the conversion of the zero coupon senior convertible

Notes were included in the computation of diluted earnings per share. As of June 30, 2004, the market price condition for convertibility of the Notes was satisfied with respect to the fiscal quarter beginning July 1, 2004 and ending on September 30, 2004. During this period holders of the Notes will be able to convert their Notes into shares of Yahoo! common stock at the rate of 48.78 shares of Yahoo! common stock for each Note. The Notes will also be convertible into shares of Yahoo! common stock in subsequent fiscal quarters, if any, with respect to which the market price condition for convertibility is met. As of June 30, 2004, the fair value of the Notes was approximately $1.4 billion based on quoted market prices.

Note 9— Stockholders' Equity

Stock Repurchase Program. In March 2001, the Company announced that its Board of Directors had authorized the Company to repurchase up to $500 million of its outstanding shares of common stock from time to time over the next two years, depending on market conditions, share price and other factors. In March 2003, the Company's Board of Directors authorized a two-year extension of the stock repurchase program, which extension authorizes the Company to repurchase up to approximately $340 million (representing the balance of the $500 million originally authorized in March 2001) of its outstanding shares of common stock from time to time over the next two years, depending on market conditions, share price and other factors. The Company may utilize equity instrument contracts to facilitate the repurchase of common stock. From March 2001 through June 30, 2004, the Company had repurchased 32,917,240 shares of common stock at an average of $4.86 per share for a total amount of approximately $160 million. Of the shares repurchased, 32,067,240 shares were purchased from SOFTBANK at an average of $4.84 per share. No shares were repurchased during the six months ended June 30, 2004. Treasury stock is accounted for under the cost method.

Structured Stock Repurchase. In February 2004, Yahoo! entered into a six month structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase will be settled in cash or stock depending on the market price of the Company's common stock on the date of the settlement. Upon settlement, if the market price of Yahoo! common stock is at or above $20.56, the pre-determined price agreed in connection with such transaction, the Company will have its investment returned with a premium. If the market price of Yahoo! common stock is below $20.56, the Company will receive approximately 2.6 million shares of its own common stock. This transaction is recorded in stockholders' equity in the condensed consolidated balance sheet as of June 30, 2004. The shares underlying this transaction were considered outstanding at June 30, 2004.

Note 10—Segment Information

The Company manages its business geographically. The primary areas of measurement and decision-making are the United States and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation and amortization for making financial decisions and allocating resources. Segment operating income before depreciation and amortization includes income from operations before depreciation, amortization of intangible assets and amortization of stock compensation expense. Management believes that segment operating income before depreciation and amortization is an appropriate measure of evaluating the operational performance of the Company's segments. However, this measure should be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with generally accepted accounting principles.

Summarized information by segment is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004
Revenues by segment:				
United States	$ 271,345	$ 624,161	$ 509,891	$ 1,223,432
International	50,061	208,138	94,463	366,653
Total revenues	$ 321,406	$ 832,299	$ 604,354	$ 1,590,085
Segment operating income before depreciation and amortization:				
United States	$ 91,446	$ 198,365	$ 168,969	$ 389,619
International	6,720	35,697	13,822	55,364
Total segment operating income before depreciation and amortization	98,166	234,062	182,791	444,983
Depreciation and amortization	(34,503)	(77,428)	(63,576)	(143,620)
Stock compensation expense	(891)	(7,140)	(1,466)	(19,712)
Income from operations	$ 62,772	$ 149,494	$ 117,749	$ 281,651
Capital expenditures, net:				
United States	$ 16,372	$ 47,925	$ 32,370	$ 78,282
International	4,398	7,774	8,903	16,106
Total consolidated capital expenditures, net	$ 20,770	$ 55,699	$ 41,273	$ 94,388

	December 31, 2003	June 30, 2004
Property and equipment, net:		
United States	$ 414,632	$ 421,465
International	34,880	42,425
Total consolidated property and equipment, net	$ 449,512	$ 463,890

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues during the three and six months ended June 30, 2003 and 2004.

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

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004

Marketing services	$ 219,198	$ 690,634	$ 409,163	$ 1,326,102
Fees	69,926	103,851	133,655	192,321
Listings	32,282	37,814	61,536	71,662
Total revenues	$ 321,406	$ 832,299	$ 604,354	$ 1,590,085

For the three and six month periods ended June 30, 2003, revenues from the Company's agreement with Overture (prior to being acquired by the Company) were included in marketing services and amounted to approximately 20 percent of total revenues in both periods.

Note 11—Commitments and Contingencies

Operating Leases. The Company has entered into various non-cancelable operating lease agreements for its offices throughout the United States, and for its international subsidiaries with original lease periods up to 15 years and expiring between 2004 and 2018. In addition, the Company has entered into various sublease arrangements associated with its excess facilities. Such subleases have terms extending through 2006.

Net lease commitments as of June 30, 2004 can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Six months ending December 31, 2004	$ 22	$ (3)	$ 19
Years ending December 31,			
2005	40	(4)	36
2006	30	(3)	27
2007	26	—	26
2008	19	—	19
2009	16	—	16
Thereafter	89	—	89
Total lease commitments	$ 242	$ (10)	$ 232

Other Commitments. In the ordinary course of business the Company enters into various arrangements with vendors and other business partners, principally for marketing, technology, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond June 30, 2005 that are not included in the contractual obligations table below.

In connection with Company's commercial agreements, Yahoo! provides indemnifications of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements and out of intellectual property infringement claims made by third parties. 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 directors and officers insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers, and former directors, officers and employees of acquired companies, in certain circumstances. The indemnification provided by the Company to its officers and directors does not have a stipulated maximum, therefore the Company is not able to develop a reasonable estimate of the liabilities. To date, the Company has not incurred material costs as a result of such obligations and has not accrued any liabilities related to such indemnification obligations in its financial statements.

Contractual Obligations. Contractual obligations at June 30, 2004 are as follows (in millions):

	Payments due by period				
	Total	Due in 2004	Due in 2005-2006	Due in 2007-2008	Due in 2009 or after
Long-term debt (1)	$ 750	$ —	$ —	$ 750	$ —
Operating lease obligations, net of sublease income	232	19	63	45	105
Affiliate commitments (2)	419	81	335	3	—
Noncancelable purchase obligations	84	27	56	1	—
Total contractual obligations	$ 1,485	$ 127	$ 454	$ 799	$ 105

(1) The long-term debt matures in April 2008, unless converted into Yahoo! common stock at a conversion price of $20.50 per share, subject to adjustment upon the occurrence of certain events. Upon conversion, Yahoo! has the right to deliver cash in lieu of common stock. See Note 8 – "Long-Term Debt" for further information related to the long-term debt.

(2) Represents fixed payments that the Company is obligated to make under contracts to provide search services to its third party affiliates, which represent traffic acquisition costs.

At June 30, 2003 and 2004, 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, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market or credit risk that could arise if the Company had engaged in such relationships.

On April 21, 2003, Overture completed its purchase of the Web Search unit of Fast Search and Transfer ASA, a Norway based developer of search and real-time filtering technologies, for $70 million in cash, plus a contingent earn-out payment of up to $30 million over three years based on specified operating criteria. The contingent earn-out payment is not included in the contractual obligations table above.

On January 2, 2004, Yahoo! completed the acquisition of 3721. In January 2004, approximately $51 million in cash consideration was paid. Under the terms of the acquisition, Yahoo! also contingently agreed to pay an additional amount up to a maximum of $70 million in cash, part of which will be an increase to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met. The contingent payment is not included in the contractual obligations table above. See Note 6 – “Acquisitions” for additional information related to this acquisition.

The remaining $2 million commitment to invest in Softbank Capital is not included in the contractual obligations table above. See Note 7 – “Related Party Transactions” for additional information.

Contingencies. From time to time, third parties assert patent infringement claims against the Company in the form of letters, lawsuits, and other forms of communication. Currently, the Company or its subsidiaries are engaged in several lawsuits regarding patent issues and have been notified of a number of other potential patent disputes.

In addition, from time to time the Company is subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with its email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy.

The Company does not believe, based on current knowledge, that any of the foregoing legal proceedings or claims are likely to have a material adverse effect on its financial position, results of operations or cash flows. However, the Company may incur substantial expenses in defending against third party claims. In the event of a determination adverse to Yahoo!, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these could have a material adverse effect on the Company’s financial position, results of operations or cash flows.

In October 2000, 800-JR-Cigar, Inc. filed a complaint in the United States District Court for the District of New Jersey against Overture, a wholly-owned subsidiary of Yahoo! acquired in October 2003. In October 2002, Robert Novak, doing business as PetsWarehouse and PetsWarehouse.com, filed a complaint in the United States District Court for the Eastern District of New York against Overture. In August 2003, Accor filed a complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture’s wholly-owned subsidiary in France. In May 2004, Government Employees Insurance Company filed a complaint in the Eastern District of Virginia against Overture. The plaintiffs in each of these cases claim, among other things, that they have trademark rights in certain search terms and that Overture violates these rights by allowing its advertisers to bid on these search terms. The complaints seek injunctive relief and damages. Overture has also been named as a defendant in several other trade name infringement actions filed in Los Angeles, California in which plaintiffs made similar claims. Yahoo! and Overture believe that Overture has meritorious defenses to liability and damages in each of these lawsuits and are contesting them vigorously.

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label, Capitol Records, Inc., Virgin Records America, Inc., Sony Music Entertainment Inc., UMG Recordings, Inc., Interscope Records, Motown Record Company, L.P., and Zomba Recording Corporation filed a lawsuit alleging copyright infringement against LAUNCH Media, Inc. (“LAUNCH”) in the United States District Court for the Southern District of New York. The plaintiffs allege, among other things, that the consumer-influenced portion of LAUNCH’s LAUNCHcast service is “interactive” within the meaning of Section 114 of the Copyright Act and therefore does not qualify for the compulsory license provided for by the Copyright Act. The Complaint seeks declaratory and injunctive relief and damages for the alleged infringement. After the lawsuit was commenced, Yahoo! entered into an agreement to acquire LAUNCH. In June 2001, LAUNCH settled the LAUNCH litigation as to UMG Recordings, Inc. Yahoo!’s acquisition of LAUNCH closed in August 2001, and since that time LAUNCH has been a wholly owned subsidiary of Yahoo!. Yahoo! and LAUNCH do not believe that LAUNCH has infringed any rights of plaintiffs and intend to vigorously contest the lawsuit. In January 2003, LAUNCH settled the LAUNCH litigation as to Sony Music Entertainment, Inc. In October 2003, LAUNCH settled the litigation as to Capitol Records, Inc. and Virgin Records America, Inc. Accordingly, BMG Music d/b/a/ The RCA Records Label is the sole remaining plaintiff in this proceeding. On March 16, 2004, plaintiffs filed motions for partial summary judgment on the issues of willfulness and whether the consumer-influenced portion of Launch’s LAUNCHcast service is “interactive” within the meaning of Section 114 of the Copyright Act and

therefore does not qualify for the compulsory license provided for by the Copyright Act. LAUNCH filed its opposition to the motions for partial summary judgment on April 30, 2004 and a hearing on the motions was held on June 18, 2004. The Court has not yet ruled on the motions for summary judgment. The Company does not believe it is feasible to predict or determine the outcome or resolution of the LAUNCH litigation at this time. The range of possible resolutions of the LAUNCH litigation could include judgments against Yahoo! or settlements that could require substantial payments by Yahoo!, which could have a material adverse impact on the Company’s financial position, results of operations or cash flows. An estimate of the potential loss, if any, or range of loss that could arise from the LAUNCH litigation cannot be made at this time.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court for the Southern District of New York against certain underwriters involved in Overture’s initial public offering, Overture, and certain of Overture’s current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint, alleging Rule 10b-5 claims of fraud. On July 15, 2002, the issuers filed a motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the Rule 10b-5 claims against certain defendants, including Overture. Settlement discussions relating to this case on behalf of the named defendants have occurred over the last year, resulting in a final settlement memorandum of understanding with the plaintiffs in the case and Overture’s insurance carriers. A proposal has been made for the settlement and release of claims against the issuer defendants, including Overture. The settlement is subject to a number of conditions, including approval of the court. If the settlement does not occur, and litigation against Overture continues, the Company and Overture believe that Overture has meritorious defenses to liability and damages and intend to defend the case vigorously.

On or about February 4, 2004, a shareholder derivative action was filed in the Court of Chancery of the State of Delaware in and for New Castle County, against the Company (as nominal defendant) and certain of its current and former officers and directors (the "Derivative Defendants"). Two similar shareholder derivative actions were filed in the California Superior Court for the County of San Mateo on February 13, 2004. The complaints generally allege breaches of fiduciary duties by the Derivative Defendants related to the alleged purchase of shares in initial public offerings or the alleged acquiescence in such conduct. The complaints seek unspecified monetary damages and other relief purportedly on behalf of Yahoo! from the Derivative Defendants. The Company understands the Derivative Defendants deny any impropriety and intend to defend the lawsuits vigorously. The Company does not believe that the ultimate costs to resolve these matters will have a material adverse effect on its financial condition, results of operations or cash flows. In addition, the Company believes there are procedural defects to permitting these complaints to proceed on Yahoo!'s behalf. In April 2004, Yahoo! filed a motion to dismiss the Delaware action for failure to plead demand futility. On August 2, 2004, the Delaware Court of Chancery granted the motion to dismiss.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects," "anticipates," "intends," "believes," or similar language. These forward-looking statements, including those with respect to our operating results for 2004, are based upon current expectations and beliefs of the Company's management and are subject to risks and uncertainties that could cause results to differ materially from those indicated in the forward-looking statements. Some, but not all, of the factors, which could cause actual results to differ materially include those set forth in the risks discussed below under the subheading "Risk Factors" and elsewhere in this report. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements, or to explain why actual results differ. Readers should carefully review the risk factors described in this section below and in any reports subsequently filed with the Securities and Exchange Commission.

Overview

Yahoo! Inc., including its consolidated subsidiaries ("Yahoo!"), is a global Internet company that offers a comprehensive branded network of properties and services to consumers and businesses worldwide. As the first online navigational guide to the Web, www.yahoo.com is a leading guide in terms of traffic, advertising, household and business user reach. Yahoo!'s global brand reaches the largest audience worldwide. Headquartered in Sunnyvale, California, we have offices in the United States, Europe, Asia, Latin America, Australia and Canada.

We manage our business geographically. We rely on an internal management reporting process that provides revenue and certain operating cost information for making financial decisions and allocating resources. Our principal areas of measurement and decision-making are the United States and International.

In March and October 2003, we acquired Inktomi Corporation ("Inktomi") and Overture Services, Inc. ("Overture"), for aggregate purchase prices including cash acquired of approximately $290 million and $1.7 billion, respectively. In January and April 2004, we acquired 3721 Network Software Company Limited ("3721") and Kelkoo S.A. ("Kelkoo") for aggregate purchase prices including cash acquired of approximately $54 million and $577 million, respectively.

We generate service revenues from our marketing services, fees and listings offerings. Revenues for the three and six months ended June 30, 2003 and 2004 were as follows (dollars in thousands):

	Three Months Ended				Six Months Ended			
Revenues	**June 30, 2003**	**June 30, 2004**	**Growth ($)**	**Growth (%)**	**June 30, 2003**	**June 30, 2004**	**Growth ($)**	**Growth (%)**
Marketing services	$ 219,198	$ 690,634	$ 471,436	215%	$ 409,163	$ 1,326,102	$ 916,939	224%
Fees	69,926	103,851	33,925	49%	133,655	192,321	58,666	44%
Listings	32,282	37,814	5,532	17%	61,536	71,662	10,126	16%
Total revenues	$ 321,406	$ 832,299	$ 510,893	159%	$ 604,354	$ 1,590,085	$ 985,731	163%

As more fully explained below, total revenues increased for the three and six month periods ended June 30, 2004 as compared to the same periods in 2003 primarily due to revenue increases of $376 million and $727 million, respectively, from the acquisitions completed in the past year, and growth of 42 percent and 43 percent, respectively, in Yahoo!'s organic offerings.

Cash flows for six months ended June 30, 2003 and 2004 were as follows (in thousands):

	Six months Ended		
	June 30, 2003	**June 30, 2004**	**Year -over- Year Change ($)**
Net cash provided by operating activities	$ 190,751	$ 485,677	$ 294,926
Net cash used in investing activities	$ (291,544)	$ (762,067)	$ (470,523)
Net cash provided by financing activities	$ 861,736	$ 267,678	$ (594,058)

The increase in net cash provided by operating activities for the six months ended June 30, 2004 was primarily related to increased revenues described above. During the six month period, we also generated $318 million in cash from the exercise of stock options by our employees. We used the cash we generated to continue to pursue our investment and acquisition strategies, and completed the acquisitions of 3721, a Hong Kong-based software development company and Kelkoo, a leading European online comparison shopping service, for approximately $44 million and $530 million in cash, net of cash acquired, respectively. In February 2004, we entered into a six month structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase will be settled in cash or stock depending on the market price of our common stock on the date of the settlement. Upon settlement, if the market price of Yahoo!

common stock is at or above $20.56, the pre-determined price agreed in connection with such transaction, we will have our investment returned with a premium. If the market price of our common stock is below $20.56, we will receive approximately 2.6 million shares of our own common stock.

Results of Operations

Revenues

Revenues by groups of similar service were as follows (dollars in thousands):

	Three Months Ended				Six Months Ended			
	June 30, 2003	(1)	June 30, 2004	(1)	June 30, 2003	(1)	June 30, 2004	(1)
Marketing services	$ 219,198	68%	$ 690,634	83%	$ 409,163	68%	$ 1,326,102	83%
Fees	69,926	22%	103,851	12%	133,655	22%	192,321	12%
Listings	32,282	10%	37,814	5%	61,536	10%	71,662	5%
Total revenues	$ 321,406	100%	$ 832,299	100%	$ 604,354	100%	$ 1,590,085	100%

(1) Percent of revenues

Marketing Services Revenues. Marketing services revenue is primarily generated from rich media advertisements, sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic search services and transactions. Marketing services revenue for the second quarter of 2004 increased by approximately $471 million, or 215 percent, as compared to the same period in 2003. This increase resulted from a 45 percent increase in organic marketing services revenues and incremental revenue of approximately $374 million associated with acquisitions completed in the past year. Marketing services revenue for the six months ended June 30, 2004 increased by approximately $917 million, or 224 percent, as compared to the same period in 2003. This increase resulted from a 48 percent increase in organic marketing services revenues, including approximately $10 million related to a gain from unredeemed third party loyalty program points that expired during the first quarter of 2004, and incremental revenue of approximately $719 million associated with acquisitions completed during the past year.

The number of page views delivered in the three and six months ended June 30, 2004 increased by approximately 28 percent and 29 percent, respectively, as compared to the same periods in 2003. These increases resulted from a 25 percent and a 27 percent increase, respectively, in page views from organic operations, and the remainder from increases in page views associated with acquisitions completed in the past year.

Marketing services revenue yield per page view increased approximately 146 percent and 151 percent for the three and six month periods, respectively. The significant increases are primarily due to the acquisitions completed in the past year, including the impact of Overture, which provides advertising on affiliate Web sites, and whose Web traffic is not counted in our network page view figures. Excluding the effects of the acquisitions completed in the past year, revenue yield per page view increased 13 percent and 15 percent in the three and six months ended June 30, 2004, respectively, compared to the same periods in 2003.

Fees Revenues. Fees revenue is generated from a variety of consumer and business fee-based services. Fees revenue for the second quarter of 2004 increased approximately $34 million, or 49 percent as compared to the same period in 2003. Fees revenue for the six months ended June 30, 2004 increased approximately $59 million, or 44 percent, as compared to the same period in 2003. The increases were driven by the growth in the number of our paying relationships for Yahoo!s' fee-based services, which comprised approximately 6.4 million users as of June 30, 2004, compared to approximately 3.5 million users as of June 30, 2003. Average revenue per paying user per month decreased to approximately $4 per user per month for the three month period ended June 30, 2004 from approximately $5 per user per month for the three month period ended June 30, 2003 as a result of faster subscriber growth in some of our lower priced consumer services.

Listings Revenues. Listings revenue consists of revenues generated from a variety of consumer and business listings-based services. Listings revenue for the second quarter of 2004 increased approximately $6 million, or 17 percent compared to the same period in 2003. Listings revenue for the six months ended June 30, 2004 increased approximately $10 million, or 16 percent, compared to the same period in 2003. The increases were primarily due to an increase in sales of services in our Search and Marketplace properties.

Overall, we currently expect total combined revenues for marketing services, fees, and listings to increase in absolute dollars for 2004, compared to 2003.

Costs and Expenses:

Primary operating costs and expenses were as follows (dollars in thousands):

	Three Months Ended				Six Months Ended			
	June 30, 2003	(1)	June 30, 2004	(1)	June 30, 2003	(1)	June 30, 2004	(1)
Cost of revenues	$ 46,842	15%	$ 297,383	36%	$ 89,974	15%	$ 579,088	36%
Sales and marketing	122,106	38%	191,875	23%	235,585	39%	358,170	23%
Product development	45,099	14%	87,140	10%	81,497	13%	164,129	10%
General and administrative	33,934	11%	63,159	8%	62,574	10%	120,715	8%
Stock compensation expense	891	—%	7,140	1%	1,466	—%	19,712	1%
Amortization of intangibles	9,762	3%	36,108	4%	15,509	3%	66,620	4%

(1) Percent of total revenues

Cost of Revenues. Cost of revenues consist of traffic acquisition costs and other expenses associated with the production and usage of the Yahoo! network. Traffic acquisition costs consist of payments made to our third party affiliates that have integrated our pay-for-performance search services into their Web sites. Other cost of revenues primarily consist of fees paid to third parties for content included on our online media properties, Internet connection charges, equipment depreciation, technology license fees and compensation related expenses.

Cost of revenues in the second quarter of 2004 increased by approximately $251 million as compared to the same period of 2003. The increase reflects approximately $241 million of incremental cost of revenues related to acquisitions completed during the past year, of which the majority related to traffic acquisition costs. Cost of revenues in the six months ended June 30, 2004 increased by approximately $489 million as compared to the same period of 2003. The increase reflects approximately $475 million of incremental cost of revenues related to acquisitions completed during the past year, of which the majority related to traffic acquisition costs.

Sales and Marketing. Sales and marketing expenses consist primarily of advertising and other marketing related expenses, compensation related expenses, sales commissions and travel costs.

Sales and marketing expenses in the second quarter of 2004 increased approximately $70 million, or 57 percent, as compared to the same period in 2003, primarily as a result of incremental costs of approximately $39 million associated with acquisitions completed during the past year. Sales and marketing expenses for the six months ended June 30, 2004 increased approximately $123 million, or 52 percent, as compared to the same period in 2003, primarily as a result of incremental costs of approximately $68 million associated with acquisitions completed during the past year. The remainder of the increases for both the three and six month periods was primarily due to increases in total compensation expenses related to increased headcount, as well as increased professional services and marketing spending.

Product Development. Product development expenses consist primarily of compensation related expenses incurred for enhancements to and maintenance of the Yahoo! network, classification and organization of listings within Yahoo! properties, research and development expenses, and other operating costs.

Product development expenses in the second quarter of 2004 increased approximately $42 million, or 93 percent, as compared to the same period of 2003. Product development expenses for the six months ended June 30, 2004 increased approximately $83 million, or 101 percent, as compared to the same period of 2003. Approximately $30 million and $59 million of the increases in the three and six months ended June 30, 2004, respectively, were due to incremental costs associated with the acquisitions completed during the past year. The remainder of the increases was the result of increases in our total compensation expense related to an increase in the number of engineers that develop and enhance properties and services throughout the Yahoo! network.

General and Administrative. General and administrative expenses consist primarily of compensation related expenses and fees for professional services.

General and administrative expenses in the second quarter of 2004 increased approximately $29 million, or 86 percent, as compared to the same period of 2003. General and administrative expenses for the six months ended June 30, 2004 increased approximately $58 million, or 93 percent, as compared to the same period of 2003. Approximately $22 million and $41 million of the increases in the three and six months ended June 30, 2004, respectively, were due to incremental costs associated with the acquisitions completed during the past year. The remainder of the increases was the result of increases in our total compensation, related to increased headcount and professional services expenses.

Stock Compensation. Stock compensation expense relates to the amortization of the intrinsic value of Yahoo! stock options issued in connection with acquisitions we have completed and other equity-based awards. This expense is primarily being recorded using an accelerated amortization method.

Stock compensation expense for the second quarter of 2004 was approximately $7 million, an increase of approximately $6 million as compared to the same period of 2003. Stock compensation expense for the six months ended June 30, 2004 was approximately $20 million, an increase of approximately $18 million as compared to the same period of 2003. Stock compensation expense increased in connection with the acquisitions completed during the past year. Stock compensation expense is allocated as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004
Sales and marketing	$ 112	$ 2,376	$ 321	$ 5,981
Product development	588	2,548	874	7,271
General and administrative	191	2,216	271	6,460
Total stock compensation expense	$ 891	$ 7,140	$ 1,466	$ 19,712

Amortization of Intangibles. In the past, we have purchased, and expect to continue purchasing, assets or businesses which may result in the creation of amortizable intangible assets.

Amortization of intangibles expense was approximately $36 million for the second quarter of 2004, or 4 percent of total revenues, compared to approximately $10 million, or 3 percent of revenues, for the second quarter of 2003. Amortization of intangibles expense was approximately $67 million, or 4 percent of total revenues, for the six months ended June 30, 2004, compared to approximately $16 million, or 3 percent of revenues, for the same period of 2003.

The increase in amortization of intangibles is primarily the result of the additional amortizable intangibles acquired in conjunction with the acquisitions completed during the past year.

Overall, we currently expect total combined primary operating costs and expenses for 2004 to increase in absolute dollars as compared to 2003, as the Company continues to grow. In addition, we expect to incur incremental costs in 2004 related to acquisitions completed in 2003 and 2004.

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

	Three Months Ended				Six Months Ended			
	June 30, 2003		June 30, 2004		June 30, 2003		June 30, 2004	
Interest and investment income	$	12,194	$	13,254	$	22,951	$	26,016
Investment losses, net		(2,282)		(5,610)		(1,630)		(2,488)
Contract termination proceeds, net		—		3,107		750		3,107
Other		422		2,428		793		922
Total other income, net	$	10,334	$	13,179	$	22,864	$	27,557

Other income, net increased in the second quarter of 2004 compared to the same period of 2003, primarily due to increased interest and investment income, partially offset by an increase in net investment losses. Other income, net increased for the six months ended June 30, 2004 compared to the six months ended June 30, 2003, primarily as a result of increased interest and investment income related to our increased investments in debt securities, as a result of increased cash balances, despite an interest rate decrease from 2.67 percent in the quarter ended June 30, 2003 to 1.92 percent in the quarter ended June 30, 2004. These increases were partially offset by an increase in net investment losses, primarily as a result of impairment of private investments of approximately $6 million and $7 million for the six months ended June 30, 2004 and 2003, respectively.

Other income, net in future periods may fluctuate as a result of changes in our average investment balances held, changes in market rates or the sale of investments, and investment impairments.

Earnings in Equity Interests. Earnings in equity interests was approximately $24 million and $10 million, respectively, for the three months ended June 30, 2004 and 2003. Earnings in equity interests was approximately $44 million and $20 million, respectively, for the six months ended June 30, 2004 and 2003. The increases in the three and six months ended June 30, 2004, compared to the same periods of 2003 are primarily as a result of our investment in Yahoo! Japan, which achieved increased net income compared to the same periods in the prior year.

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority investors' percentage share of income or losses from subsidiaries in which we hold a majority ownership interest, but less than 100 percent, and consolidate the subsidiaries' results in our financial statements.

Minority interests in income from operations of consolidated subsidiaries was an expense of approximately $2 million and $1 million for the three months ended June 30, 2004 and 2003, respectively. The change was primarily due to increased net income in European subsidiaries. Minority interests in income from operations of consolidated subsidiaries was an expense of approximately $2 million and $3 million for the six months ended June 30, 2004 and 2003, respectively. The change was primarily due to decreased net income in Asian subsidiaries, partially offset by increased net income in European subsidiaries.

Income Taxes. The provision for income taxes for the three and six months ended June 30, 2004 differs from the amount computed by applying the statutory federal rate principally due to state taxes, foreign losses for which no tax benefit is provided and nontaxable equity earnings from certain investments. For the three and six months ended June 30, 2003, the provision for income taxes differed from the amount computed by applying the statutory federal rate principally due to foreign losses for which no tax benefit is provided and nontaxable equity earnings from certain investments. The effective tax rate for both the three and six months ended June 30, 2004 was 39 percent, compared to 38 percent for both the three and six months ended June 30, 2003.

Business Segment Results

We manage our business geographically. Our primary areas of measurement and decision-making are the United States and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation and amortization for making financial decisions and allocating resources. Segment operating income before depreciation and amortization includes income from operations before depreciation, amortization of intangibles and amortization of stock compensation expense. Management believes that segment operating income before depreciation and amortization is an appropriate measure of evaluating the operating performance of the Company's segments. However, this measure should be considered in addition to, not as a substitute for or superior to, income from operations or other measures of financial performance prepared in accordance with generally accepted accounting principles.

Summarized information by segment is as follows (in thousands):

	Three Months Ended June 30,						Six Months Ended June 30,					
	2003		(1)	2004		(1)	2003		(1)	2004		(1)
Revenues by segment:												
United States	$	271,345	84%	$	624,161	75%	$	509,891	84%	$	1,223,432	77%
International		50,061	16%		208,138	25%		94,463	16%		366,653	23%
Total revenues	$	321,406	100%	$	832,299	100%	$	604,354	100%	$	1,590,085	100%

(1) Percent of total revenues.

Segment operating income before depreciation and amortization:

United States	$	91,446	$	198,365	$	168,969	$	389,619
International		6,720		35,697		13,822		55,364
Total segment operating income before depreciation and amortization		98,166		234,062		182,791		444,983
Depreciation and		(34,503)		(77,428)		(63,576)		(143,620)

amortization				
Stock compensation expense	(891)	(7,140)	(1,466)	(19,712)
Income from operations	$ 62,772	$ 149,494	$ 117,749	$ 281,651

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues during the three months and six months ended June 30, 2004 and 2003.

United States. United States revenues in the second quarter of 2004 increased approximately $353 million, or 130 percent compared to the same period in 2003. United States revenues for the six months ended June 30, 2004 increased approximately $714 million, or 140 percent compared to the same period in 2003. Approximately $244 million and $501 million of the increases, respectively, for the three months and six months ended June 30, 2004 were due to incremental revenue associated with acquisitions completed during the past year. The remainder of the increase was due to a strong increase in organic revenues. United States segment operating income before depreciation and amortization in the second quarter of 2004 increased approximately $107 million, or 117 percent, compared to the same period of 2003. United States segment operating income before depreciation and amortization for the six months ended June 30, 2004 increased approximately $221 million, or 131 percent, compared to the same period of 2003. The increases for both the three and six month periods ended June 30, 2004 were primarily due to the increases in United States revenues, as well as continued efforts to control discretionary spending during the periods.

International. International revenues in the second quarter of 2004 increased approximately $158 million, or 316 percent, compared to the same period in 2003. International revenues for the six months ended June 30, 2004 increased approximately $272 million, or 288 percent, compared to the same period in 2003. Approximately $132 million and $225 million of the increases, respectively, for the three and six months ended June 30, 2004 were due to incremental revenue associated with acquisitions completed during the past year. The remainder of the increase was primarily due to overall strength in the European and Asian markets, which resulted in an increase in organic revenues. International segment operating income before depreciation and amortization for the three and six months ended June 30, 2004 increased approximately $29 million and $42 million, respectively, compared to the same periods in 2003. These increases were primarily a result of the increase in International revenues and continued efforts to control discretionary spending during the periods.

Acquisitions

3721. On January 2, 2004, we completed the acquisition of all of the outstanding capital shares of 3721, a Hong Kong-based software development company. The acquisition combined Yahoo!'s global audience and 3721's keyword search technology to enable Yahoo! to continue improving its global search services. These factors contributed to a purchase price in excess of the fair value of 3721's net tangible and intangible assets acquired, and as a result, we have recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $54 million consisted of approximately $51 million in cash consideration, approximately $2 million related to stock options exchanged, and direct transaction costs of approximately $1 million. The value of the stock options was determined using the Black-Scholes option valuation model. Under the terms of the acquisition, we have also contingently agreed to pay an additional amount up to a maximum of $70 million in cash, part of which will be an increase to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair values was as follows (in thousands):

Cash acquired	$ 6,917
Other tangible assets acquired	4,498
Amortizable intangible assets	
Trade name, trademark and domain name	1,000
Customer, affiliate, and advertiser related relationships	7,600
Developed technology and patents	3,800
Goodwill	39,397
Total assets acquired	63,212
Liabilities assumed	(11,186)
Deferred stock-based compensation	1,757
Total	$ 53,783

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $39 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for 3721 is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of 3721 will change the amount of the purchase price allocable to goodwill.

Kelkoo. On April 5, 2004, we completed the acquisition of a majority interest in Kelkoo S.A. ("Kelkoo"), a leading European online comparison shopping service. On May 24, 2004, we completed the acquisition of an additional interest in Kelkoo, increasing our total ownership interest in Kelkoo to 99.9 percent. The acquisition expands our global commerce presence and together with our current services is expected to increase our competitive position in Europe. These factors contributed to a purchase price in excess of the fair value of Kelkoo's net tangible and intangible assets acquired, and as a result, we have recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $577 million consisted of approximately $569 million in cash consideration, $5 million in incurred liabilities and direct transaction costs of approximately $3 million.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the estimated fair values was as follows (in thousands):

Cash acquired	$ 38,817
Other tangible assets acquired	24,277
Amortizable intangible assets	
Trade name, trademark and domain name	61,300
Customer, affiliate, and advertiser related relationships	36,100
Developed technology and patents	9,100
Goodwill	458,519
Total assets acquired	628,113
Liabilities assumed	(51,326)
Total	$ 576,787

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $459 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for Kelkoo is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of Kelkoo will change the amount of the purchase price allocable to goodwill.

Related Party Transactions

SOFTBANK Corp., including its consolidated affiliates ("SOFTBANK"), was approximately a four percent stockholder of the Company at June 30, 2004. We have joint ventures with SOFTBANK in France, Germany, Japan, Korea and the United Kingdom to establish and manage versions of the Yahoo! Internet Guide for those countries. A Managing Partner of a SOFTBANK affiliate is also a member of our Board of Directors. In March 2004, SOFTBANK and the Company entered into an agreement that provided that, so long as SOFTBANK directly or indirectly owns or controls any shares of the Company's common stock, SOFTBANK shall, at the Company's direction, either vote or cause to be voted such shares of common stock in accordance with any written voting recommendation of the Company's Board of Directors or grant a proxy to the Company entitling the Company to vote or cause to be voted such shares in proportion to the votes cast by the other stockholders of the Company. Revenues from SOFTBANK accounted for less than one percent of total revenues for the three and six months ended June 30, 2004 and 2003. We believe contracted prices in the relevant transactions are comparable to those with our other similarly situated customers.

Yahoo! and other third parties are limited partners in Softbank Capital Partners LP ("Softbank Capital"), a venture capital fund for which a SOFTBANK affiliate is the General Partner. We initially committed in July 1999 to a total investment of $30 million in the fund, and subsequently committed to invest an additional $6 million. To date, the total investment by the Company in Softbank Capital is approximately $34 million. Pursuant to the Partnership Agreement, the Company invested on the same terms and on the same basis as all other limited partners.

We have a 34 percent share in Yahoo! Japan, our joint venture with SOFTBANK in Japan. We record our share of the results of Yahoo! Japan one quarter in arrears within earnings in equity interests. The earnings in equity interests related to Yahoo! Japan amounted to $24 million and $44 million for the three and six months ended June 30, 2004, respectively, compared to $10 million and $20 million for the three and six months ended June 30, 2003, respectively. We also have commercial arrangements with Yahoo! Japan, consisting of services and license fees for which the net cost was approximately $12 million and $20 million in the three and six months ended June 30, 2004, respectively, compared to net revenues of approximately $3 million and $7 million for the three and six months ended June 30, 2003, respectively.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivables, investment values, intangible assets, income taxes, restructuring costs and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies are affected by more significant judgments used in the preparation of our consolidated financial statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts and deferred tax assets; accounting for investments in private and publicly-traded securities; and goodwill and other intangible asset impairment.

Revenue recognition. Our revenues are primarily generated from the sale of rich media advertisements (banner and other media advertisements), sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic searches, transactions and from a variety of consumer and business fee and listings-based services. In accordance with generally accepted accounting principles in the United States, the recognition of these revenues is partly based on our assessment of the probability of collection of the resulting accounts receivable balance. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection of accounts receivable had been made at the time the transactions were recorded in revenue.

Valuation Allowances. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would likely increase stockholders' equity as substantially all of our net operating losses result from employee stock option deductions.

Accounting for investments in private and publicly-traded securities. We hold equity interests in companies, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is judged to be other than temporary. We monitor our investments for impairment by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying the investment. Future adverse changes in these factors could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. We recorded approximately $6 million of impairments on the carrying value of privately held equity securities during the three and six months ended June 30, 2004. We recorded approximately $3 million and $7 million of impairments on the carrying value of privately held equity securities during the three and six months ended June 30, 2003, respectively.

Goodwill Impairment. Our long-lived assets include goodwill and other intangible assets. Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment losses recorded in the future could have a material adverse impact on our financial condition and results of operations.

Intangible Asset Impairment. Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that we record an impairment charge on finite-lived intangibles or long-lived assets to be held and used when we determine that the carrying value of intangible assets and long-lived assets may not be recoverable. Based on the existence of one or more indicators of impairment, we measure any impairment of intangibles or long-lived assets based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our business model. Our estimates of cash flows require significant judgment based on our historical results and anticipated results and are subject to many factors.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Certain provisions of FIN 46 became effective during the quarter ended March 31, 2004, the adoption of which did not have a material impact on our financial position, cash flows or results of operations.

In March 2004, the FASB issued a proposed Statement, "Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95," that addresses the accounting for share-based payment transactions in which a Company receives employee services in exchange for either equity instruments of the Company or liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. The proposed statement would eliminate the ability to account for share-based compensation transactions using the intrinsic method that we currently use and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in our consolidated statement of operations. The recommended effective date of the proposed standard is currently for fiscal years beginning after December 15, 2004. Should this proposed statement be finalized in its current form, it will have a significant impact on our consolidated statement of operations as we will be required to expense the fair value of our stock option grants and stock purchases under our employee stock purchase plan.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on recognition and measurement guidance previously discussed under EITF Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF 03-01"). The consensus clarifies the meaning of other-than-temporary impairment and its application to investments in debt and equity securities, in particular investments within the scope of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method. This consensus is to be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. We do not believe that this consensus will have a material impact on our consolidated results of operations.

In April 2004, the Emerging Issues Task Force issued Statement No. 03-06 "Participating Securities and the Two-Class Method Under FASB Statement No. 128, *Earnings Per Share*" ("EITF 03-06"). EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 became effective during the quarter ended June 30, 2004, the adoption of which did not have an impact on our calculation of earnings per share.

In July 2004, the EITF issued a draft abstract for EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"). EITF 04-08 reflects the Task Force's tentative conclusion that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. If adopted, the consensus reached by the Task Force in this Issue will be effective for reporting periods ending after December 15, 2004. Prior period earnings per share amounts presented for comparative purposes would be required to be restated to conform to this consensus and we would be required to include the shares issuable upon the conversion of our zero coupon senior convertible notes (the "Notes") in our diluted earnings per share computation for all periods during which the Notes are outstanding.

Liquidity and Capital Resources

Summarized cash flow information is as follows (in thousands):

	Six Months Ended June 30, 2003		Six Months Ended June 30, 2004	
Cash provided by operating activities	$	190,751	$	485,677
Cash used in investing activities	$	(291,544)	$	(762,067)
Cash provided by financing activities	$	861,736	$	267,678

We invest excess cash predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than two years, with the intent to make such funds readily available for operating purposes, including expansion of operations and potential acquisitions or other transactions. We had cash, cash equivalents and investments in marketable securities totaling approximately $2.6 billion at both June 30, 2004 and December 31, 2003.

Cash provided by operating activities of approximately $486 million for the six months ended June 30, 2004 consisted primarily of net income of approximately $214 million adjusted for non-cash items of approximately $252 million and approximately $20 million provided by working capital. The increase in cash provided by operating activities was due to higher net income levels, adjusted for non-cash items, including depreciation and amortization of approximately $144 million and tax benefits from stock options of approximately $121 million. Cash provided by operating activities for the six months ended June 30, 2003 of approximately $191 million consisted primarily of net income of approximately $98 million adjusted for non-cash items of approximately $105 million and approximately $12 million used by working capital and other activities.

Cash used in investing activities in the six months ended June 30, 2004 of approximately $762 million was primarily attributable to cash paid (net of cash acquired) for acquisitions of approximately $574 million, capital expenditures totaling approximately $94 million, and purchases of investments in marketable securities and other investments (net of proceeds from sales and maturities) of approximately $94 million. Capital expenditures have generally comprised purchases of computer hardware, software, server equipment and furniture and fixtures, and are currently expected to range from $190 million to $215 million in 2004 as we invest in expansion of our network capabilities. Cash used in investing activities in the six months ended June 30, 2003 of approximately $291 million was primarily attributable to cash paid (net of cash acquired) for acquisitions of approximately $228 million, capital expenditures of approximately $41 million, and purchases of investments in marketable securities and other investments (net of proceeds from sales and maturities) of approximately $22 million.

Cash provided by financing activities in the six months ended June 30, 2004 of approximately $268 million was primarily attributable to proceeds from issuance of common stock of approximately $318 million as a result of the exercise of employee stock options, partially offset by cash used in a structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase transaction will be settled in cash or stock depending on the market price of the Company's common stock on the date of the settlement in the third quarter of 2004. Upon settlement, if the market price of Yahoo! common stock is at or above $20.56, the pre-determined price agreed in connection with such transaction, the Company will have its investment returned with a premium. If the market price of Yahoo! common stock is below $20.56, the Company will receive approximately 2.6 million shares of its own common stock. Cash provided by financing activities in the six months ended June 30, 2003 of approximately $862 million was primarily due to proceeds from issuance of debt of approximately $733 million and proceeds from issuance of common stock pursuant to stock option exercise of approximately $129 million.

Commitments and Contractual Obligations

Operating Leases. We have entered into various non-cancelable operating lease agreements for our offices throughout the U.S. and for our international subsidiaries with original lease periods ranging up to 15 years and expiring between 2004 and 2018. In addition, we have entered into various sublease arrangements associated with our excess facilities. Such subleases have terms extending through 2006.

Net lease commitments as of June 30, 2004 can be summarized as follows (in millions):

	Gross lease commitments		Sublease income		Net lease commitments	
Six months ending December 31, 2004	$	22	$	(3)	$	19
Years ending December 31,						
2005		40		(4)		36
2006		30		(3)		27
2007		26		—		26
2008		19		—		19
2009		16		—		16
Thereafter		89		—		89
Total lease commitments	$	242	$	(10)	$	232

Other Commitments. In the ordinary course of business, Yahoo! enters into various arrangements with vendors and other business partners, principally for marketing, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond June 30, 2005 that are not included in the contractual obligations table below.

In connection with our commercial agreements, we provide indemnifications of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements and out of intellectual property infringement claims made by third parties. 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. The Company has 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 directors, and officers and former directors, officers and employees of acquired companies, in certain circumstances. The indemnification provided by us to our officers and directors does not have a stipulated maximum, therefore we are not able to develop a reasonable estimate of the liabilities. To date, we have not incurred material costs as a result of such obligations and have not accrued any liabilities related to such indemnification obligations in our financial statements.

We continue to increase capital expenditures and operating lease commitments, which is consistent with our increased staffing and operational expansion, and we anticipate that this will continue in the future as business conditions merit. Additionally, we will continue to evaluate possible acquisitions of, or investments in businesses, products, and technologies that are complementary to our business, which may require the use of cash. Management believes existing cash and investments will be sufficient to meet operating requirements for at least the next twelve months; however, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position beyond June 30, 2005. The sale of additional securities could result in further dilution to our stockholders.

On April 21, 2003, Overture completed its purchase of the Web Search unit of Fast Search and Transfer ASA, a Norway based developer of search and real-time filtering technologies, for $70 million in cash, plus a contingent earn-out payment of up to $30 million over three years based on specified operating criteria. The contingent earn-out payment is not included in the contractual obligations table below.

On January 2, 2004, we completed our acquisition of 3721. In January 2004, approximately $51 million in cash consideration was paid. Under the terms of the acquisition, we have also contingently agreed to pay an additional amount up to a maximum of $70 million in cash, part of which will be an increase to the purchase price and the remainder operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met. The contingent payment is not included in the contractual obligations table below.

The remaining $2 million commitment to invest in Softbank Capital is not included in the contractual obligations table below.

Contractual Obligations. Contractual obligations at June 30, 2004 are as follows (in millions):

	Payments due by period				
	Total	Due in 2004	Due in 2005-2006	Due in 2007-2008	Due in 2009 or after
Long-term debt (1)	$ 750	$ —	$ —	$ 750	$ —
Operating lease obligations, net of sublease income	232	19	63	45	105
Affiliate commitments (2)	419	81	335	3	—
Noncancelable purchase obligations	84	27	56	1	—
Total contractual obligations	$ 1,485	$ 127	$ 454	$ 799	$ 105

(1) The long-term debt matures in April 2008, unless converted into Yahoo! common stock at a conversion price of $20.50 per share, subject to adjustment upon the occurrence of certain events. Upon conversion, Yahoo! has the right to deliver cash in lieu of common stock. See Note 8 – “Long-Term Debt” for further information related to the long-term debt.

(2) Represents fixed payments that we are obligated to make fixed under contracts to provide search services to our third party affiliates, which represent traffic acquisition costs.

At June 30, 2004 and 2003, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

RISK FACTORS

We face significant competition from companies such as Time Warner’s AOL, Microsoft and Google.

We face significant competition from companies that have combined a variety of services under one brand name in a manner similar to Yahoo!, including Time Warner’s America Online business (“AOL” or “America Online”), Google Inc. (“Google”), and Microsoft Corporation (“Microsoft” or “MSN”). The combination of America Online and Time Warner provides America Online with content from Time Warner’s movie and television, music, books and periodicals, news, sports and other media holdings; access to a network of cable and other broadband delivery technologies; and considerable resources for future growth and expansion. The America Online/Time Warner combination also provides America Online with access to a broad potential customer base consisting of Time Warner’s current customers and subscribers of its various media properties. Many of these competitors are developing new technologies, allocating extensive resources to product development and marketing and expanding their offerings which may be competitive with our offerings. For example, Google has announced the development of a consumer email service and has launched shopping services that may be competitive with services that we offer and Microsoft has announced plans to develop its own search services. In certain of these cases, most notably AOL and MSN, our competition has a direct billing relationship with a greater number of their users through access and other services than we have with our users through certain of our premium services. This relationship permits our competitors to have several potential advantages including the potential to be more effective than us in targeting services and advertisements to the specific taste of their users.

If our competitors are more successful in attracting and retaining customers and users, then our revenues could decline.

We also compete for customers and users with many other providers of online navigation, Web search, commercial search, information, entertainment, business, recruitment, community, electronic commerce and Internet access services. As we expand the scope of our Internet offerings, we will compete directly with a greater number of Internet sites, media companies, and companies providing business services across a wide range of different online services, including:

- companies offering communications, Web search, commercial search, information, community and entertainment services and Internet access either on a stand alone basis or integrated into other products and media properties;
- vertical markets where competitors may have advantages in expertise, brand recognition, available financial and other resources, and other factors;
- online employment recruiting companies; and
- online merchant hosting services.

In order to compete effectively, we may need to expend significant internal engineering resources or acquire other technologies and companies to provide or enhance our capabilities. If we are unable to maintain or expand our customer and user base in the future, our revenues may decline.

Our acquisitions of Inktomi and Overture expose our business to greater competition in the area of Web search and paid inclusion services.

In March 2003 we completed our acquisition of Inktomi Corporation ("Inktomi"), a provider of Web search and paid inclusion services. In addition, we completed our acquisition of Overture Services, Inc. ("Overture") in October 2003, increasing our Web search and paid inclusion business through Overture's Alta Vista and Fast Search & Transfer Web search businesses. As a result of these acquisitions, we compete directly with other providers of Web search and related search services, including, among others, AskJeeves, Inc., Google, and LookSmart, Ltd. Some of these competitors may have longer operating histories focusing on providing Web search services, larger customer or user bases and greater brand recognition for their Web search businesses. In addition to the general acquisition risks highlighted in these risk factors, we are subject to the risk that other companies with greater operational, strategic, financial, personnel or other resources may choose to enter the Web search or paid inclusion spaces by acquisition or internal development, and may create greater competition for advertisers, customers and users.

If we are unable to provide search technologies and services which generate significant traffic to our Web sites, our business could be harmed.

We recently deployed our own Web search technology to provide Web search results on our network. We have limited experience in operating our own search service. Web search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent enhancements. We must continually invest in improving user experience, search relevance, speed, our operational infrastructure and other aspects of our search technology to continue to attract, retain and expand our user base. If we are unable to provide search technologies and services which generate significant traffic to our Web sites, our business could be harmed.

If Overture fails to maintain its advertiser, user, business and affiliate constituencies, our revenues could significantly decline and our business could be adversely affected.

Overture's pay-for-performance search service is comprised of advertiser-generated listings, which are screened for relevance and accessed by users and businesses through the Yahoo! properties and through Overture's affiliates, a network of other Web properties that have integrated Overture's search service into their sites or that direct user traffic to Overture's sites. The search listings are ranked according to the advertiser's bid; that is, the higher the bid, the higher the ranking. Advertisers pay Overture the bid price for clicks on the advertiser's search listing (also known as a paid introduction, click-through or a paid click). Overture's success in pay-for-performance search services depends in part on the maintenance of a critical mass of advertisers, users, and traffic generated by the Yahoo! properties and Overture's affiliates. Such a critical mass encourages increased participation in Overture's paid placement search marketplace. To the extent Overture experiences a decline in the number of any of these constituents, the value of Overture's paid placement service could be harmed, and our revenues or business could be adversely affected.

Our acquisition of Overture exposes our business to greater competition with providers of pay-for-performance advertising search services.

As a result of our acquisition of Overture, we compete directly with other providers of pay-for-performance advertising services that are similar to Overture's, including FindWhat.com (which recently acquired Espotting Media, Inc.), Google, LookSmart, Ltd., and Terra Lycos. In addition, we believe it is likely that there will be additional entrants to the pay-for-performance search market. Some of these entrants may have greater operational, strategic, financial, personnel or other resources than we do, as well as greater brand recognition. These competitors compete against Overture for affiliate arrangements and could cause Overture to enter into affiliate arrangements with less favorable terms, lose current affiliates or not acquire new affiliates, which could reduce the number of click-throughs, increase the amount of revenue shared with affiliates, and reduce total revenues and thereby harm our business, operating results and financial condition.

Acquisitions could result in operating difficulties.

As part of our business strategy, we have made strategic acquisitions, including Overture in October 2003, 3721 Network Software Company Limited ("3721") in January 2004, and Kelkoo S.A. ("Kelkoo") in April 2004. We expect to enter into additional business combinations and acquisitions in the future. Acquisitions may result in dilutive issuances of equity securities, use of our cash resources, incurrence of debt and amortization of expenses related to intangible assets. Our acquisitions to date were accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of our acquired companies with and into Yahoo!'s operations;

- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology and rights into our products and unanticipated expenses related to such integration;
- the failure to further successfully develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the impairment of relationships with customers of the acquired companies or our own customers as a result of any integration of operations;
- the impairment of relationships with employees of the acquired companies or our own business as a result of any integration of new management personnel;
- in the case of 3721 and Kelkoo, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences; and
- the potential unknown liabilities associated with the acquired companies.

We may experience similar risks in connection with our future acquisitions. We may not be successful in addressing these risks or any other problems encountered in connection with our acquisitions or that we could encounter in future acquisitions, which would harm our business or cause us to fail to realize the anticipated benefits of our acquisitions.

We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to provide certain content or use certain technologies in the future.

Many parties are actively developing search, indexing, electronic commerce and other Web-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. As a result, disputes regarding the ownership of these technologies and rights associated with online business are likely to arise in the future. In addition to existing patents and intellectual property rights, we anticipate that additional third-party patents related to our services will be issued in the future. From time to time, parties assert patent infringement claims against us in the form of letters, lawsuits and other forms of communications. Currently, we are engaged in several lawsuits regarding patent issues and have been notified of a number of other potential disputes. We expect that we will increasingly be subject to patent litigation as our services expand.

In addition to patent claims, third parties have asserted and most likely will continue to assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. Currently, our subsidiary LAUNCH Media, Inc. (“LAUNCH”) is engaged in a lawsuit regarding copyright issues that commenced prior to our acquisition of LAUNCH. In addition, Overture is in litigation with several companies, each of which has claimed that allowing advertisers to bid on certain search terms constitutes trademark infringement.

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, be required to enter into costly royalty or licensing agreements, if available, or be prevented from using the rights, which could require us to change our business practices in the future. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. As a result, these claims could harm our business.

Our intellectual property rights are valuable and any inability to protect them could dilute our brand image or harm our business.

We regard our copyrights, patents, trademarks, trade dress, trade secrets, and similar intellectual property, including our rights to certain domain names, as important to Yahoo!’s success. Effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed or made available through the Internet. Further, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. If we are unable to protect our trademarks from unauthorized use, our brand image may be harmed. While we attempt to ensure that the quality of our brand is maintained by our licensees, our licensees may take actions that could impair the value of our proprietary rights or the reputation of our products and media properties. We are aware that third parties have, from time to time, copied significant content available on Yahoo! for use in competitive Internet services. Protection of the distinctive elements of Yahoo! may not be available under copyright law. Any impairment of our brand image could harm our business and cause our stock price to decline. In addition, protecting our intellectual property and other proprietary rights can be expensive. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results. In turn, this could harm the results of our business and lower our stock price.

Our international segment competes with local Internet service providers that may have a competitive advantage.

On an international level, we compete directly with local Internet Service Providers (“ISPs”). These ISPs may have several advantages, including greater knowledge about the particular country or local market and access to significant financial or strategic resources in such local markets. We must continue to improve our product offerings, become more knowledgeable about our local users and their preferences, deepen our relationships with our local users as well as increase our branding and other marketing activities in order to remain competitive and strengthen our international market position.

Financial results for any particular period will not predict results for future periods.

There can be no assurance that the purchasing pattern of customers advertising on the Yahoo! network will not continue to fluctuate, that advertisers will not make smaller and shorter-term purchases, or that market prices for online advertising will not decrease due to competitive or other factors. In addition, there can be no assurance that the volume of searches conducted, the amounts bid by advertisers for search listings or the number of advertisers that bid on the Overture service will not vary widely from period to period. As revenues from sources other than advertising increase, it may become more difficult to predict our financial results based on historical performance. Because of the rapidly changing market we serve, period-to-period comparisons of operating results are not likely to be meaningful. You should not rely on the results for any period as an indication of future performance.

We expect our operating expenses to continue to increase as we attempt to expand the Yahoo! brand, fund product development, develop media properties and acquire other businesses.

Yahoo! currently expects that its operating expenses will continue to increase as we expand our operations in areas of expected growth, continue to develop and extend the Yahoo! brand, fund greater levels of product development, develop and commercialize additional media properties and premium services, and acquire and integrate complementary businesses and technologies. If our expenses increase at a greater pace than our revenues, our operating results could be harmed.

We may be required to record a significant charge to earnings if we must reassess our goodwill or amortizable intangible assets.

We are required under generally accepted accounting principles to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. At June 30, 2004, our goodwill and amortizable intangible assets were $2.8 billion. In the first quarter of 2002, we recorded a transitional impairment charge of $64 million as a cumulative effect of an accounting change, upon the adoption of Statement of Financial Accounting Standards No. 142 “Goodwill and Other Intangible Assets.”

The majority of our revenues are derived from marketing services. Demand from our current and potential clients for online advertising is difficult to forecast accurately.

For the quarter ended June 30, 2004, approximately 83 percent of our total revenues came from marketing services. Our ability to continue to achieve substantial advertising revenue depends upon:

- growth of our user base, including through our email and other communications services;
- broadening our relationships with advertisers to small and medium size businesses;
- our user base being attractive to advertisers;
- demand for our commercial search services by advertisers, users and businesses, including prices paid by advertisers, the number of searches performed by users and the rate at which they click-through to commercial search results;
- our ability to maintain our affiliate program for our commercial search services;
- our ability to generate significant traffic to our Websites;
- our ability to derive better demographic and other information from our users; and
- continued acceptance of the Web by advertisers as an advertising medium.

Our agreements with advertisers and sponsors generally have terms of three years or less and, in many cases, the terms are one year or less or, in the case of Overture’s business, may be immediately terminable by the advertiser. The agreements often have payments contingent on usage or click-through levels. Accordingly, it is difficult to forecast these revenues accurately. However, our expense levels are based in part on expectations of future revenues, include guaranteed minimum payments to our affiliates in connection with our pay-for-performance advertising services, and are fixed over the short-term with respect to certain categories. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall.

Overture depends on a limited number of sources to direct users and businesses to its service to conduct searches.

The users and businesses that conduct searches on Overture’s service come from a limited number of sources. In addition to the Yahoo! properties, sources for users conducting searches are members of Overture’s affiliate network, including portals, browsers, and other affiliates. Overture’s agreements with affiliates vary in duration, and depending on the agreement, provide varying levels of discretion to the affiliate in the implementation of the Overture service, including the degree to which affiliates can modify the presentation of the Overture search results on their websites or integrate the Overture services with their own services, and may be terminable upon the occurrence of certain events, including failure to meet certain service levels, material breaches of agreement terms, changes in control (including the change of control of Overture which occurred with Yahoo!’s acquisition of Overture) or in some instances, at will. Overture may not be successful in renewing any of its affiliate agreements, or if they are renewed, they may not be on as favorable terms. The loss of any of these affiliates or adverse change in implementation of the Overture service by any of our affiliates could harm our ability to generate revenue and our operating results.

Decreases or delays in advertising spending due to general economic downturns could harm our ability to generate advertising revenue.

Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. In the past, the overall market for advertising, including Internet advertising, was generally characterized by softness of demand and the reduction of marketing and advertising budgets or the delay in spending of budgeted resources. As a result, advertising spending decreased. Since Yahoo! derives a large part of its revenues from advertising fees, any decreases in or delays of advertising spending could reduce our revenues or negatively impact our ability to grow our revenues. Even as economic conditions improve, marketing budgets and advertising spending may not increase from current levels.

We have dedicated considerable resources to provide a variety of premium services, which may not prove to be successful in generating significant revenue for us.

We offer fee-based enhancements to many of our free services, including email, instant messaging, personals, finance, games and sports. The development cycles for these technologies are long and generally require significant investment by us. We must continue to provide new services that are compelling to our users while continuing to develop an effective method for generating revenues for such services. If we cannot generate revenues from these services that are greater than the cost of providing such services, our operating results will be harmed.

Due to intense competition, we may not be able to generate substantial revenues from the Internet access market.

Through alliances with Internet access providers, we offer access services that combine customized content and services from Yahoo! (including browser and other communications services) and Internet access from the third party access providers. These Internet access services compete with many large companies such as AOL, MSN, Comcast Corporation and other established Internet access providers. In certain of these cases, our competition has substantially greater market presence (including an existing user base), and financial, technical, marketing or other resources than those committed to our product offerings. As a result of these and other competitive factors, these services may not be able to attract, grow or retain a customer base, which would negatively impact our ability to sell customized content and services through this channel.

Our success in the Internet access market will depend on technical and customer service issues, which we have a limited ability to control.

Internet access services, including those we provide through alliances with access providers, are susceptible to natural or man-made disasters such as earthquakes, floods, fires, power loss, or sabotage, as well as interruptions from technology malfunctions, computer viruses or hacker attacks. Other potential service interruptions may result from unanticipated demands on network infrastructure, increased traffic or problems in customer service to our access customers. Our ability to control technical and customer service issues is further limited by our dependence on the access provider for connectivity, customer service, joint marketing and technical integration of aspects of our access service. Significant disruptions in our access service could harm our goodwill, the Yahoo! brand and ultimately could significantly and negatively impact the amount of revenue we may earn from our service.

Some of our sponsorship arrangements may not generate anticipated revenues.

A key element of our strategy is to generate marketing services revenue through sponsored services and placements by third parties in our online media properties in addition to banner advertising. We typically receive sponsorship fees or a portion of transactions revenue in return for minimum levels of user impressions to be provided by us. These arrangements expose us to potentially significant financial risks in the event our usage levels decrease, including the following:

- the fees we are entitled to receive may be adjusted downwards;
- we may be required to “make good” on our obligations by providing alternative services;
- the sponsors may not renew the arrangements or may renew at lower rates; and
- the arrangements may not generate anticipated levels of shared transactions revenue, or sponsors may default on the payment commitments in such agreements as has occurred in the past.

Accordingly, any leveling off or decrease of our user base (or usage by our existing base) or the failure to generate anticipated levels of shared transactions revenue could result in a significant decrease in our revenues.

We may not be successful in expanding the number of users of our electronic commerce services.

We have focused, and intend to continue to focus, significant resources on the development and enhancement of our electronic commerce properties, such as Yahoo! Shopping. The success of our electronic commerce properties depends on, among other things, our ability to attract and retain well-known brands among our network of retailers, the ability to generate traffic to our commerce properties, and, in some cases, the rate at which users click through to search results. Through our electronic commerce properties, we do not establish a direct billing relationship with our users as a result of any purchases they may make with the retailers. The revenue that we derive from our electronic commerce properties is typically in the form of lead-based fees, wherein retailers pay a fee based on the number of times a user clicks on a link to their site, transaction fees, and advertising fees. Users who had a favorable buying experience with a particular retailer may contact that retailer directly for future purchases rather than through our service. If our users bypass our electronic commerce properties, such as Yahoo! Shopping, and contact retailers directly, our revenue could decline. Competing providers of online shopping, including merchants with whom we have relationships, may provide a more convenient and comprehensive online shopping experience due to their singular focus on electronic commerce. As a result, we may have difficulty competing with those merchants for users of electronic commerce services and as a consequence our revenue could decline or we could fail to generate significant revenues from electronic commerce.

We will continue to operate in international markets in which we have limited experience and are faced with relatively higher costs and are exposed to greater risks.

A key part of our strategy is to develop Yahoo!-branded online properties and expand our commercial search offerings in international markets. We have developed, through joint ventures, subsidiaries and branch offices, localized properties and search services in over 20 international countries. To date, we have only limited experience in marketing and operating our products and services internationally, and we rely on the efforts and abilities of our foreign business partners in such activities.

We believe that in light of substantial competition, we need to expand our operations in international markets quickly in order to obtain market share effectively. However, in a number of international markets, especially those in Europe, we face substantial competition from ISPs that offer or may offer their own navigational services and from other companies that provide commercial search services. Many of these companies have a dominant market share in their territories. Furthermore, foreign providers of competing online services may have a substantial advantage over us in attracting users in their country due to more established branding in that country, greater knowledge with respect to the tastes and preferences of users residing in that country and/or their focus on a single market. We have experienced and expect to continue to experience higher costs as a percentage of revenues in connection with the development and maintenance of our international online properties relative to our domestic experience. Our operations in international markets may not develop at a rate that supports our level of investment. In particular, certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium.

Our international operations are subject to increased risks.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international presence, there are certain risks inherent in doing business on an international level, including:

- trade barriers and unexpected changes in regulatory requirements;
- difficulties in developing, staffing and simultaneously managing a large number of unique foreign operations as a result of distance, language and cultural differences;
- longer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- import or export restrictions;
- seasonal reductions in business activity;
- risks related to government regulation including those more fully described below; and
- potentially adverse tax consequences.

One or more of these factors could harm our future international operations and consequently, could harm our business, operating results, and financial condition.

If key personnel leave unexpectedly and are not replaced, we may not be able to execute our business plan.

We are substantially dependent on the continued services of our key personnel, including our two founders, our chief executive officer, chief financial officer, chief operating officer, chief technical officer, and our executive and senior vice presidents. These individuals have acquired specialized knowledge and skills with respect to Yahoo! and its operations. If any of these individuals were to leave unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. Many of our management personnel have reached or will soon reach the four-year anniversary of their Yahoo! hiring date and, as a result, have become or will shortly become fully vested in their initial stock option grants. While management personnel are typically granted additional stock options subsequent to their hire date, which will usually vest over a period of four years to provide additional incentive to remain at Yahoo!, the initial option grant is typically the largest for a given position, and an employee may be more likely to leave Yahoo! upon completion of the vesting period for the initial option grant.

If we are unable to hire qualified personnel in designated growth areas, we may not be able to execute our business plan.

We expect that we will need to hire additional personnel in designated growth areas. The competition for qualified personnel can be intense, particularly in the San Francisco Bay Area, where our corporate headquarters are located. At times, we have experienced difficulties in hiring personnel with the right training or experience, particularly in technical areas. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, we may be unable to meet our business plan and as a result our stock price may decline.

We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances or customer requirements.

Yahoo! is one of the most highly trafficked Websites on the Internet and is regularly serving numbers of users and delivering daily page views which are beyond previous standards for Internet usage. In addition, the services offered by Yahoo!, and popular with users and customers, have changed significantly in the past, are expected to change rapidly in the future, and are difficult to predict. Rapid increases in the levels or types of use of our online properties and services could result in delays or interruptions in our service. In particular, the architectures utilized for our services are highly complex and may not provide satisfactory service in the future, especially as the usage levels of email and certain other services increase, the rate of unsolicited email continues to increase in volume and complexity and the number of advertisers utilizing the Overture service increases. In the future, we may be required to make significant changes to our architectures, including moving to completely new architectures. If we are required to switch architectures, we may incur substantial costs and experience delays or interruptions in our service. These delays or interruptions in our service may cause users and customers to become dissatisfied with our service and move to competing providers of online services. Further, to the extent that demand for our services increases, 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 and infrastructure to accommodate increased traffic and user preferences and the associated costs and potential loss of traffic could harm our operating results and financial condition.

More individuals are utilizing non-PC devices to access the Internet, and versions of our service developed or optimized for these devices may not gain widespread adoption by users of such devices.

The number of individuals who access the Internet through devices other than a personal computer, such as personal digital assistants, mobile telephones and television set-top devices, has increased dramatically. Our services were originally designed for rich, graphical environments such as those available on desktop and laptop computers. The lower resolution, functionality and memory associated with alternative devices may make the use of our services through such devices difficult, and the versions of our service developed for these devices may not be compelling to users of alternative devices. As we have limited experience to date in operating versions of our service developed or optimized for users of alternative devices, it is difficult to predict the problems we may encounter in doing so, and we may need to devote significant resources to the creation, support and maintenance of such versions. If we are unable to attract and retain a substantial number of alternative device users to our online services, we will fail to capture a sufficient share of an increasingly important portion of the market for online services.

Our competitors often provide Internet access or computer hardware to our users, and our competitors could make it difficult for our users to access our services, which in turn, could reduce the number of our users.

Our users must access our services through an Internet access provider, including providers of cable and DSL Internet access. To the extent that an access provider (other than those with which we have a relationship), such as AOL or MSN, or a computer or computing device manufacturer offers online services or properties that are competitive with those of Yahoo!, the user may find it more convenient to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider's or manufacturer's own directory. To the extent that a user opts to use the services offered by an access provider (other than those with which we have a relationship) or those offered by computer or computing device manufacturers rather than the services provided by us, our revenues may decline.

We rely on the value of the Yahoo! brand, and the costs of maintaining and enhancing our brand awareness are increasing.

We believe that maintaining and expanding the Yahoo! brand (and our other brands, including HotJobs, Inktomi, LAUNCH, and Overture) is an important aspect of our efforts to attract and expand our user and advertiser base. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry. We have spent considerable money and resources to date on the establishment and maintenance of the Yahoo! brands. We will spend increasing amounts of money on, and devote greater resources to advertising, marketing and other brand-building efforts to preserve and enhance consumer awareness of the Yahoo! brands. We may not be able to successfully maintain or enhance consumer awareness of the Yahoo! brands and, even if we are successful in our branding efforts, such efforts may not be cost-effective. If we are unable to maintain or enhance customer awareness of the Yahoo! brands in a cost effective manner, our business, operating results and financial condition would be harmed.

The successful operation of our business depends upon the supply of critical elements from other companies and any interruption in that supply could cause service interruptions or reduce the quality of our product offerings.

We depend upon third parties, to a substantial extent, for several critical elements of our business, including various technology, infrastructure, content development, software and distribution components.

Technology and Infrastructure. We rely on private third-party providers for our principal Internet connections, co-location of a significant portion of our data servers and network access. Any disruption in the Internet or network access or co-location services provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business, operating results and financial condition. Any financial difficulties experienced by our providers may have negative effects on our business, the nature and extent of which we cannot predict. We license technology and related databases from third parties for certain elements of our properties, including, among others, technology underlying the delivery of news, stock quotes and current financial information, chat services, street mapping and telephone listings, streaming capabilities and similar services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. We also rely on a third-party manufacturer for key components of our email service. Furthermore, we depend on hardware and software suppliers for prompt delivery, installation and service of servers and other equipment to deliver our products and services. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business and could expose us to liabilities to third parties.

Distribution Relationships. In addition to our relationships with Internet access providers, to increase traffic for our online properties and services and make them more available and attractive to advertisers and consumers, we have certain distribution agreements and informal relationships with, operators of online networks and leading Websites, electronics companies, and computer manufacturers. These distribution arrangements typically are not exclusive and do not extend over a significant amount of time. Further, some of our distributors are competitors or potential competitors who may not renew their distribution contracts with us. Potential distributors may not offer distribution of our properties and services on reasonable terms, or at all. In addition, as new methods for accessing the Web become available, including through alternative devices, we may need to enter into additional distribution relationships. If we fail to obtain distribution or to obtain distribution on terms that are reasonable, we may not be able to fully execute our business plan.

Streaming Media Software. We rely on the two leading providers of streaming media products, RealNetworks, Inc. and Microsoft, to license the software necessary to broadcast streaming audio and video content to our users. There can be no assurance that these providers will continue to license these products to us on reasonable terms, or at all. Our users are currently able to electronically download copies of the software to play streaming media free of charge, but providers of streaming media products may begin charging users for copies of their player software or otherwise change their business model in a manner that slows the widespread acceptance of these products. In order for our rich media services to be successful, there must be a large base of users of these streaming media products. We have limited or no control over the availability or acceptance of streaming media software, and to the extent that any of these circumstances occur, our business will be adversely affected.

Content. Our future success depends upon our ability to aggregate compelling content and deliver that content through our online properties. We license much of the content that attracts users to our online properties, such as news items, stock quotes, weather reports, maps and audio and video content from third parties. In particular, our music and entertainment properties rely on major sports organizations, radio and television stations, record labels, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. We may be unable to enter into or preserve relationships with the third parties whose content we seek to obtain. Many of our current licenses for third-party content extend for a period of less than two years and there can be no guarantee that they will be renewed upon their expiration. In addition, as competition for compelling content increases both domestically and abroad, our content providers may increase the prices at which they offer their content to us and potential content providers may not offer their content on terms agreeable to us. An increase in the prices charged to us by third-party content

providers could harm our operating results and financial condition. Further, many of our content licenses with third parties are non-exclusive. Accordingly, other Webcasters may be able to offer similar or identical content. Likewise, most sports and entertainment content available on our online properties are also available on other media like radio or television. These media are currently, and for the foreseeable future will be, much more widely adopted for listening or viewing such content than the Web. These factors also increase 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, if other companies broadcast content that is similar to or the same as that provided by Yahoo!, or if we do not develop compelling editorial content or personalization services, the number of users on our online properties may not grow at all or may grow at a slower rate than anticipated, which would harm our operating results.

As we provide more audio and video content, particularly music, we may be required to spend significant amounts of money on content acquisition and content broadcasts.

In the past, the majority of the content that we provided to our users was in print, picture or graphical format and was either created internally or licensed to us by third parties for little or no charge. However, we have been providing and intend to continue to provide increasing amounts of audio and video content to our users, such as the broadcast of music, film content, speeches, news footage, concerts and other special events, through our media and entertainment properties. We believe that users of Internet services such as the Yahoo! online properties will increasingly demand high-quality audio and video content. Such content may require us to make substantial payments to third parties from whom we license or acquire such content.

For example, in order to broadcast music through our online properties, we are currently required to pay royalties both on the copyright in the musical compositions and the copyright in the actual sound recordings of the music to be broadcast. The revenue we receive as a result of our audio and video broadcasts may not justify the costs of providing such broadcasts.

Our failure to manage growth and diversification of our business could harm us.

We have experienced dramatic growth in personnel since inception and expect to continue to hire additional personnel in selected areas. This growth requires significant time and resource commitments from us and our senior management. Further, as a result of recent acquisitions and international expansion, more than one-half of our employees are based outside of our Sunnyvale, California headquarters. If we are unable to effectively manage a large and geographically dispersed group of employees or anticipate our future growth, our business will be adversely affected.

Additionally, our business relies on our financial reporting and data systems and controls (including our systems for billing users of our fee-based services), which have grown increasingly complex in the recent past due to acquisitions and the diversification and complexity of our business. To effectively manage this growth, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. If we are unable to adapt to these changes, our business will be adversely affected.

We are subject to U.S. and foreign government regulation of the Internet, the impact of which is difficult to predict.

We are subject to general business regulations and laws, as well as regulations and laws directly applicable to the Internet. As we continue to expand the scope of our properties and service offerings, the application of existing laws and regulations to Yahoo! relating to issues such as user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, consumer protection, content regulation, quality of products and services, and intellectual property ownership and infringement can be unclear. In addition, we will also be subject to new laws and regulations directly applicable to our activities. Further, the application of existing laws to Yahoo! or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol, tobacco or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Any existing or new legislation applicable to us could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and dampen the growth in use of the Web.

Several federal laws, including the following, could have an impact on our business. The Digital Millennium Copyright Act is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. The Children’s Online Protection Act and the Children’s Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

We post our privacy policies and practices concerning the use and disclosure of user data. In addition, GeoCities, a company we acquired in 1999, is required to comply with a consent order between it and the Federal Trade Commission (the “FTC”), which imposes certain obligations and restrictions with respect to information collected from users. Any failure by us to comply with our posted privacy policies, the consent order, FTC requirements or other privacy-related laws and regulations could result in proceedings by the FTC or others which could potentially have an adverse effect on our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could materially and adversely affect our business through a decrease in user registrations and revenues. This could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

Due to the nature of the Web, it is possible that the governments of other states and foreign countries might attempt to regulate Web transmissions or prosecute us for violations of their laws. Any such developments (or developments stemming from enactment or modification of other laws) could increase the costs of regulatory compliance for us or force us to change our business practices.

We may be subject to legal liability for online services.

We host a wide variety of services that enable individuals to exchange information, generate content, conduct business and engage in various online activities on an international basis, including public message posting and services relating to online auctions and homesteading. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and abroad. Claims have been threatened and have been brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we provide links to or that may be posted online or generated by our users or with respect to auctioned materials. In addition, Yahoo! was the subject of a claim brought by certain entities in a French court regarding, among other things, the availability of certain content within our services which was alleged to violate French law. Due to the unsettled nature of the law in this area, we may be subject to similar actions in domestic or other international jurisdictions in the future. Our defense of any such actions could be costly and involve significant distraction of our management and other resources. In addition, we are aware that governmental agencies are currently investigating the conduct of online auctions.

We also periodically enter into arrangements to offer third-party products, services, or content under the Yahoo! brand or via distribution on various Yahoo! properties, including stock quotes and trading information. 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 these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. For example, we offer Web-based email services, which expose us to potential risks, such as liabilities or claims resulting from unsolicited email, lost or misdirected messages, illegal or fraudulent use of email, or interruptions or delays in email service. Investigating and defending any of these types of claims is expensive, even to the extent that the claims do not ultimately result in liability.

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 wide fluctuations. During the second quarter of 2004, the closing sale prices of our common stock on the Nasdaq ranged from $24.17 to $36.40 per share and the closing sale price on August 4, 2004 was $27.91 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results; announcements of technological innovations or new products and media properties by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; the operating performance and stock price of companies in which we have an equity investment, including Yahoo! Japan; and news reports relating to trends in our markets or general economic conditions.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options.

Our operations could be significantly hindered by the occurrence of a natural disaster or other catastrophic event.

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. In addition, a significant portion of our network infrastructure is located in Northern California, an area susceptible to earthquakes. We do not have multiple site capacity for all of our services in the event of any such occurrence. In an effort to reduce the likelihood of a geographical or other disaster impacting our business, we have distributed and intend to continue distributing our servers among additional data centers located around the world. Failure to execute these changes properly or in a timely manner could result in delays or interruptions to our service. In addition, despite our implementation of network security measures, our servers are vulnerable to computer viruses, physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems.

Technological or other assaults on our service could harm our business.

We are vulnerable to coordinated attempts to overload our systems with data, resulting in denial or reduction of service to some or all of our users for a period of time. We have experienced a coordinated denial of service attack in the past, and may experience such attempts in the future. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Any such event could reduce our revenue and harm our operating results and financial condition.

Anti-takeover provisions could make it more difficult for a third party to acquire us.

We have adopted a stockholder rights plan and initially declared a dividend distribution of one right for each outstanding share of common stock to stockholders of record as of March 20, 2001. As a result of our two-for-one stock split effective May 11, 2004, each share of common stock is now associated with one-half of one right. Each right entitles the holder to purchase one unit consisting of one one-thousandth of a share of our Series A Junior Participating Preferred Stock for $250 per unit. Under certain circumstances, if a person or group acquires 15 percent or more of our outstanding common stock, holders of the rights (other than the person or group triggering their exercise) will be able to purchase, in exchange for the $250 exercise price, shares of our common stock or of any company into which we are merged having a value of $500. The rights expire on March 1, 2011 unless extended by our board of directors. Because the rights may substantially dilute the stock ownership of a person or group attempting to take us over without the approval of our board of directors, our rights plan could make it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our board of directors regarding such acquisition.

In addition, our board of directors has the authority to issue up to 10,000,000 shares of Preferred Stock (of which 2,000,000 shares have been designated as Series A Junior Participating 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 of 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. Further, certain 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 management of Yahoo!, which could have an adverse effect on the market price of our stock. 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 of Directors. 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 of control or management.

Terrorist attacks and the recent hostilities in Iraq have contributed to economic instability in the United States and internationally, which could lead to reduced advertising spending by our customers.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope, and in March 2003, the United States became involved in hostilities with Iraq. These events, coupled with political instability elsewhere in the world have caused volatility in the financial markets and uncertainty in the global economy. Under these circumstances, there is a risk that our existing and potential customers may decrease spending, particularly for marketing services. Because marketing services continue to constitute a majority of our revenues, any such decrease in expenditures could materially and adversely affect our operating results and financial condition. In addition, the political and economic conditions described above may contribute to increased volatility in stock prices, which may cause our stock price to decline.

Special note regarding forward-looking statements.

Some of the statements in this Report constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "intend," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue" or the negative of such terms or other comparable terminology. This Report includes, among others for fiscal 2004, statements regarding our:

- primary operating costs and expenses;
- capital expenditures;
- operating lease arrangements;
- evaluation of possible acquisitions of, or investments in business, products and technologies; and
- existing cash and investments being sufficient to meet operating requirements.

These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry's results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed in these "Risk Factors" and elsewhere in this Report. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this Report to conform them to actual results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the impact of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments.

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments to hedge our investment portfolio. We invest excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers and, by policy, limit the amount of credit exposure to any one issuer. We protect and preserve invested funds by limiting default, market and reinvestment risk.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair 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 which have declined in market value due to changes in interest rates. As of June 30, 2004 we had investments in debt securities with maturities between three months and one year of approximately $829 million. Such investments had a weighted-average yield of approximately 2.18 percent. Investments in debt securities with maturities between one and five years of approximately $1.1 billion had a weighted-average yield of approximately 2.59 percent. A hypothetical 100 basis point increase in interest rates would result in approximately $27 million decrease (approximately one percent) in the fair value of our available-for-sale securities at June 30, 2004.

The fair market value of our zero coupon senior convertible notes is subject to interest rate risk. Generally the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The interest changes affect the fair market value but do not impact our financial position, cash flows or results of operations. As of June 30, 2004, the fair value of the zero coupon senior convertible notes was approximately $1.4 billion based on quoted market prices.

Foreign Currency Risk. International revenues from our foreign subsidiaries accounted for approximately 25 percent and 23 percent of total revenues during the three and six months ended June 30, 2004. International sales are made mostly from our foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

Our international business is subject to risks, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility when compared to the United States. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Our exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to our foreign sales subsidiaries. These intercompany accounts are typically denominated in the functional currency of the foreign subsidiary. As exchange rates vary, our international financial results may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations for the three and six months ended June 30, 2004 was not material.

Investment Risk. We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20 percent and we do not have the ability to exercise significant influence over operations. Since our initial investment, certain of these investments in privately held companies have become marketable equity securities upon the investees completing initial public offerings. Such investments are subject to significant fluctuations in fair market value due to the volatility of the stock market and are recorded as long-term investments. For these investments in public and privately-held companies, our policy is to monitor these investments for impairment by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and record reductions in carrying value when necessary. An impairment in the carrying value of our privately held investments of five percent would result in a decrease in the carrying value of our privately held investments and a charge to operations of approximately $1 million.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of June 30, 2004, net unrealized losses on these investments were not material.

We are exposed to market risk as it relates to changes in the market value of our investments. We invest in equity instruments of public companies, certain of which may be classified as derivatives, for business and strategic purposes and have classified these securities as available-for-sale. These available-for-sale equity investments are subject to significant fluctuations in fair value due to the volatility of the stock market and the industries in which these companies participate. We have realized gains and losses from both the sale of investments, as well as mergers and acquisitions of companies in which we have invested. As of June 30, 2004, we had available-for-sale equity investments with a fair value of approximately $4 million and a cost basis of approximately $4 million. Our objective in managing exposure to stock market fluctuations is to minimize the impact of stock market declines to earnings and cash flows. However, continued market volatility, as well as mergers and acquisitions, have the potential to have a material non-cash impact on our operating results in future periods.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief 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 Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, third parties assert patent infringement claims against Yahoo! in the form of letters, lawsuits, and other forms of communication. Currently, we are engaged in several lawsuits regarding patent issues and have been notified of a number of other potential patent disputes.

In addition, from time to time we are subject to other legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with our email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy.

In October 2000, 800-JR-Cigar, Inc. filed a complaint in the United States District Court for the District of New Jersey against Overture, a wholly-owned subsidiary of Yahoo! acquired in October 2003. In October 2002, Robert Novak, doing business as PetsWarehouse and PetsWarehouse.com, filed a complaint in the United States District Court for the Eastern District of New York against Overture. In August 2003, Accor filed a complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture’s wholly-owned subsidiary in France. In May 2004, Government Employees Insurance Company filed a complaint in the Eastern District of Virginia against Overture. The plaintiffs in each of these cases claim, among other things, that they have trademark rights in certain search terms and that Overture violates these rights by allowing its advertisers to bid on these search terms. The complaints seek injunctive relief and damages. Overture has also been named as a defendant in several other trade name infringement actions filed in Los Angeles, California in which plaintiffs made similar claims. Yahoo! and Overture believe that Overture has meritorious defenses to liability and damages in each of these lawsuits and are contesting them vigorously.

We do not believe, based on current knowledge, that any of the foregoing legal proceedings or claims are likely to have a material adverse effect on our financial position, results of operations or cash flows. However, we may incur substantial expenses in defending against third party claims. In the event of a determination adverse to Yahoo! or our subsidiaries, we may incur substantial monetary liability, and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations or cash flows.

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label, Capitol Records, Inc., Virgin Records America, Inc., Sony Music Entertainment Inc., UMG Recordings, Inc., Interscope Records, Motown Record Company, L.P., and Zomba Recording Corporation filed a lawsuit alleging copyright infringement against LAUNCH Media, Inc. ("LAUNCH") in the United States District Court for the Southern District of New York. The plaintiffs allege, among other things, that the consumer-influenced portion of LAUNCH's LAUNCHcast service is "interactive" within the meaning of Section 114 of the Copyright Act and therefore does not qualify for the compulsory license provided for by the Copyright Act. The Complaint seeks declaratory and injunctive relief and damages for the alleged infringement. After the lawsuit was commenced, Yahoo! entered into an agreement to acquire LAUNCH. In June 2001, LAUNCH settled the LAUNCH litigation as to UMG Recordings, Inc. Our acquisition of LAUNCH closed in August 2001, and since that time LAUNCH has been a wholly owned subsidiary of Yahoo!. Yahoo! and LAUNCH do not believe that LAUNCH has infringed any rights of plaintiffs and intend to vigorously contest the lawsuit. In January 2003, LAUNCH settled the LAUNCH litigation as to Sony Music Entertainment, Inc. In October 2003, LAUNCH settled the litigation as to Capitol Records, Inc. and Virgin Records America, Inc. Accordingly, BMG Music d/b/a/ The RCA Records Label is the sole remaining plaintiff in this proceeding. On March 16, 2004 plaintiffs filed motions for partial summary judgment on the issues of willfulness and whether the consumer-influenced portion of Launch's LAUNCHcast service is "interactive" within the meaning of Section 114 of the Copyright Act and therefore does not qualify for the compulsory license provided for by the Copyright Act. LAUNCH filed its opposition to the motions for partial summary judgment on April 30, 2004 and a hearing on the motions was held on June 18, 2004. The Court has not yet ruled on the motions for summary judgment. We do not believe it is feasible to predict or determine the outcome or resolution of the LAUNCH litigation at this time. The range of possible resolutions of the LAUNCH litigation could include judgments against us or settlements that could require substantial payments by us, which could have a material adverse impact on our financial position, results of operations or cash flows. An estimate of the potential loss, if any, or range of loss that could arise from the LAUNCH litigation cannot be made at this time.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court for the Southern District of New York against certain underwriters involved in Overture's initial public offering, Overture, and certain of Overture's current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint, alleging Rule 10b-5 claims of fraud. On July 15, 2002, the issuers filed a motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the Rule 10b-5 claims against certain defendants, including Overture. Settlement discussions relating to this case on behalf of the named defendants have occurred over the last year, resulting in a final settlement memorandum of understanding with the plaintiffs in the case and Overture's insurance carriers. A proposal has been made for the settlement and release of claims against the issuer defendants, including Overture. The settlement is subject to a number of conditions, including approval of the court. If the settlement does not occur, and litigation against Overture continues, the Company and Overture believe that Overture has meritorious defenses to liability and damages and intend to defend the case vigorously.

On or about February 4, 2004, a shareholder derivative action was filed in the Court of Chancery of the State of Delaware in and for New Castle County, against us (as nominal defendant) and certain of our current and former officers and directors (the "Derivative Defendants"). Two similar shareholder derivative actions were filed in the California Superior Court for the County of San Mateo on February 13, 2004. The complaints generally allege breaches of fiduciary duties by the Derivative Defendants related to the alleged purchase of shares in initial public offerings or the alleged acquiescence in such conduct. The complaints seek unspecified monetary damages and other relief purportedly on behalf of Yahoo! from the Derivative Defendants. We understand the Derivative Defendants deny any impropriety and intend to defend the lawsuits vigorously. We do not believe that the ultimate costs to resolve these matters will have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we believe there are procedural defects to permitting these complaints to proceed on Yahoo!'s behalf. In April 2004, Yahoo! filed a motion to dismiss the Delaware action for failure to plead demand futility. On August 2, 2004, the Delaware Court of Chancery granted the motion to dismiss.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 21, 2004, the Company held its Annual Meeting of Stockholders. At the meeting, the stockholders elected as directors Terry Semel (with 466,417,661 shares voting for and 135,419,466 withheld), Jerry Yang (with 466,338,706 voting for and 135,498,421 withheld), Roy Bostock (with 459,505,535 shares voting for and 142,331,592 withheld), Ronald Burkle (with 466,539,415 shares voting for and 135,297,712 withheld), Eric Hippeau (with 452,868,382 shares voting for and 148,968,745 withheld), Arthur Kern (with 443,544,158 shares voting for and 158,292,969 withheld), Robert Kotick (with 450,652,449 shares voting for and 151,184,678 withheld), Edward Kozel (with 459,561,641 shares voting for and 142,275,486 withheld) and Gary Wilson (with 443,537,956 shares voting for and 158,299,171 withheld).

The stockholders also approved an amendment to the Company's 1996 Employee Stock Purchase Plan (with 457,389,297 shares voting for, 20,237,552 against, 3,260,219 abstaining and 120,950,059 broker non-votes).

The stockholders also ratified the appointment of PricewaterhouseCoopers LLP as the independent accountants for the Company for the fiscal year ending December 31, 2004 (with 581,278,620 shares voting for, 17,552,461 against, 3,006,046 abstaining, and 0 broker non-votes).

The stockholders voted against a stockholder proposal regarding expensing stock options (with 216,593,154 shares voting for, 255,430,270 against, 8,863,644 abstaining, and 120,950,059 broker non-votes).

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits are incorporated herein by reference or are filed with this report as indicated below (numbered in accordance with Item 601 of Regulation S-K):

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the June 30, 2000 10-Q and incorporated herein by reference).
3.2	Amended Bylaws of Registrant (Filed as Exhibit 4.9 to the Registrant’s Registration Statement on Form S-8 filed on March 5, 2002 and incorporated herein by reference).
4.1	Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant’s Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 and incorporated herein by reference).
4.2	Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.3**	Form of Senior Note.
4.4**	Form of Subordinated Note.
4.5**	Form of Certificate of Designation for preferred stock (together with preferred stock certificate).
4.6	Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.7**	Form of Warrant Agreement (together with form of Warrant Certificate).
4.8	Rights Agreement, dated as of March 15, 2001, between the Registrant and Equiserve Trust Company, N.A., as Rights Agent, including the form of Rights Certificate as Exhibit B and the summary of Rights to Purchase Preferred Stock as Exhibit C (Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K, filed March 19, 2001 and incorporated herein by reference).
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K, filed April 10, 2003 and incorporated herein by reference).
4.10	Registration Rights Agreement, dated as of April 9, 2003, among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference).
10.5*	Amended and Restated 1996 Employee Stock Purchase Plan and form of subscription agreement.
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 August 9, 2004.
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 August 9, 2004.
32*	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to section 18 U.S.C. section 1350 dated August 9, 2004.

* Filed herewith.

** To be filed by a report on Form 8-K pursuant to Item 601 of Regulation S-K or, where applicable, incorporated herein by reference from a subsequent filing in accordance with Section 305(b)(2) of the Trust Indenture Act of 1939.

b. Reports on Form 8-K:

On April 6, 2004, the Company filed an amended report on Form 8-K/A announcing that the Company had completed its acquisition of a majority interest in Kelkoo S.A.

On April 7, 2004, the Company filed a current report on Form 8-K which announced the Company’s financial results for the quarter ended March 31, 2004 and certain other information. A copy of the Company’s press release announcing the results and certain other information was attached and incorporated therein by reference.

On May 26, 2004, the Company filed an amended report on Form 8-K/A announcing that the Company had completed its acquisition of an additional interest in Kelkoo S.A, and as a result of its acquisition, the Company’s ownership interest in Kelkoo S.A. increased to approximately 99.9%.

On May 28, 2004, the Company filed a current report on Form 8-K which announced that Jerry Yang had established a trading plan under Rule 10b5-1.

On June 30, 2004, the Company filed a current report on Form 8-K which announced that the market price condition for convertibility of the Company’s Zero Coupon Senior Convertible Notes due 2008 has been satisfied with respect to the fiscal quarter beginning July 1, 2004 and ending on September 30, 2004.

Signatures

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YAHOO! INC.

Dated: August 9, 2004

By: /s/ SUSAN DECKER
Susan Decker
Executive Vice President, Finance and Administration, and Chief Financial Officer (Principal Financial Officer)

Dated: August 9, 2004

By: /s/ PATRICIA CUTHBERT
Patricia Cuthbert
Vice President and Corporate Controller (Principal Accounting Officer)

YAHOO! INC.
Index to Exhibits

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Exhibit 10.5

YAHOO! INC.
AMENDED AND RESTATED
1996 EMPLOYEE STOCK PURCHASE PLAN

(as amended and restated February 27, 2001 and subsequently amended and restated April 1, 2004, and after giving effect to the two for one stock split announced on April 7, 2004)

The following constitute the provisions of the Amended and Restated 1996 Employee Stock Purchase Plan of Yahoo! Inc., as amended and restated April 1, 2004.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Yahoo! Inc., a Delaware corporation.

(e) "Compensation" shall mean, effective as of May 1, 2004, the total compensation paid to an Employee, including all salary, wages (including amounts elected to be deferred by the Employee, that would otherwise have been paid, under any cash or deferred arrangement or other deferred compensation program established by the Company), overtime pay, commissions, bonuses, and other remuneration paid directly to the Employee, but excluding referral and hiring bonuses, profit sharing, the cost of employee benefits paid for by the Company, education, tuition or other similar reimbursements, imputed income arising under any Company group insurance or benefit program, traveling expenses, business and moving expense reimbursements, income received in connection with stock options, restricted stock grants, or other equity based awards, contributions made by the Company under any employee benefit plan, and similar items of compensation. For all periods prior to May 1, 2004, "Compensation" shall mean all regular straight time gross earnings and commissions, and shall not include payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other compensation.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) "Contributions" shall mean all amounts credited to the account of a participant pursuant to the Plan.

(h) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(i) "Employee" shall mean any person, including an Officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

(j) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" shall have the meaning set forth in Section 7(b).

(l) "Offering Date" shall mean the first business day of each Offering Period of the Plan, except that in the case of an individual who becomes an eligible Employee or who begins to participate in an Offering Period after the first business day of an Offering Period, the term "Offering Date" with respect to such individual means the first business day of the first Purchase Period in which such individual participates within the Offering Period. Options granted after the first business day of an Offering Period will be subject to the same terms and conditions as the options granted on the first business day of such Offering Period except that they will have a different grant date (and thus, potentially, a different Purchase Price) and, because they expire at the same time as the options granted on the first business day of such Offering Period, a shorter term.

(m) "Offering Period" shall mean, with respect to Offering Periods beginning prior to July 1, 2001, a period of six (6) months commencing on January 1 and July 1 of each year, except for the first Offering Period as set forth in Section 4(a). The Offering Period commencing on July 1, 2001 shall end on April 30, 2003 and thereafter Offering Periods shall commence on May 1 and end on the April 30 twenty-four (24) months thereafter; provided, however, that if the Fair Market Value of the Common Stock on a Purchase Date is lower than the Fair Market Value of the Common Stock on the first business day of the Offering Period, the Offering Period then in progress will terminate and a new Offering Period shall commence on the next May 1 or November 1, as applicable, and shall extend for a twenty-four (24) month period ending on April 30 or October 31, as applicable.

(n) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(o) "Plan" shall mean this Employee Stock Purchase Plan.

(p) "Purchase Date" shall mean, with respect to Offering Periods beginning prior to July 1, 2001, the last business day of each Offering Period of the Plan and shall mean, with respect to Offering Periods beginning after such date, the last business day of each Purchase Period occurring within the Offering Period.

(q) "Purchase Period" shall mean, with respect to Offering Periods beginning prior to July 1, 2001, a period of six (6) months coincident with the Offering Period, except for the first Purchase Period of the first Offering Period as set forth in Section 4(b) which Purchase Period shall be coincident with such first Offering Period, and with respect to Offering Periods commencing on and after July 1, 2001, a period of six (6) months within an Offering Period commencing on each May 1 and November 1 and ending on October 31 and April 30 respectively, except for the first Purchase Period within the Offering Period commencing on July 1, 2001, which Purchase Period shall commence on July 1, 2001 and end on October 31, 2001.

(r) "Purchase Price" shall mean, (i) with respect to Offering Periods beginning prior to July 1, 2001, an amount equal to 85% of the Fair Market Value of a Share of Common Stock on the Offering Date or on the Purchase Date, whichever is lower; and (ii) with respect to a Purchase Period occurring in an Offering Period beginning on and after July 1, 2001, an amount equal to 85% of the Fair Market Value of a Share of Common Stock on the Offering Date or on the Purchase Date, whichever is lower, provided however that in the event (A) of any increase in the number of Shares available for issuance under the Plan as a result of a stockholder-approved amendment to the Plan, and (B) all or a portion of such additional Shares are to be issued with respect to an Offering Period that is underway at the time of such increase ("Additional Shares"), and (C) the Fair Market Value of a Share of Common Stock on the date of such stockholder approval (the "Approval Date Fair Market Value") is higher than the Fair Market Value on the Offering Date for any such Offering Period, then in such instance the Purchase Price with respect to Additional Shares shall be 85% of the Approval Date Fair Market Value or the Fair Market Value of a Share of Common Stock on the Purchase Date, whichever is lower.

(s) "Share" shall mean a share of Common Stock, as adjusted in accordance with Section 19 of the Plan.

(t) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Any person who is an Employee as of the beginning of any Purchase Period of a given Offering Period shall be eligible to participate in such Offering Period under the Plan, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company or its Subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) of Fair Market Value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods and Purchase Periods.

(a) Offering Periods.

(i) With respect to Offering Periods beginning prior to July 1, 2001, the Plan was implemented by a series of Offering Periods of six (6) months duration, other than the first Offering Period, with new Offering Periods commencing on or about January 1 and July 1 of each year (or at such other time or times as may have been determined by the Board of Directors). The first Offering Period during this period commenced on the beginning of the effective date of the Registration Statement on Form S-1 for the initial public offering of the Company's Common Stock (the "IPO Date") and continued until December 31, 1996.

(ii) With respect to Offering Periods beginning on and after July 1, 2001, the Plan shall be implemented by a series of Offering Periods of approximately twenty-four (24) months duration, other than the Offering Period commencing on July 1, 2001. The Offering Period commencing July 1, 2001 had a duration of approximately twenty-two (22) months and continued until April 30, 2003.

(iii) The Plan shall continue until terminated in accordance with Section 19 hereof. The Board of Directors of the Company shall have the power to change the duration and/or the frequency of Offering Periods with respect to future offerings without shareholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

(b) Purchase Periods. Each Offering Period beginning prior to July 1, 2001 had a six (6) month Purchase Period coincident with such Offering Period. Each Offering Period commencing on and after July 1, 2001 shall consist of four (4) consecutive Purchase Periods of approximately six (6) months' duration commencing on May 1 and November 1 of each year, except the first Purchase Period of the Offering Period that commenced on July 1, 2001, which was of approximately four (4) months duration commencing on July 1, 2001 and ending on October 31, 2001. The last business day of each Purchase Period shall be the Purchase Date for such Purchase Period. A Purchase Period commencing on May 1 shall end on the next October 31 and a Purchase Period commencing on November 1 shall end on the next April 30. The Board of Directors of the Company shall have the power to change the duration and/or frequency of Purchase Periods with respect to future purchases without stockholder approval if such change is announced at least five (5) days prior to the scheduled beginning of the first Purchase Period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement on the form provided by the Company and filing it with the Company's payroll office prior to the applicable Offering Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given offering. The subscription agreement shall set forth the percentage of the participant's Compensation (subject to Section 6(a) below) to be paid as Contributions pursuant to the Plan.

(b) Payroll deductions shall commence on the first payroll following the Offering Date and shall end on the last payroll paid on or prior to the Purchase Date of the Offering Period to which the subscription agreement is applicable, unless the Employee's participation is sooner terminated as provided in Section 10.

6. <u>Method of Payment of Contributions</u>.

(a) The participant shall elect to have payroll deductions made on each payday during the Offering Period in an amount not less than one percent (1%) and not more than fifteen percent (15%) of such participant's Compensation on each such payday (or such other maximum percentage as the Board may establish from time to time before an Offering Date). All payroll deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(b) A participant may discontinue his or her participation in the Plan as provided in Section 10, or, on one occasion only during the Offering Period (in the case of Offering Periods beginning prior to July 1, 2001) or during the Purchase Period (in the case of Offering Periods beginning on and after July 1, 2001), may decrease the rate of his or her Contributions during the applicable Period by completing and filing with the Company a new subscription agreement. The change in rate shall be effective as of the beginning of the next calendar month following the date of filing of the new subscription agreement, if the agreement is filed at least ten (10) business days prior to such date and, if not, as of the beginning of the next succeeding calendar month. For Offering Periods beginning on and after July 1, 2001, a participant may change the rate of his or her Contributions effective as of the beginning of any Purchase Period within such Offering Period by filing a new subscription agreement at least ten (10) business days prior to the beginning of such Purchase Period.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a participant's payroll deductions may be decreased to 0% at any time during an Offering or Purchase Period, as applicable. Payroll deductions shall re-commence at the rate provided in such participant's subscription Agreement at the beginning of the first Offering or Purchase Period, as applicable, which is scheduled to end in the following calendar year, unless the participant's participation is terminated as provided in Section 10. In addition, a participant's payroll deductions may be decreased by the Company to 0% at any time during a Purchase Period in order to avoid unnecessary payroll contributions as a result of application of the maximum Share limit set forth in Section 7(a), or as a result of the limitations set forth in Section 3(b), in which case payroll deductions shall re-commence at the rate provided in such participant's subscription agreement at the beginning of the next Purchase Period, unless terminated by the participant as provided in Section 10.

(d) At the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's federal, state, or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company to meet applicable withholding obligations, including any withholding required to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by the participant.

7. <u>Grant of Option</u>.

(a) On the Offering Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on any Purchase Date occurring within the Offering Period a number of Shares determined by dividing such Employee's Contributions accumulated prior to such Purchase Date and retained in the participant's account as of the Purchase Date by the applicable Purchase Price;

provided however, that the maximum number of Shares an Employee may purchase during each Offering Period (with respect to Offering Periods beginning prior to July 1, 2001) and each Purchase Period (with respect to Offering Periods beginning on and after July 1, 2001) shall be in each case 10,000 Shares, subject to adjustment as provided in Section 18, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12.

(b) The fair market value of the Company's Common Stock on a given date (the "<u>Fair Market Value</u>") means, as of any date, the value of Common Stock determined by the Board in its discretion provided that, to the extent the Common Stock is trading on the Nasdaq National Market (or a stock exchange), (A) the Fair Market Value as of an Offering Date shall be the closing sales price of the Common Stock as reported by the Nasdaq National Market (or the closing sales price on such stock exchange) for the last business day immediately preceding the Offering Date, and (B) the Fair Market Value of the Common Stock as of a Purchase Date shall be the closing sales price of the Common Stock as reported on the Nasdaq National Market (or the closing sales price on such stock exchange) for the Purchase Date, in each case as reported in *The Wall Street Journal*. For purposes of the Offering Date under the first Offering Period under the Plan, the Fair Market Value of a Share shall be the Price to the public as set forth in the final prospectus filed with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

8. <u>Exercise of Option</u>.

(a) Unless a participant's participation is terminated as provided in Section 10, his or her option for the purchase of Shares will be exercised automatically on each applicable Purchase Date of an Offering Period, and the maximum number of full Shares subject to the option will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account (subject to such limitations as are specified in the Plan). The Shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Purchase Date. During his or her lifetime, a participant's option to purchase Shares hereunder is exercisable only by him or her.

(b) No fractional Shares shall be purchased. Any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full Share shall be retained in the participant's account for the subsequent Purchase Period or Offering Period, subject to earlier withdrawal by the participant or termination of such participant's participation as provided in Section 10 below. Any other amounts left over in a participant's account after a Purchase Date shall be returned to the participant.

9. Delivery. As promptly as practicable after each Purchase Date of each Offering Period, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the Shares purchased upon exercise of his or her option. Notwithstanding the foregoing, the Board may require that all Shares purchased under the Plan be held in an account (the participant's "ESPP Stock Account") established in the name of the participant (or in the name of the participant and his or her spouse, as designated by the participant on his or her subscription agreement), subject to such rules as determined by the Board and uniformly applied to all participants, including designation of a brokerage or other financial services firm (an "ESPP Broker") to hold such Shares for the participant's ESPP Stock Account with registration of such Shares in the name of such ESPP Broker for the benefit of the participant (or for the benefit of the participant and his or her spouse, as designated by the participant on his or her subscription agreement).

10. Voluntary Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan at any time prior to the Purchase Date of the Offering Period by giving written notice to the Company. All of the participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her option for the current period will be automatically terminated, and no further Contributions for the purchase of Shares will be made during the Offering Period.

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Purchase Date of an Offering Period for any reason, including retirement or death, the Contributions credited to his or her account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 14, and his or her option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee of the Company for at least twenty (20) hours per week during the Offering Period in which the Employee is a participant, unless such Employee is on an approved leave of absence or a temporary reduction of hours, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to his or her account will be returned to him or her and his or her option terminated.

(d) A participant's withdrawal from an offering will not have any effect upon his or her eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

(e) Automatic Withdrawal. With respect to Offering Periods commencing on and after July 1, 2001, and to the extent permitted by any applicable laws, regulations or stock exchange rules, if the Fair Market Value of the Shares on a Purchase Date within an Offering Period then in progress is lower than was the Fair Market Value of the Shares on the first business day of such Offering Period, then every participant in such Offering Period shall automatically be deemed (i) to have withdrawn from such Offering Period at the close of the Purchase Period ending on such Purchase Date, and (ii) to have enrolled in a new Offering Period commencing on the next November 1 or May 1, as applicable, in accordance with Section 2(m). In addition, if the Fair Market Value of the Shares on a Purchase Date within an Offering Period then in progress is lower than the Fair Market Value of the Shares on the Offering Date with respect to an individual who began participation in an Offering Period after the first business day of an Offering Period, such individual shall be automatically deemed (x) to have withdrawn from such Offering Period at the close of the Purchase Period ending on such Purchase Date, and (ii) to have enrolled in the Plan as of the beginning of the next Purchase Period to commence within such Offering Period, with such individual having a new Offering Date in accordance with Section 2(l).

11. Interest. No interest shall accrue on the Contributions of a participant in the Plan.

12. Stock.

(a) Subject to adjustment as provided in Section 18, the maximum number of Shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 30,000,000 Shares.

(b) If the Board determines that, on a given Purchase Date, the number of Shares with respect to which options are to be exercised may exceed (i) the number of Shares that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of Shares available for sale under the Plan on such Purchase Date, the Board may in its sole discretion provide (x) that the Company shall make a pro rata allocation of the Shares of Common Stock available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date, and continue all Offering Periods then in effect, or (y) that the Company shall make a pro rata allocation of the Shares available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date, and terminate any or all Offering Periods then in effect pursuant to Section 19 below. The Company may make pro rata allocation of the Shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

(c) The participant will have no interest or voting right in Shares covered by his or her option until such option has been exercised.

(d) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse, as designated by the participant in his or her subscription agreement; provided that if the Board has determined that Shares shall be held in an ESPP Stock Account held by an ESPP Broker in accordance with Section 9. Shares shall be registered in the name of such ESPP Broker for the benefit of the participant or the participant and his or her spouse, as designated by the participant in his or her subscription agreement.

13. Administration. The Board, or a committee named by the Board, shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan.

14. Designation of Beneficiary.

(a) A participant may file a written designation of a beneficiary who is to receive any Shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering or Purchase Period, as applicable, but prior to delivery to him or her of such Shares and/or cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Purchase Date of an Offering Period. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the participant (and his or her spouse, if any) at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 13) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

16. Use of Funds. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

17. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees promptly following the Purchase Date, which statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization; Corporate Transactions.

(a) Adjustment. Subject to any required action by the stockholders of the Company, the number of Shares covered by each option under the Plan which has not yet been exercised and the number of Shares which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), the maximum number of Shares an Employee may purchase during each Offering Period or each Purchase Period, as well as the price per Share covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of Shares effected without receipt of consideration by the Company;

provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

(b) Corporate Transactions. In the event of the proposed dissolution or liquidation of the Company, any Offering Period and Purchase Period then in progress will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. 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, unless otherwise determined by the Board, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, or, if not so assumed or substituted, the Offering Period then in progress shall be shortened and the Board shall set a new Purchase Date (the "New Purchase Date"). The New Purchase Date shall be on or before the date of consummation of the transaction and the Board shall notify each participant in writing, at least ten (10) days prior to the New Purchase Date, that the Purchase Date for his or her option has been changed to the New Purchase Date and that his or her option will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets or merger, the option confers the right to purchase, for each Share subject to the option immediately prior to the sale of assets or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets or merger by holders of Common Stock for each Share held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares of Common Stock); provided, however, that if such consideration received in the sale of assets or merger was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation and the participant, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock and the sale of assets or merger.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per Share covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

19. Amendment or Termination.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Section 18, no such termination of the Plan may affect options previously granted, provided that the Plan or an Offering Period may be terminated by the Board on a Purchase Date or by the Board's setting a new Purchase Date with respect to an Offering Period and Purchase Period then in progress if the Board determines that termination of the Plan and/or the Offering Period is in the best interests of the Company and the stockholders or if continuation of the Plan and/or the Offering Period would cause the Company to incur adverse accounting charges as a result of a change after the effective date of the Plan in the generally accepted accounting rules applicable to the Plan. Except as provided in Section 18 and in this Section 19, no amendment to the Plan shall make any change in any option previously granted which adversely affects the rights of any participant. In addition, to the extent necessary to comply with Rule 16b-3 under the Exchange Act, or under Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board shall be entitled to change the Offering Periods and Purchase Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding

in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Shares for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. The Company shall have no obligation to issue Shares with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan; Effective Date. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the stockholders of the Company. It shall continue in effect for a term of twenty (20) years unless sooner terminated under Section 19.

23. Additional Restrictions of Rule 16b-3. The terms and conditions of options granted hereunder to, and the purchase of Shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the Shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

YAHOO! INC.

AMENDED AND RESTATED
1996 EMPLOYEE STOCK PURCHASE PLAN
SUBSCRIPTION AGREEMENT

New Election
Change of Election

1. I, , hereby elect to participate in the Yahoo! Inc. Amended and Restated 1996 Employee Stock Purchase Plan (the "Plan") commencing with the Offering Period , 20 to , 20 , and subscribe to purchase Shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan. Capitalized terms not defined herein shall have the meaning ascribed to them in the Plan.

2. I elect to have Contributions in the amount of % of my Compensation applied to this purchase. I understand that this amount must not be less than 1% and not more than 15% of my Compensation during an Offering Period. (Please note that no fractional percentages are permitted).

3. I hereby authorize payroll deductions from each paycheck during the Offering Periods at the rate stated in Item 2 of this Subscription Agreement. I understand that all payroll deductions made by me shall be credited to my account under the Plan and that I may not make any additional payments into such account. I understand that all payments made by me shall be accumulated for the purchase of Shares at the applicable purchase price determined in accordance with the Plan. I further understand that, except as otherwise set forth in the Plan, Shares will be purchased for me automatically on the Purchase Date of each Offering Period unless I otherwise withdraw from the Plan by giving written notice to the Company for such purpose.

4. I understand that I may discontinue at any time prior to the Purchase Date my participation in the Plan as provided in Section 10 of the Plan. I also understand that I can decrease the rate of my Contributions on one occasion only during any Purchase Period by completing and filing a new Subscription Agreement with such decrease taking effect as of the beginning of the calendar month following the date of filing of the new Subscription Agreement, if filed at least ten (10) business days prior to the beginning of such month. Further, I may change the rate of deductions for future Purchase Periods by filing a new Subscription Agreement, and any such change will be effective as of the beginning of the next Purchase Period. In addition, I acknowledge that, unless I discontinue my participation in the Plan as provided in Section 10 of the Plan, my election will continue to be effective for each successive Offering Period.

5. I have received a copy of the Company's most recent description of the Plan and a copy of the complete "Yahoo! Inc. Amended and Restated 1996 Employee Stock Purchase Plan." I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

6. Shares purchased for me under the Plan should be issued in the name(s) of (name of employee or employee and spouse only):

7. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and Shares due to me under the Plan:

NAME: (Please print) ______________________
(First) (Middle) (Last)

______________________ (Relationship)

(Address) ______________________

____

8. I understand that if I dispose of any Shares received by me pursuant to the Plan within 2 years after the Offering Date (the first day of the Offering Period during which I purchased such Shares or, if I joined the Plan after such date, the first business day of the Purchase Period with respect to which I joined the Plan during such Offering Period) or within 1 year after the Purchase Date, I will be treated for federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the Fair Market Value of the Shares on the Purchase Date over the price which I paid for the Shares, regardless of whether I disposed of the Shares at a price less than their Fair Market Value at the Purchase Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I hereby agree to notify the Company in writing within 30 days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the such disposition of the Shares. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Shares by me.

9. If I dispose of such Shares at any time after expiration of the 2-year and 1-year holding periods, I understand that I will be treated for federal income tax purposes as having received compensation income only to the extent of an amount equal to the lesser of (1) the excess of the Fair Market Value of the Shares at the time of such disposition over the purchase price which I paid for the Shares under the option, or (2) 15% of the Fair Market Value of the Shares on the Offering Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

I understand that this tax summary is only a summary and is subject to change. I further understand that I should consult a tax advisor concerning the tax implications of the purchase and sale of stock under the Plan.

10. I hereby agree to be bound by the terms of the Plan. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

SIGNATURE: ______________________

SOCIAL SECURITY #: ______________________

DATE: ______________________

SPOUSE'S SIGNATURE (necessary
if beneficiary is not spouse):

____
(Signature)

____
(Print name)

YAHOO! INC.

AMENDED AND RESTATED

1996 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

I, , hereby elect to withdraw my participation in the Yahoo! Inc. Amended and Restated 1996 Employee Stock Purchase Plan (the "Plan") for the Offering Period commencing , 20 . This withdrawal covers all Contributions credited to my account and is effective on the date designated below. Capitalized terms not defined herein shall have the meaning ascribed to them in the Plan.

I understand that all Contributions credited to my account will be paid to me within ten (10) business days of receipt by the Company of this Notice of Withdrawal and that my option for the current period will automatically terminate, and that no further Contributions for the purchase of Shares can be made by me during the Offering Period.

The undersigned further understands and agrees that he or she shall be eligible to participate in succeeding offering periods only by delivering to the Company a new Subscription Agreement.

Dated: ____________________

____
Signature of Employee

____
Social Security Number

Exhibit 31.1

Certification of CEO 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, Terry Semel, the Chief Executive Officer of Yahoo! Inc., certify that:

1. I have reviewed this quarterly report on 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 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)) 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) 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

   (c) 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (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: August 9, 2004

By: /s/ TERRY SEMEL
Terry Semel
Chief Executive Officer

Exhibit 31.2

**Certification of CFO 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, Susan Decker, the Chief Financial Officer of Yahoo! Inc., certify that:

1. I have reviewed this quarterly report on 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 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)) 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) 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

   (c) 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and to the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (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: August 9, 2004

By: /s/ SUSAN DECKER
Susan Decker
Chief Financial Officer

Exhibit 32

Certification of CEO and CFO 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! Inc. (the "Company") for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Terry Semel, as Chief Executive Officer of the Company, and Susan Decker, 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 his and her knowledge, respectively, that:

(1) The Report fully complies with the requirements of Section 13(a) 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.

Dated: August 9, 2004

By: /s/ TERRY SEMEL
Terry Semel
Chief Executive Officer

Dated: August 9, 2004

By: /s/ SUSAN DECKER
Susan Decker
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Yahoo! Inc. and will be retained by Yahoo! Inc. and furnished to the Securities and Exchange Commission or its staff upon request.