

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

October 20, 2009

Date of Report (Date of earliest event reported)

Yahoo! Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-28018

(Commission File Number)

77-0398689

(IRS Employer
Identification No.)

701 First Ave.

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

(408) 349-3300

(Registrant's telephone number, including area code)

Not applicable

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On October 20, 2009, Yahoo! Inc., a Delaware corporation (“Yahoo!”), announced its financial results for the quarter ended September 30, 2009. A copy of Yahoo!’s press release announcing these financial results and other information regarding its financial condition is attached hereto as Exhibit 99.1.

The information in this report, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of Yahoo! under the Securities Act of 1933, as amended, or the Exchange Act.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

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

99.1 Yahoo! Inc. Press Release dated October 20, 2009.

SIGNATURE

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

YAHOO! INC.

By: /s/ Timothy R. Morse

Timothy R. Morse
Chief Financial Officer

Date: October 20, 2009

INDEX TO EXHIBITS

Exhibit Number

Description

99.1

Yahoo! Inc. Press Release dated October 20, 2009

Yahoo! Reports Third Quarter 2009 Results

Company Exceeds Revenue Outlook

Maintains Strong Balance Sheet with over \$4.5 Billion in Cash and Marketable Debt Securities

SUNNYVALE, Calif.--(BUSINESS WIRE)--October 20, 2009--Yahoo! Inc. (NASDAQ:YHOO) today reported revenues of \$1,575 million for the quarter ended September 30, 2009, a decrease of 12 percent from the third quarter of 2008 and slightly above the second quarter of 2009. Excluding the impact of currency rate fluctuations and divested business lines, revenues for the third quarter of 2009 would have declined 7 percent compared to the third quarter of 2008.

Net income per diluted share for the third quarter of 2009 was \$0.13, compared to \$0.04 for the third quarter of 2008. Non-GAAP net income per diluted share for the third quarter of 2009 and 2008 was \$0.15.

“With revenue coming in above our guidance and flat sequentially, we had a solid third quarter that signals our major businesses have stabilized,” said Yahoo! chief executive officer Carol Bartz. “With new products like Yahoo! homepage, our brand revitalization campaign and expansion in the Middle East through Maktoob.com, our execution is improving and we're focused on what we do best - being the center of people's online lives.”

Financial Highlights

| <i>GAAP Results (in millions, except percentages and per share amounts)</i> | | | |
|---|---------|---------|--------|
| | Q3 2008 | Q3 2009 | Change |
| Revenues | \$1,786 | \$1,575 | (12%) |
| Income from operations | \$70 | \$91 | 30% |
| Net income | \$54 | \$186 | 244% |
| Net income per diluted share | \$0.04 | \$0.13 | 225% |
| <i>Non-GAAP Results (in millions, except percentages and per share amounts)</i> | | | |
| | Q3 2008 | Q3 2009 | Change |
| Operating cash flow | \$410 | \$384 | (6%) |
| Non-GAAP net income | \$213 | \$213 | 0% |
| Non-GAAP net income per diluted share | \$0.15 | \$0.15 | 0% |

“In the third quarter we saw strength in key areas of our business,” said Yahoo! chief financial officer Tim Morse. “Our efforts to reposition Yahoo! are still in the early stages, but we’re confident that our investments in the business will enable us to capitalize on growth opportunities as the economy recovers.”

Revenues

- Marketing services revenues declined 12 percent and fees revenues declined 11 percent, compared to the third quarter of 2008.
- Marketing services revenues were flat and fees revenues increased 2 percent, compared to the second quarter of 2009.
- Marketing services revenues from Owned and Operated sites were \$851 million for the third quarter of 2009, a 15 percent decrease compared to \$1,002 million for the same period of 2008. The decrease was primarily driven by a 19 percent decline in search advertising revenue and an 8 percent decline in display advertising revenue.
- Marketing services revenues from Affiliate sites were \$526 million for the third quarter of 2009, a 6 percent decrease compared to \$561 million for the same period of 2008.

Cash Flow and Cash Balance

- Cash flow from operating activities for the third quarter of 2009 was \$355 million, a 2 percent increase compared to \$347 million for the same period of 2008.
- Free cash flow for the third quarter of 2009 was \$258 million, a 20 percent increase compared to \$215 million for the same period of 2008.
- Cash, cash equivalents, and investments in marketable debt securities were \$4,503 million at September 30, 2009 compared to \$3,522 million at December 31, 2008, an increase of \$981 million.

Business Outlook

GAAP revenue for the fourth quarter of 2009 is expected to be in the range of \$1,600 million to \$1,700 million. Non-GAAP operating income before depreciation, amortization, and stock-based compensation expense for the fourth quarter of 2009 is expected to be in the range of \$400 million to \$450 million. Income from operations for the fourth quarter of 2009 is expected to be in the range of \$135 million to \$155 million.

Conference Call

Yahoo! will host a conference call to discuss third quarter 2009 results at 5:00 p.m. Eastern Time today. A live webcast of the conference call, together with supplemental financial information, can be accessed through the Company's Investor Relations website at <http://yhoo.client.shareholder.com/results.cfm>. In addition, an archive of the webcast can be accessed through the same link. An audio replay of the call will be available for one week following the conference call by calling (888) 286-8010 or (617) 801-6888, reservation number: 13691765.

Note Regarding Non-GAAP Financial Measures

This press release and its attachments include the following financial measures defined as non-GAAP financial measures by the Securities and Exchange Commission ("SEC"): revenues excluding traffic acquisition costs or TAC; operating income before depreciation, amortization, and stock-based compensation expense (also referred to as operating cash flow); free cash flow; and non-GAAP net income and non-GAAP net income per diluted share. These measures may be different than non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles ("GAAP"). Explanations of the Company's non-GAAP financial measures and reconciliations of these financial measures to the GAAP financial measures the Company considers most comparable are included in the accompanying "Note to Unaudited Condensed Consolidated Statements of Income," "Reconciliations to Unaudited Condensed Consolidated Statements of Income," "Reconciliation of GAAP Net Income and GAAP Net Income Per Diluted Share to Non-GAAP Net Income and Non-GAAP Net Income Per Diluted Share" and "Business Outlook."

About Yahoo!

Yahoo! attracts hundreds of millions of users every month through its innovative technology and engaging content and services, making it one of the most trafficked Internet destinations and a world class online media company. Yahoo!'s vision is to be the center of people's online lives by delivering personally relevant, meaningful Internet experiences. Yahoo! is headquartered in Sunnyvale, California. For more information, visit <http://pressroom.yahoo.com> or the company's blog, Yodel Anecdotal (<http://yodel.yahoo.com>).

“Owned and Operated sites” refers to Yahoo!’s owned and operated online properties and services.

“Affiliate sites” refers to Yahoo!’s distribution network of third-party entities who have integrated Yahoo!’s advertising offerings into their websites or their other offerings.

This press release and its attachments contain forward-looking statements that involve risks and uncertainties concerning Yahoo!’s expected financial performance (including without limitation the statements and information in the Business Outlook section and the quotations from management in this press release), as well as Yahoo!’s strategic and operational plans. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, the impact of management and organizational changes; the implementation and results of Yahoo!’s ongoing strategic and cost initiatives; Yahoo!’s ability to compete with new or existing competitors; reduction in spending by, or loss of, marketing services customers; the demand by customers for Yahoo!’s premium services; acceptance by users of new products and services; risks related to joint ventures and the integration of acquisitions; risks related to Yahoo!’s international operations; failure to manage growth and diversification; adverse results in litigation, including intellectual property infringement claims; Yahoo!’s ability to protect its intellectual property and the value of its brands; dependence on key personnel; dependence on third parties for technology, services, content, and distribution; general economic conditions and changes in economic conditions; and uncertainty resulting from our pending agreement with Microsoft Corporation. All information set forth in this press release and its attachments is as of October 20, 2009. Yahoo! does not intend, and undertakes no duty, to update this information to reflect future events or circumstances. More information about potential factors that could affect the Company’s business and financial results is included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, which are on file with the SEC and available on the SEC’s website at www.sec.gov. Additional information will also be set forth in those sections in Yahoo!’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, which will be filed with the SEC in the fourth quarter of 2009.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2008 | 2009 | 2008 | 2009 |
| Revenues | \$ 1,786,426 | \$ 1,575,399 | \$ 5,402,113 | \$ 4,728,338 |
| Cost of revenues | 772,277 | 708,898 | 2,293,271 | 2,122,088 |
| Gross profit | <u>1,014,149</u> | <u>866,501</u> | <u>3,108,842</u> | <u>2,606,250</u> |
| Operating expenses: | | | | |
| Sales and marketing | 396,982 | 286,382 | 1,226,472 | 887,880 |
| Product development | 323,172 | 306,696 | 943,497 | 904,137 |
| General and administrative | 199,593 | 155,421 | 559,484 | 431,070 |
| Amortization of intangibles | 24,228 | 9,814 | 71,192 | 28,734 |
| Restructuring charges, net | - | 16,689 | 16,885 | 86,492 |
| Total operating expenses | <u>943,975</u> | <u>775,002</u> | <u>2,817,530</u> | <u>2,338,313</u> |
| Income from operations | 70,174 | 91,499 | 291,312 | 267,937 |
| Other income, net ⁽¹⁾ | <u>8,881</u> | <u>105,390</u> | <u>48,129</u> | <u>182,360</u> |
| Income before income taxes and earnings in equity interests | 79,055 | 196,889 | 339,441 | 450,297 |
| Provision for income taxes | (50,577) | (77,727) | (151,532) | (182,490) |
| Earnings in equity interests ⁽²⁾ | <u>27,762</u> | <u>68,654</u> | <u>537,471</u> | <u>181,744</u> |
| Net income | 56,240 | 187,816 | 725,380 | 449,551 |
| Less: Net income attributable to noncontrolling interests | <u>(1,892)</u> | <u>(1,723)</u> | <u>(3,031)</u> | <u>(4,513)</u> |
| Net income attributable to Yahoo! Inc. | <u>\$ 54,348</u> | <u>\$ 186,093</u> | <u>\$ 722,349</u> | <u>\$ 445,038</u> |
| Net income attributable to Yahoo! Inc. common stockholders per share - diluted ⁽³⁾ | <u>\$ 0.04</u> | <u>\$ 0.13</u> | <u>\$ 0.51</u> | <u>\$ 0.31</u> |
| Shares used in per share calculation - diluted | <u>1,397,522</u> | <u>1,424,854</u> | <u>1,385,570</u> | <u>1,415,220</u> |
| Stock-based compensation expense was allocated as follows: | | | | |
| Cost of revenues | \$ 4,283 | \$ 2,688 | \$ 11,112 | \$ 8,930 |
| Sales and marketing | 51,060 | 30,150 | 172,904 | 115,698 |
| Product development | 55,372 | 57,964 | 149,896 | 163,889 |
| General and administrative | 21,884 | 23,628 | 59,144 | 65,159 |
| Restructuring expense reversals | - | - | (12,284) | (7,600) |

Supplemental Financial Data:

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Revenues excluding TAC | \$ 1,325,312 | \$ 1,131,428 | \$ 4,023,339 | \$ 3,424,021 |
| Operating income before depreciation, amortization, and stock-based compensation expense (or operating cash flow) | \$ 410,378 | \$ 384,468 | \$ 1,270,557 | \$ 1,178,890 |
| Free cash flow ⁽⁴⁾ | \$ 215,344 | \$ 257,696 | \$ 1,092,855 | \$ 737,725 |
| Non-GAAP net income per share - diluted | \$ 0.15 | \$ 0.15 | \$ 0.49 | \$ 0.46 |

- (1) The three and nine months ended September 30, 2009 includes Yahoo!'s gain on sale of the Company's direct investment in Alibaba.com of \$98 million recorded during the third quarter of 2009.
- (2) The nine months ended September 30, 2008 includes Yahoo!'s non-cash gain of \$401 million recorded in the first quarter of 2008 related to Alibaba Group's initial public offering of Alibaba.com, net of tax. The three and nine months ended September 30, 2008 also includes Yahoo!'s non-cash loss of \$30 million recorded in the third quarter of 2008 related to an other-than-temporary impairment of our direct investment in Alibaba.com, net of tax.
- (3) The impact of outstanding stock awards of entities in which the Company holds equity interests that are accounted for using the equity method reduced the Company's diluted earnings per share by \$0.01 for the nine months ended September 30, 2008.
- (4) The nine months ended September 30, 2008 includes a \$350 million one-time payment from AT&T Inc. recorded in the first quarter of 2008.

Yahoo! Inc.
Note to Unaudited Condensed Consolidated Statements of Income

This press release and its attachments include the non-GAAP financial measures of revenues excluding traffic acquisition costs or TAC, operating income before depreciation, amortization, and stock-based compensation expense (also referred to as operating cash flow), free cash flow, non-GAAP net income, and non-GAAP net income per diluted share, which are reconciled to GAAP revenue, income from operations, cash flow from operating activities, net income, and net income per diluted share, respectively, which we believe are the most comparable GAAP measures. We use these non-GAAP financial measures for internal managerial purposes, when publicly providing our business outlook, and to facilitate period-to-period comparisons. We describe limitations specific to each non-GAAP financial measure below. Management generally compensates for limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure or measures. Further, management uses non-GAAP financial measures only in addition to and in conjunction with results presented in accordance with GAAP. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, GAAP revenue, income from operations, cash flow from operating activities, net income, and net income per diluted share calculated in accordance with GAAP.

Revenues excluding TAC is defined as GAAP revenue less TAC. TAC consists of payments made to Affiliate sites and payments made to companies that direct consumer and business traffic to the Yahoo! website. We present revenues excluding TAC: (1) to provide a metric for our investors to analyze and value our Company and (2) to provide investors one of the primary metrics used by the Company for evaluation and decision-making purposes. We provide revenues excluding TAC because we believe it is useful to investors in valuing our Company. One of the ways investors value companies is to apply a multiple to revenues. Since a significant portion of the GAAP revenues associated with our sponsored search offerings is paid to our Affiliate sites, we believe investors find it more meaningful to apply multiples to revenues excluding TAC to assess our value as this avoids “double counting” revenues that are paid to, and being reported by, our Affiliate sites. Further, management uses revenues excluding TAC for evaluating the performance of our business, making operating decisions, budgeting purposes, and as a factor in determining management compensation. A limitation of revenues excluding TAC is that it is a measure which we have defined for internal and investor purposes that may be unique to the Company, and therefore it may not enhance the comparability of our results to other companies in our industry who have similar business arrangements but address the impact of TAC differently. Management compensates for these limitations by also relying on the comparable GAAP financial measures of revenues, cost of revenues, and gross profit, each of which includes the impact of TAC.

Operating income before depreciation, amortization, and stock-based compensation expense (also referred to as operating cash flow) is defined as income/(loss) from operations before depreciation, amortization of intangible assets, and stock-based compensation expense. We consider this measure to be an important indicator of the operational strength of the Company. We exclude depreciation and amortization because while tangible and intangible assets support our businesses, we do not believe the related depreciation and amortization costs are directly attributable to the operating performance of our business. This measure is used by some investors when assessing the performance of our Company. In addition, because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand the impact of stock-based compensation expense on our operating income. We do not include depreciation, amortization, and stock-based compensation expense in our internal measures or in the measures used by the Company to formulate our business outlook presented with our quarterly financial information to investors. A limitation associated with the non-GAAP measure of operating income before depreciation, amortization, and stock-based compensation expense is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets through other financial measures such as capital expenditures. A further limitation associated with this measure is that it does not include stock-based compensation expense related to the Company’s workforce. Management compensates for these limitations by also relying on the comparable GAAP financial measure of income from operations, which includes depreciation, amortization, and stock-based compensation expense.

Free cash flow is a non-GAAP financial measure defined as cash flow from operating activities (adjusted to include excess tax benefits from stock-based compensation), less net capital expenditures and dividends received. We consider free cash flow to be a liquidity measure which provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for strategic opportunities including, among others, investing in the Company’s business, making strategic acquisitions, strengthening the balance sheet, and repurchasing stock. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Management compensates for this limitation by also relying on the net change in cash and cash equivalents as presented in the Company’s unaudited condensed consolidated statements of cash flows prepared in accordance with GAAP which incorporates all cash movements during the period.

Non-GAAP net income is defined as net income excluding certain gains, losses, expenses, and their related tax effects that we do not believe are indicative of our ongoing operating results and further adjusted to exclude stock-based compensation expense. In our calculation of non-GAAP net income and non-GAAP net income per diluted share, we have excluded stock-based compensation expense and its related tax effects. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand the impact of stock-based compensation expense on net income and net income per diluted share. We also consider non-

GAAP net income and non-GAAP net income per diluted share to be profitability measures which facilitate the forecasting of our operating results for future periods and allow for the comparison of our results to historical periods. A limitation of non-GAAP net income and non-GAAP net income per diluted share is that they do not include all items that impact our net income and net income per diluted share for the period. Management compensates for this limitation by also relying on the comparable GAAP financial measures of net income and net income per diluted share, both of which include the gains, losses, expenses and related tax effects that are excluded from non-GAAP net income and non-GAAP net income per diluted share.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------------|------------------------------------|---------------------|
| | 2008 | 2009 | 2008 | 2009 |
| Revenues for groups of similar services: | | | | |
| Marketing services: | | | | |
| Owned and Operated sites | \$1,002,032 | \$ 851,382 | \$ 2,983,360 | \$ 2,581,445 |
| Affiliate sites | 560,690 | 525,966 | 1,738,762 | 1,556,934 |
| Marketing services | 1,562,722 | 1,377,348 | 4,722,122 | 4,138,379 |
| Fees | 223,704 | 198,051 | 679,991 | 589,959 |
| Total revenues | <u>\$1,786,426</u> | <u>\$1,575,399</u> | <u>\$ 5,402,113</u> | <u>\$ 4,728,338</u> |
| Revenues by segment: | | | | |
| United States | \$1,276,766 | \$1,143,173 | \$ 3,844,297 | \$ 3,483,496 |
| International | 509,660 | 432,226 | 1,557,816 | 1,244,842 |
| Total revenues | <u>\$1,786,426</u> | <u>\$1,575,399</u> | <u>\$ 5,402,113</u> | <u>\$ 4,728,338</u> |
| Revenues excluding traffic acquisition costs ("TAC"): | | | | |
| GAAP revenue | \$1,786,426 | \$1,575,399 | \$ 5,402,113 | \$ 4,728,338 |
| TAC | (461,114) | (443,971) | (1,378,774) | (1,304,317) |
| Revenues excluding TAC | <u>\$1,325,312</u> | <u>\$1,131,428</u> | <u>\$ 4,023,339</u> | <u>\$ 3,424,021</u> |
| Revenues excluding TAC by segment: | | | | |
| United States: | | | | |
| GAAP revenue | \$1,276,766 | \$1,143,173 | \$ 3,844,297 | \$ 3,483,496 |
| TAC | (286,397) | (294,714) | (834,688) | (875,393) |
| Revenues excluding TAC | <u>\$ 990,369</u> | <u>\$ 848,459</u> | <u>\$ 3,009,609</u> | <u>\$ 2,608,103</u> |
| International: | | | | |
| GAAP revenue | \$ 509,660 | \$ 432,226 | \$ 1,557,816 | \$ 1,244,842 |
| TAC | (174,717) | (149,257) | (544,086) | (428,924) |
| Revenues excluding TAC | <u>\$ 334,943</u> | <u>\$ 282,969</u> | <u>\$ 1,013,730</u> | <u>\$ 815,918</u> |
| Operating income before depreciation, amortization, and stock-based compensation expense (or operating cash flow): | | | | |
| Income from operations | \$ 70,174 | \$ 91,499 | \$ 291,312 | \$ 267,937 |
| Depreciation and amortization | 207,605 | 178,539 | 598,473 | 564,877 |
| Stock-based compensation expense | 132,599 | 114,430 | 380,772 | 346,076 |
| Operating income before depreciation, amortization, and stock-based compensation expense | <u>\$ 410,378</u> | <u>\$ 384,468</u> | <u>\$ 1,270,557</u> | <u>\$ 1,178,890</u> |
| Operating income before depreciation, amortization, and stock-based compensation expense (or operating cash flow) by segment: | | | | |
| Operating income before depreciation, amortization, and stock-based compensation expense - United States | \$ 288,248 | \$ 259,029 | \$ 896,879 | \$ 819,966 |
| Operating income before depreciation, amortization, and stock-based compensation expense - International | 122,130 | 125,439 | 373,678 | 358,924 |
| Operating income before depreciation, amortization, and stock-based compensation expense | <u>\$ 410,378</u> | <u>\$ 384,468</u> | <u>\$ 1,270,557</u> | <u>\$ 1,178,890</u> |
| United States: | | | | |
| Income from operations | \$ 2,549 | \$ 4,214 | \$ 69,024 | \$ 16,488 |
| Depreciation and amortization | 171,446 | 152,489 | 493,087 | 495,150 |
| Stock-based compensation expense | 114,253 | 102,326 | 334,768 | 308,328 |
| Operating income before depreciation, amortization, and stock-based compensation expense - United States | <u>\$ 288,248</u> | <u>\$ 259,029</u> | <u>\$ 896,879</u> | <u>\$ 819,966</u> |
| International: | | | | |
| Income from operations | \$ 67,625 | \$ 87,285 | \$ 222,288 | \$ 251,449 |
| Depreciation and amortization | 36,159 | 26,050 | 105,386 | 69,727 |
| Stock-based compensation expense | 18,346 | 12,104 | 46,004 | 37,748 |
| Operating income before depreciation, amortization, and stock-based compensation expense - International | <u>\$ 122,130</u> | <u>\$ 125,439</u> | <u>\$ 373,678</u> | <u>\$ 358,924</u> |
| Free cash flow: | | | | |
| Cash flow from operating activities ⁽⁴⁾ | \$ 347,091 | \$ 355,140 | \$ 1,559,234 | \$ 959,283 |
| Acquisition of property and equipment, net | (167,228) | (98,903) | (482,918) | (264,058) |
| Dividends received | - | (1,483) | (18,942) | (27,628) |
| Excess tax benefits from stock-based awards | 35,481 | 2,942 | 35,481 | 70,128 |
| Free cash flow ⁽⁴⁾ | <u>\$ 215,344</u> | <u>\$ 257,696</u> | <u>\$ 1,092,855</u> | <u>\$ 737,725</u> |

(4) The nine months ended September 30, 2008 includes a \$350 million one-time payment from AT&T Inc. recorded in the first quarter of 2008.

Yahoo! Inc.
Reconciliation of GAAP Net Income and GAAP Net Income Per Diluted Share to Non-GAAP Net Income and Non-GAAP Net Income Per Diluted Share
(in thousands, except per share amounts)

| | <u>Three Months Ended</u> <u>September 30,</u> | |
|--|---|-------------------|
| | <u>2008</u> | <u>2009</u> |
| GAAP Net income attributable to Yahoo! Inc. | \$ 54,348 | \$ 186,093 |
| (a) Stock-based compensation expense | 132,599 | 114,430 |
| (b) Incremental costs for advisors related to the strategic alternatives and related matters ⁽⁵⁾ | 36,555 | - |
| (c) Restructuring charges, net | - | 16,689 |
| (d) Gain on sale of the Company's direct investment in Alibaba.com | - | (98,167) |
| (e) To adjust the provision for income taxes to exclude the tax impact of items (a) through (d) above for the three months ended September 30, 2009 and 2008, respectively | (46,122) | 6,736 |
| (f) To adjust the provision for income taxes to reflect an adjusted effective tax rate (calculated excluding the full year impact of items (a) through (d) above) of 37% for both the three months ended September 30, 2008 and 2009, respectively | 5,855 | (12,900) |
| (g) Yahoo!'s non-cash loss related to the impairment of our direct investment in Alibaba.com, net of tax, which is included in earnings in equity interests | 30,188 | - |
| Non-GAAP Net income | <u>\$ 213,423</u> | <u>\$ 212,881</u> |
| GAAP Net income attributable to Yahoo! Inc. common stockholders per share - diluted | <u>\$ 0.04</u> | <u>\$ 0.13</u> |
| Non-GAAP Net income per share - diluted | <u>\$ 0.15</u> | <u>\$ 0.15</u> |
| Shares used in non-GAAP per share calculation - diluted | <u>1,397,522</u> | <u>1,424,854</u> |

| | <u>Nine Months Ended</u> <u>September 30,</u> | |
|--|--|-------------------|
| | <u>2008</u> | <u>2009</u> |
| GAAP Net income attributable to Yahoo! Inc. | \$ 722,349 | \$ 445,038 |
| (a) Stock-based compensation expense ⁽⁶⁾ | 393,056 | 353,676 |
| (b) Incremental costs for advisors related to the strategic alternatives and related matters ⁽⁵⁾ | 72,712 | - |
| (c) Restructuring charges, net | 16,885 | 86,492 |
| (d) Gain on sale of Gmarket investment | - | (66,684) |
| (e) Gain on sale of the Company's direct investment in Alibaba.com | - | (98,167) |
| (f) To adjust the provision for income taxes to exclude the tax impact of items (a) through (e) above for the nine months ended September 30, 2008 and 2009, respectively | (129,542) | (47,348) |
| (g) To adjust the provision for income taxes to reflect an adjusted effective tax rate (calculated excluding the full year impact of items (a) through (e) above) of 37% and 34% for the nine months ended September 30, 2008 and 2009, respectively | (19,811) | (18,406) |
| (h) Yahoo!'s non-cash loss related to the impairment of our direct investment in Alibaba.com, net of tax, which is included in earnings in equity interests | 30,188 | - |
| (i) Yahoo!'s non-cash gain related to Alibaba Group's initial public offering of Alibaba.com, net of tax, which is included in earnings in equity interests | (401,090) | - |
| Non-GAAP Net income | <u>\$ 684,747</u> | <u>\$ 654,601</u> |
| GAAP Net income attributable to Yahoo! Inc. common stockholders per share - diluted ⁽³⁾ | <u>\$ 0.51</u> | <u>\$ 0.31</u> |
| Non-GAAP Net income per share - diluted | <u>\$ 0.49</u> | <u>\$ 0.46</u> |
| Shares used in non-GAAP per share calculation - diluted | <u>1,385,570</u> | <u>1,415,220</u> |

(3) The impact of outstanding stock awards of entities in which the Company holds equity interests that are accounted for using the equity method reduced the Company's diluted earnings per share by \$0.01 for the nine months ended September 30, 2008.

(5) Includes incremental costs for advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, including the Google agreement, the proxy contest, and related litigation defense. These costs were immaterial for the three and nine months ended September 30, 2009.

(6) The stock-based compensation restructuring expense reversals are included in restructuring charges net, item (c), for the nine months ended September 30, 2008 and 2009.

Yahoo! Inc.
Business Outlook

The following business outlook is based on current information and expectations as of October 20, 2009. Yahoo!'s business outlook as of today is expected to be available on the Company's Investor Relations website throughout the current quarter. Yahoo! does not expect, and undertakes no obligation, to update the business outlook prior to the release of the Company's next quarterly earnings announcement, notwithstanding subsequent developments; however, Yahoo! may update the business outlook or any portion thereof at any time at its discretion.

| | Three Months Ending December 31, 2009 ⁽⁷⁾ |
|--|---|
| Revenues (in millions): | \$ 1,600 - 1,700 |
| Operating income before depreciation, amortization, and stock-based compensation expense (or operating cash flow) ⁽⁸⁾ outlook (in millions): | |
| Income from operations | \$ 135 - 155 |
| Depreciation and amortization | 170 - 190 |
| Stock-based compensation expense | 95 - 105 |
| Operating income before depreciation, amortization, and stock-based compensation expense (or operating cash flow) | \$ 400 - 450 |

(7) This business outlook for the three months ending December 31, 2009 excludes pre-closing transaction costs related to our search agreement with Microsoft Corporation and any restructuring charges arising from our ongoing cost initiatives.

(8) Refer to Note to Unaudited Condensed Consolidated Statements of Income.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2008 | 2009 | 2008 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income | \$ 56,240 | \$ 187,816 | \$ 725,380 | \$ 449,551 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation | 128,997 | 138,541 | 372,467 | 412,043 |
| Amortization of intangible assets | 78,608 | 39,208 | 226,006 | 145,019 |
| Stock-based compensation expense, net | 132,599 | 114,430 | 380,772 | 346,076 |
| Non-cash restructuring charges | - | 790 | - | 7,257 |
| Tax benefits from stock-based awards | 21,066 | (30,230) | 52,199 | (13,694) |
| Excess tax benefits from stock-based awards | (35,481) | (2,942) | (35,481) | (70,128) |
| Deferred income taxes | 4,973 | 18,939 | 42,500 | 43,680 |
| Earnings in equity interests | (27,762) | (68,654) | (537,471) | (181,744) |
| Dividends received from equity investee | - | 1,483 | 18,942 | 27,628 |
| (Gain)/loss from sale of investments, assets, and other, net | 6,275 | (94,727) | 11,640 | (166,970) |
| Changes in assets and liabilities, net of effects of acquisitions: | | | | |
| Accounts receivable, net | 22,786 | 9,180 | 46,422 | 172,442 |
| Prepaid expenses and other | (35,934) | (3,894) | (41,581) | 724 |
| Accounts payable | 3,856 | 16,585 | (35,596) | (53,036) |
| Accrued expenses and other liabilities | 46,546 | 56,841 | 101,162 | (82,537) |
| Deferred revenue | (55,678) | (28,226) | 231,873 | (77,028) |
| Net cash provided by operating activities | <u>347,091</u> | <u>355,140</u> | <u>1,559,234</u> | <u>959,283</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Acquisition of property and equipment, net | (167,228) | (98,903) | (482,918) | (264,058) |
| Purchases of marketable debt securities | (392,246) | (1,357,160) | (1,281,713) | (3,530,766) |
| Proceeds from sales of marketable debt securities | 48,829 | 27,005 | 248,130 | 83,164 |
| Proceeds from maturities of marketable debt securities | 356,913 | 666,183 | 727,890 | 2,106,020 |
| Proceeds from sales of marketable equity securities | - | 145,207 | - | 265,194 |
| Acquisitions, net of cash acquired | (29,349) | (17,773) | (208,958) | (17,773) |
| Purchase of intangible assets | (15,824) | (7,063) | (66,984) | (28,814) |
| Other investing activities, net | (112) | 3,738 | (7,989) | 3,652 |
| Net cash used in investing activities | <u>(199,017)</u> | <u>(638,766)</u> | <u>(1,072,542)</u> | <u>(1,383,381)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Proceeds from issuance of common stock, net | 13,958 | 3,433 | 331,403 | 74,485 |
| Repurchases of common stock | - | (90,778) | (79,236) | (90,778) |
| Excess tax benefits from stock-based awards | 35,481 | 2,942 | 35,481 | 70,128 |
| Tax withholdings related to net share settlements of restricted stock awards and restricted stock units | (8,456) | (19,371) | (65,068) | (45,989) |
| Other financing activities, net | - | - | (74) | - |
| Net cash provided by financing activities | <u>40,983</u> | <u>(103,774)</u> | <u>222,506</u> | <u>7,846</u> |
| Effect of exchange rate changes on cash and cash equivalents | (96,677) | 37,404 | (79,378) | 58,046 |
| Net change in cash and cash equivalents | 92,380 | (349,996) | 629,820 | (358,206) |
| Cash and cash equivalents, beginning of period | <u>2,051,370</u> | <u>2,284,086</u> | <u>1,513,930</u> | <u>2,292,296</u> |
| Cash and cash equivalents, end of period | <u>\$ 2,143,750</u> | <u>\$ 1,934,090</u> | <u>\$ 2,143,750</u> | <u>\$ 1,934,090</u> |

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

| | December 31, 2008 | September 30, 2009 |
|---|----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,292,296 | \$ 1,934,090 |
| Short-term marketable debt securities | 1,159,691 | 1,967,508 |
| Accounts receivable, net | 1,060,450 | 907,029 |
| Prepaid expenses and other current assets | 233,061 | 268,459 |
| Total current assets | 4,745,498 | 5,077,086 |
| Long-term marketable debt securities | 69,986 | 601,469 |
| Property and equipment, net | 1,536,181 | 1,394,558 |
| Goodwill | 3,440,889 | 3,500,920 |
| Intangible assets, net | 485,860 | 365,405 |
| Other long-term assets | 233,989 | 127,476 |
| Investments in equity interests | 3,177,445 | 3,353,040 |
| Total assets | \$ 13,689,848 | \$ 14,419,954 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 151,897 | \$ 102,122 |
| Accrued expenses and other current liabilities | 1,139,894 | 990,680 |
| Deferred revenue | 413,224 | 413,412 |
| Total current liabilities | 1,705,015 | 1,506,214 |
| Long-term deferred revenue | 218,438 | 144,471 |
| Capital lease and other long-term liabilities | 77,062 | 83,612 |
| Deferred and other long-term tax liabilities, net | 420,372 | 503,448 |
| Total liabilities | 2,420,887 | 2,237,745 |
| Total Yahoo! Inc. stockholders' equity | 11,250,942 | 12,159,677 |
| Noncontrolling interests | 18,019 | 22,532 |
| Total equity | 11,268,961 | 12,182,209 |
| Total liabilities and equity | \$ 13,689,848 | \$ 14,419,954 |

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