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

Form 10-Q

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

For the quarterly period ended March 31, 2009

Or

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

For the transition period from __________ to __________

Commission file number 000-28018

YAHOO! INC.
(Exact name of Registrant as specified in its charter)

Delaware ***(State or other jurisdiction of incorporation or organization)***	**77-0398689** ***(I.R.S. Employer Identification No.)***

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

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

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

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

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

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

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

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

Class	Outstanding at April 30, 2009
Common Stock, $0.001 par value	**1,395,653,343**

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YAHOO! INC.

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PART I — FINANCIAL INFORMATION

Item 1. *Condensed Consolidated Financial Statements (unaudited)*

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
	(Unaudited, in thousands except per share amounts)	
Revenues	$1,817,602	$1,580,042
Cost of revenues	755,083	700,737
Gross profit	1,062,519	879,305
Operating expenses:		
Sales and marketing	424,591	321,112
Product development	305,606	306,043
General and administrative	171,080	136,997
Amortization of intangibles	23,740	9,667
Restructuring charges, net	16,885	4,801
Total operating expenses	941,902	778,620
Income from operations	120,617	100,685
Other income, net	14,665	4,960
Income before income taxes and earnings in equity interests	135,282	105,645
Provision for income taxes	(53,299)	(35,884)
Earnings in equity interests	454,782	48,934
Net income	536,765	118,695
Net loss/(income) attributable to noncontrolling interests	75	(1,137)
Net income attributable to Yahoo! Inc.	$ 536,840	$ 117,558
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.40	$ 0.08
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.37	$ 0.08
Shares used in per share calculation — basic	1,335,986	1,393,347
Shares used in per share calculation — diluted	1,395,336	1,408,331
Stock-based compensation expense by function:		
Cost of revenues	$ 3,280	$ 3,579
Sales and marketing	65,538	49,897
Product development	48,082	54,278
General and administrative	20,389	18,966
Restructuring expense reversals, net	(12,284)	—
Total stock-based compensation expense	$ 125,005	$ 126,720

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

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YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2008	March 31, 2009
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,292,296	$ 2,318,509
Short-term marketable debt securities	1,159,691	1,127,141
Accounts receivable, net	1,060,450	912,987
Prepaid expenses and other current assets	233,061	236,420
Total current assets	4,745,498	4,595,057
Long-term marketable debt securities	69,986	245,445
Property and equipment, net	1,536,181	1,469,721
Goodwill	3,440,889	3,405,584
Intangible assets, net	485,860	436,558
Other long-term assets	233,989	210,785
Investments in equity interests	3,177,445	3,372,811
Total assets	$13,689,848	$13,735,961
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 151,897	$ 115,763
Accrued expenses and other current liabilities	1,139,894	958,468
Deferred revenue	413,224	405,616
Total current liabilities	1,705,015	1,479,847
Long-term deferred revenue	218,438	192,332
Capital lease and other long-term liabilities	77,062	70,909
Deferred and other long-term tax liabilities, net	420,372	401,615
Total liabilities	2,420,887	2,144,703
Commitments and contingencies (Note 10)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,600,220 and 1,602,919 shares issued, respectively, and 1,391,560 and 1,394,190 shares outstanding, respectively	1,595	1,597
Additional paid-in capital	11,643,635	11,766,226
Treasury stock at cost, 208,660 and 208,729 shares, respectively	(5,267,484)	(5,268,377)
Retained earnings	4,752,920	4,870,478
Accumulated other comprehensive income	120,276	202,178
Total Yahoo! Inc. stockholders' equity	11,250,942	11,572,102
Noncontrolling interests	18,019	19,156
Total equity	11,268,961	11,591,258
Total liabilities and equity	$13,689,848	$13,735,961

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

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YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 536,765	$ 118,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	117,557	134,866
Amortization of intangible assets	69,954	46,707
Stock-based compensation expense	125,005	126,720
Non-cash restructuring charges	—	(558)
Tax benefits from stock-based awards	—	(2,705)
Excess tax benefits from stock-based awards	—	(22,127)
Deferred income taxes	29,636	5,826
Earnings in equity interests	(454,782)	(48,934)
Loss/(gain) from sales of investments, assets, and other, net	5,877	(3,141)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	27,180	136,535
Prepaid expenses and other	(8,307)	2,267
Accounts payable	(44,343)	(29,689)
Accrued expenses and other liabilities	46,235	(170,480)
Deferred revenue	335,528	(31,633)
Net cash provided by operating activities	786,305	262,349
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(139,793)	(70,481)
Purchases of marketable debt securities	(32,757)	(1,241,194)
Proceeds from sales of marketable debt securities	129,992	55,018
Proceeds from maturities of marketable debt securities	246,550	1,045,691
Acquisitions, net of cash acquired	(166,289)	—
Purchases of intangible assets	(8,858)	(5,365)
Other investing activities, net	(10,435)	—
Net cash provided by (used in) investing activities	18,410	(216,331)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	126,570	3,932
Repurchases of common stock	(79,236)	—
Excess tax benefits from stock-based awards	—	22,127
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(52,493)	(10,339)
Net cash (used in) provided by financing activities	(5,159)	15,720
Effect of exchange rate changes on cash and cash equivalents	27,719	(35,525)
Net change in cash and cash equivalents	827,275	26,213
Cash and cash equivalents at beginning of period	1,513,930	2,292,296
Cash and cash equivalents at end of period	$2,341,205	$ 2,318,509

Supplemental cash flow disclosure:

During the three months ended March 31, 2008, the holders of the Company's zero coupon senior convertible notes (the "Notes") converted $167 million of the Notes into 8.1 million shares of Yahoo! common stock. See Note 8 — "Debt" for additional information.

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!" or the "Company"), is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo! is focused on powering its communities of users, advertisers, publishers, and developers by creating indispensable experiences built on trust. Together with the Company's owned and operated online properties and services ("Yahoo! Properties" or "Owned and Operated sites"), Yahoo! also provides its advertising offerings and access to Internet users beyond Yahoo! through its distribution network of third-party entities ("Affiliates"), who have integrated the Company's advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. The Company generates revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services the Company provides to users are free, Yahoo! does charge fees for a range of premium services.

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. Minority interests have been re-captioned to noncontrolling interests and have been presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2008 was derived from the Company's audited financial statements for the year ended December 31, 2008, but does not include all disclosures required by GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board ("FASB") issued three related Staff Positions: (i) FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), (ii) FSP FAS 115-2 and FSP FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2" and "FSP FAS 124-2"), and (iii) FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1" and "APB 28-1"), which will be effective for interim and annual periods ending after June 15, 2009. FSP FAS 157-4 provides guidance on how to determine the fair value of financial assets and liabilities under SFAS No. 157, "Fair Value Measurements" ("SFAS 157") in the current economic environment and reemphasizes that the objective of a fair value measurement remains an exit price. If there has been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, quoted market values may not be representative of fair value. As a result, a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP FAS 115-2 and FSP FAS 124-2 modify the requirements for recognizing other-than-temporarily impaired debt securities and revise the existing impairment model for such securities, by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP FAS 107-1 and APB 28-1 enhance the disclosure of instruments under the scope of SFAS 157 for both interim and annual periods. The Company is currently evaluating the impact of adopting these Staff Positions.

Note 2 BASIC AND DILUTED NET INCOME ATTRIBUTABLE TO YAHOO! INC. COMMON STOCKHOLDERS PER SHARE

Basic net income per share attributable to Yahoo! Inc. common stockholders is computed using the weighted average number of common shares outstanding during the period, excluding net income attributable to participating securities (restricted stock awards granted under the Company's 1995 Stock Plan and restricted stock units granted under the 1996 Directors' Stock Plan) in accordance with FSP EITF 03-6-1 "Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities." Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of unvested restricted stock and restricted stock units (using the treasury stock method), the incremental common shares issuable upon the exercise of stock options (using the treasury stock method), shares to be purchased under the employee stock purchase plan, and assumed conversion of the Company's Notes prior to their maturity and conversion on April 1, 2008. In applying the treasury stock method, the Company calculates potential tax windfalls and shortfalls by including the impact of pro forma deferred tax assets.

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

For the three months ended March 31, 2008 and 2009, potentially dilutive securities representing approximately 136 million and 127 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

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

	Three Months Ended	
	March 31, 2008	March 31, 2009
Basic:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 536,840	$ 117,558
Less: Net income allocated to participating securities	(908)	(154)
Net income attributable to Yahoo! Inc. common stockholders — basic	$ 535,932	$ 117,404
Denominator:		
Weighted average common shares	1,335,986	1,393,347
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.40	$ 0.08
Diluted:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 536,840	$ 117,558
Less: Net income allocated to participating securities	(874)	(4)
Less: Effect of dilutive securities issued by equity investees	(26,404)	(208)
Add: Interest expense, net of tax, related to the Notes	5,314	—
Net income attributable to Yahoo! Inc. common stockholders — diluted	$ 514,876	$ 117,346
Denominator:		
Denominator for basic calculation	1,335,986	1,393,347
Weighted average effect of Yahoo! dilutive securities:		
Restricted stock and restricted stock units	8,496	10,179
Stock options	14,792	4,805
Assumed conversion of the Notes	36,062	—
Denominator for diluted calculation	1,395,336	1,408,331
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.37	$ 0.08

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Note 3 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2008	March 31, 2009	Percent Ownership of Common Stock
Alibaba Group	$2,216,659	$2,185,658	44%
Alibaba.com	51,999	51,674	1%
Yahoo! Japan	905,672	1,132,390	34%
Other	3,115	3,089	
Total	$3,177,445	$3,372,811	

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

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

	Three Months Ended	
	December 31, 2007	December 31, 2008
Operating data:[1]		
Revenues	$ 97,648	$ 152,648
Gross profit	$ 62,421	$ 103,493
Loss from operations[2]	$ (205,410)	$ (45,610)
Net income/(loss)[3]	$1,883,257	$ (59,088)

	September 30, 2008	December 31, 2008
Balance sheet data:		
Current assets	$ 2,585,369	$ 2,736,563
Long-term assets	$ 2,193,374	$ 2,219,521
Current liabilities	$ 821,174	$ 1,038,677
Long-term liabilities	$ 20,131	$ 20,365
Noncontrolling interests	$ 187,570	$ 195,182

(1) The Company records its share of the results of Alibaba Group one quarter in arrears within earnings in equity interests in its condensed consolidated statements of income.

(2) The loss from operations of $205 million for the three months ended December 31, 2007 includes Alibaba Group's impairment loss on goodwill and intangible assets of $178 million for which Yahoo! Inc. has no basis in its investment balance.

(3) The net income of $1.9 billion for the three months ended December 31, 2007 includes the gain from Alibaba Group's sale of an approximate 27 percent ownership interest in Alibaba.com in Alibaba.com's initial public offering ("IPO").

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three months ended March 31, 2008 and 2009, these transactions were not material.

Equity Investment in Alibaba.com Limited. As part of the IPO of Alibaba.com, the Company purchased an approximate 1 percent interest in the common stock of Alibaba.com. This investment is accounted for using the equity method, consistent with the Company's investment in Alibaba Group, which holds the controlling interest in Alibaba.com. The fair value of the Company's ownership interest in the common stock of Alibaba.com, based on the quoted stock price, was approximately $53 million as of March 31, 2009.

Equity Investment in Yahoo! Japan. The investment in Yahoo! Japan Corporation ("Yahoo! Japan") is accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of investments in equity interests on the Company's condensed consolidated balance sheets. The Company records its share of the results of Yahoo! Japan and any related amortization expense, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of income. The fair value of the Company's ownership interest in the common stock of Yahoo! Japan, based on the quoted stock price, was approximately $5 billion as of March 31, 2009.

The following table presents Yahoo! Japan's condensed financial information, as derived from the Yahoo! Japan consolidated financial statements (in thousands):

	Three Months Ended	
	December 31, 2007	December 31, 2008
Operating data:(*)		
Revenues	$ 618,748	$ 778,647
Gross profit	$ 530,687	$ 657,978
Income from operations	$ 276,316	$ 344,305
Net income	$ 151,687	$ 198,709
	September 30, 2008	**December 31, 2008**
Balance sheet data:		
Current assets	$ 1,202,164	$ 1,411,053
Long-term assets	$ 1,923,195	$ 2,244,173
Current liabilities	$ 778,110	$ 813,515
Long-term liabilities	$ 189,719	$ 112,232
Noncontrolling interests	$ 25,665	$ 21,386

(*) The Company records its share of the results of Yahoo! Japan one quarter in arrears in earnings in equity interests in the condensed consolidated statements of income.

The differences between U.S. GAAP and accounting principles generally accepted in Japan, the standards by which Yahoo! Japan's financial statements are prepared, did not materially impact the amounts reflected in the Company's condensed consolidated financial statements.

Through its commercial arrangement with Yahoo! Japan, the Company provides advertising and search marketing services to Yahoo! Japan for a service fee. Under this arrangement, the Company records marketing services revenue from Yahoo! Japan for the provision of search marketing services based on a percentage of advertising revenues earned by Yahoo! Japan for the delivery of sponsored search results. In addition, the Company recognizes revenues from license fees received from Yahoo! Japan. These arrangements resulted in revenues of approximately $73 million and $75 million, respectively, for the three months ended March 31, 2008 and 2009. As of December 31, 2008 and March 31, 2009, the Company had a net receivable balance from Yahoo! Japan of approximately $39 million and $38 million, respectively.

Note 4 GOODWILL

The change in the carrying amount of goodwill for the three months ended March 31, 2009 was primarily due to foreign currency translation losses of $35 million.

Note 5 INTANGIBLE ASSETS, NET

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

	December 31, 2008	March 31, 2009		
	Net	Gross Carrying Amount	Accumulated Amortization[1]	Net[2]
Customer, affiliate, and advertiser related relationships	$ 99,828	$ 146,186	$ (53,411)	$ 92,775
Developed and acquired technology and intellectual property rights	350,168	556,361	(244,869)	311,492
Trade name, trademark, and domain name	35,864	74,890	(42,599)	32,291
Total intangible assets, net	$ 485,860	$ 777,437	$ (340,879)	$436,558

(1) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately $7 million as of March 31, 2009.

(2) As of December 31, 2008 and March 31, 2009, $441 million and $398 million, respectively, of the net intangibles balance were related to the U.S. segment. As of December 31, 2008 and March 31, 2009, $45 million and $39 million, respectively, of the net intangibles balance were related to the International segment.

For the three months ended March 31, 2008 and 2009, the Company recognized amortization expense for intangible assets of $70 million and $47 million, respectively, including $46 million in cost of revenues for the three months ended March 31, 2008 and $37 million in cost of revenues for the three months ended March 31, 2009. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2009 and each of the succeeding years is as follows: nine months ending December 31, 2009: $127 million; 2010: $117 million; 2011: $88 million; 2012: $54 million; 2013: $22 million; 2014: $10 million; and cumulatively thereafter: $5 million.

Note 6 OTHER INCOME, NET

Other income, net is comprised of (in thousands):

	Three Months Ended	
	March 31, 2008	March 31, 2009
Interest and investment income	$23,167	$ 6,848
Investment (losses) gains, net	(2,210)	90
Other	(6,292)	(1,978)
Total other income, net	$14,665	$ 4,960

Interest and investment income consist of income earned from cash in bank accounts and investments made in marketable debt securities and money market funds.

Investment (losses) gains, net includes realized gains and losses related to sales of marketable debt securities and/or investments in publicly traded or privately held companies.

Other consists mainly of imputed interest related to the adoption of FSP APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1") and foreign exchange gains and losses due to re-measurement of assets and liabilities denominated in non-functional currencies. See Note 8 — "Debt" for additional information related to the adoption of FSP APB 14-1.

Note 7 COMPREHENSIVE INCOME

Comprehensive income, net of taxes, is comprised of (in thousands):

	Three Months Ended	
	March 31, 2008	March 31, 2009
Net income	$536,765	$118,695
Change in net unrealized losses, net on available-for-sale securities, net of tax and reclassification adjustments	(2,362)	(328)
Foreign currency translation adjustment	131,432	82,230
Other comprehensive income	129,070	81,902
Comprehensive income	$665,835	$200,597
Comprehensive loss/(income) attributable to noncontrolling interests	75	(1,137)
Comprehensive income attributable to Yahoo! Inc.	$665,910	$199,460

The following table summarizes the components of accumulated other comprehensive income (in thousands):

	December 31, 2008	March 31, 2009
Unrealized gains on available-for-sale securities, net of tax	$ 6,857	$ 6,529
Foreign currency translation adjustments, net of tax	113,419	195,649
Accumulated other comprehensive income	$ 120,276	$202,178

Note 8 DEBT

In April 2003, the Company issued $750 million of the Notes due April 1, 2008, resulting in net proceeds to the Company of approximately $733 million after transaction fees of $17 million, which had been deferred and were included on the condensed consolidated balance sheets in prepaid expense and other current assets. As of March 31, 2008, the transaction fees were fully amortized. The Notes were issued at par, did not bear interest, and were convertible into shares of the Company's common stock. Upon conversion, the Company had the right to deliver cash in lieu of common stock.

During the three months ended March 31, 2008, $167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to the holders of the Notes. On the maturity date of April 1, 2008, the remaining $583 million of the Notes were converted and 28.5 million shares of Yahoo! common stock were issued to the holders of the Notes.

Effective January 1, 2009 the Company adopted FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" and accordingly prior periods have been restated to reflect the impact of FSP APB 14-1. For convertible debt instruments within the scope of FSP APB 14-1, the proceeds from the instrument's issuance must be allocated between the liability and equity components in a manner that reflects interest cost based upon the Company's borrowing rate at the date of issuance of the convertible debt for a similar debt instrument without the debt conversion feature. The borrowing rate was estimated to be 5 percent for the liability component of the Notes. This effective interest rate was used to calculate the fair value of the Notes using a present value approach and the accretion of interest expense over the life of the Notes.

Upon adoption of FSP APB 14-1, the Company recorded the change in accounting principle from adopting FSP APB 14-1 as a cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2007 totaling $69 million which represented imputed interest, net of taxes, for the period from issuance to January 1, 2007. The corresponding increase in additional paid-in capital as of January 1, 2007 was $95 million. Imputed interest, which is net of $66 million in taxes, recorded over the life of the Notes resulted in a reduction in retained earnings of $95 million and a corresponding increase in additional paid-in capital of $95 million as of the maturity date.

The interest expense imputed for the first quarter of 2008 was $9 million which is included in other income, net on the condensed consolidated statements of income. The impact on basic net income per share for the three months ended March 31, 2008 was $0.01. See Note 2 — "Basic and Diluted Net Income per Share Attributable to Yahoo! Inc. Common Stockholders" for additional information.

Note 9 STOCK-BASED COMPENSATION

Stock Options. The Company's 1995 Stock Plan and other stock-based award plans assumed through acquisitions are collectively referred to as the "Plans". Stock option activity under the Company's Plans and the Directors' Plan for the three months ended March 31, 2009 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2008	135,442	$ 30.10
Options granted	24,841	$ 12.31
Options exercised(*)	(641)	$ 6.37
Options expired	(5,450)	$ 39.57
Options cancelled/forfeited	(4,155)	$ 26.41
Outstanding at March 31, 2009	150,037	$ 27.02

(*) The Company issued new shares to satisfy stock option exercises.

As of March 31, 2009, there was $336 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.5 years.

The Company determines the grant-date fair value of stock options, including the options granted under the Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan") using a Black-Scholes model, unless the options are subject to market conditions, in which case the Company uses a Monte Carlo simulation model. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. The following weighted average assumptions were used in determining the fair value of option grants using the Black-Scholes option pricing model:

	Stock Options		Purchase Plan	
	Three Months Ended		Three Months Ended	
	March 31, 2008	March 31, 2009	March 31, 2008	March 31, 2009
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.4%	1.7%	4.4%	2.4%
Expected volatility	31.2%	57.1%	32.0%	71.8%
Expected life (in years)	3.89	4.00	0.90	0.72

Restricted stock awards and restricted stock units activity for the three months ended March 31, 2009 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2008	31,133	$ 27.97
Granted (*)	15,239	$ 12.44
Vested	(2,614)	$ 33.20
Forfeited	(3,135)	$ 25.88
Unvested at March 31, 2009	40,623	$ 21.97

(*) The Company has included the maximum number of shares issuable under the Company's performance-based executive incentive restricted stock units.

During the three months ended March 31, 2009, 2.6 million previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled. The Company withheld 0.9 million shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were $10 million for the three months ended March 31, 2009 and are reflected as a financing activity within the condensed consolidated statements of cash flows. Upon the vesting of shares of certain restricted stock awards, 0.1 million shares were reacquired by the Company to satisfy the related tax withholding obligations and $1 million was recorded as treasury stock. Payments of $9 million related to the net share settlement of 0.8 million shares of restricted stock units had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

During the three months ended March 31, 2008, 5.3 million previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled. The Company withheld 1.8 million shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were $52 million for the three months ended March 31, 2008 and are reflected as a financing activity within the condensed consolidated statements of cash flows. Upon the vesting of shares of certain restricted stock awards, 0.6 million shares were reacquired by the Company to satisfy the related tax withholding obligations and $18 million was recorded as treasury stock. Payments of $34 million related to net share settlement of 1.2 million shares of restricted stock units had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

As of March 31, 2009, there was $413 million of unrecognized stock-based compensation cost related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.2 years.

CEO Inducement Option and Make-up Equity. On January 30, 2009, Carol Bartz, the Company's Chief Executive Officer ("CEO"), was granted a stock option covering 5.0 million shares of the Company's common stock, with a per share exercise price of $11.73 (the closing price of the common stock on the grant date) and a maximum term of seven years ("Inducement Option"). Vesting of the Inducement Option is dependent on whether the average closing price for the Company's common stock for twenty consecutive trading days prior to January 1, 2013 (or the price immediately preceding a change in control of the Company if it occurs pursuant to an agreement signed before that date) exceeds certain levels that range from 150 percent to 300 percent ($17.60 to $35.19) of Yahoo!'s closing stock price on the date of grant of the Inducement Option. Any shares acquired by Ms. Bartz upon exercise of the Inducement Option must be held until January 1, 2013, except in the event of her death or a change in control. The Company determined the grant-date fair value of the Inducement Option to be $27 million and the weighted average derived requisite service period of the award to be 1.2 years. The grant-date fair value of the Inducement Option will be expensed over the weighted average derived requisite service period.

In addition, to compensate Ms. Bartz for the forfeiture of the value of equity grants and post-employment medical coverage from her previous employer, the Company granted Ms. Bartz an award comprised of $2.5 million in cash and restricted stock with a grant-date fair value of $7.5 million, which will vest in four equal quarterly installments in 2009 (the "Make-Up Grant"). The Make-Up Grant is subject to certain clawback provisions in the event of a termination of Ms. Bartz's employment by the Company for cause or by Ms. Bartz without good reason (as those terms are defined in her employment agreement) during the term of the employment agreement. The value of the Make-Up Grant will be expensed ratably through 2009.

Performance-Based Executive Incentive Restricted Stock Units. In February 2009, the Compensation Committee approved long-term performance-based incentive equity awards to Ms. Bartz and other senior officers, including two types of restricted stock units that vest based on the Company's achievement of certain performance goals. The first type of restricted stock unit generally will vest on the third anniversary of the grant date based on the Company's attainment of certain annual operating cash flow targets as well as the executive's continued employment through that vesting date. The second type of restricted stock unit generally will vest following the third anniversary of the grant date based on the Company's attainment of certain levels of total stockholder return relative to the returns for the NASDAQ 100 Index companies as well as the executive's continued employment through that vesting date. For both types of restricted stock units, the number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the applicable performance target. The amount of stock-based compensation recorded for the first type of restricted stock unit will vary depending on the Company's attainment of the operating cash flow target and the completion of the service period. The amount of stock-based compensation recorded for the second type of restricted stock unit will vary depending only on the completion of the service period. The aggregate fair value of these two types of restricted stock units on the date of grant of $3 million and $13 million, respectively, will be recognized over the three-year service periods.

Note 10 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating lease agreements with original lease periods of up to 23 years, expiring between 2009 and 2027.

A summary of gross and net lease commitments as of March 31, 2009 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Nine months ending December 31, 2009	$ 112	$ (2)	$ 110
Years ending December 31,			
2010	130	(2)	128
2011	106	(2)	104
2012	93	(1)	92
2013	83	—	83
2014	76	—	76
Due after 5 years	223	—	223
Total gross and net lease commitments	$ 823	$ (7)	$ 816

	Capital Lease Commitment
Nine months ending December 31, 2009	$ 5
Years ending December 31,	
2010	7
2011	7
2012	7
2013	8
2014	8
Due after 5 years	39
Gross lease commitment	$ 81
Less: interest	(38)
Net lease commitment	$ 43

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs ("TAC"), to its Affiliates. As of March 31, 2009, these commitments totaled $246 million, of which $88 million will be payable in the remainder of 2009, $129 million will be payable in 2010, and $29 million will be payable in 2011.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to $53 million through 2023.

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

As of March 31, 2009, 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. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

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

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label ("BMG"), 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 U.S. District Court for the Southern District of New York seeking declaratory and injunctive relief and damages. The plaintiffs alleged, 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. Yahoo! acquired LAUNCH in August 2001. This lawsuit was settled with all plaintiffs, other than BMG. On April 27, 2007, after a two week jury trial, the jury returned a unanimous verdict in favor of LAUNCH finding no liability. On March 17, 2009, the U.S. Court of Appeals for the Second Circuit heard BMG's appeal of the trial verdict. The Company is awaiting a decision on the appeal.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court for the Southern District of New York against certain underwriters involved in Overture Services Inc.'s ("Overture") IPO, Overture, and certain of Overture's 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 (the "Exchange Act") 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 IPOs of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On July 15, 2002, the issuers filed an omnibus 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 claims against certain defendants, including Overture. A settlement reached between June 2004 and June 2007 by plaintiffs and issuer defendants, including Overture, ultimately did not receive court approval and was terminated. Following initial briefing on the class certification in April 2008, plaintiffs' class certification motion then was withdrawn without prejudice on October 10, 2008. On April 1, 2009, the parties filed a motion with the Court for preliminary approval of a stipulated global settlement. The Court has not set a hearing date on the motion for preliminary approval.

In May 2007, two purported class actions were commenced by plaintiffs Ellen Brodsky and Manfred Hacker, asserting claims arising under the federal securities laws against the Company and certain individual defendants. These actions were ordered consolidated in the U.S. District Court for the Central District of California, and on December 21, 2007, a Consolidated Amended Complaint was filed against Yahoo! and certain individual defendants, including current and former officers and a former director and officer. Plaintiffs purport to represent a class of persons who purchased the Company's common stock between April 8, 2004 and July 18, 2006. Plaintiffs allege that defendants engaged in a scheme to inflate the Company's stock price by making false and misleading statements regarding the Company's operations, financial results, and future business prospects in violation of Section 10(b) of the Exchange Act and SEC Rule 10b-5. Plaintiffs also allege that the individual defendants engaged in insider trading in violation of Section 20(A) of the Exchange Act, and as control persons are subject to liability under Section 20(A) of the Exchange Act. Plaintiffs seek compensatory damages, injunctive relief, disgorgement of alleged insider trading proceeds, and other equitable relief. On March 10, 2008, the Court granted defendants' motion to transfer the action to the U.S. District Court for the Northern District of California. On October 7, 2008, the Court granted defendants' motion to dismiss the Consolidated Amended Complaint with leave to amend. Plaintiffs filed their Second Amended Consolidated Complaint on December 19, 2008. On April 23, 2009, the Court held a hearing on defendants' motion to dismiss. The Company is awaiting a decision on the motion.

On May 15, 2007, a stockholder derivative complaint was filed in the California Superior Court, Santa Clara County, by Greg Brockwell against members of the Board and selected officers alleging breaches of fiduciary duties and corporate waste similar to the allegations in the Brodsky/Hacker class action litigation. The Brockwell action was voluntarily dismissed with prejudice as to plaintiff and without prejudice as to Yahoo! stockholders and the Company, derivatively, on February 3, 2009.

On June 14, 2007, a stockholder derivative action was filed in the U.S. District Court for the Central District of California by Jill Watkins against members of the Board and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in the Brodsky/Hacker class action litigation, and violation of Section 10(b) of the Exchange Act. Watkins agreed to coordinate her action with the federal class action litigation. The action was transferred to the U.S. District Court for the Northern District of California on April 29, 2008. In January 2009, Watkins filed a motion for leave to file an amended complaint seeking to substitute a new plaintiff, seeking to add a derivative claim alleging violations of Section 20A of the Exchange Act, seeking to add a class claim for alleged violations of Section 14(a) of the Exchange Act, and seeking to add a class claim for alleged breach of fiduciary duty.

On or after February 1, 2008, five separate stockholder lawsuits were filed in the Delaware Court of Chancery against Yahoo! Inc. and members of the Board by plaintiffs The Wayne County Employees' Retirement System, Ronald Dicke, and The Police and Fire Retirement System of the City of Detroit along with The General Retirement System of the City of Detroit, Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund, and Vernon A. Mercier (the "Delaware Lawsuits"). Two of the Delaware Lawsuits (by plaintiff Wayne County and by plaintiff Plumbers and Pipefitters Local Union) were voluntarily dismissed with prejudice. The remaining Delaware Lawsuits were consolidated (lead plaintiff was the Police and Fire Retirement System of the City of Detroit) and lead counsel was appointed. On November 18, 2008, plaintiffs filed an amended motion for leave to amend and supplement its complaint. In connection with the amended motion for leave to amend, plaintiff submitted a proposed Second Amended and Supplemental Consolidated Complaint (the "Second Amended Complaint").

The Second Amended Complaint generally alleged that defendants breached fiduciary duties in connection with the consideration of proposals by Microsoft to purchase all or part of Yahoo!, adoption of severance plans, and the June 12, 2008 agreement between Google Inc. and Yahoo! and purports to state claims relating to alleged false and misleading statements and omissions in Yahoo!'s proxy statement. Plaintiffs alleged that the proxy statement contained false and misleading statements and omissions related to the severance plans, including statements and omissions with respect to the purpose of the plans, the reasons for adopting the plans, the benefits provided to employees under the plans, the role played by outside compensation consultants and the information provided by them and the total cost of the plans. The Second Amended Complaint sought unspecified compensatory damages, declaratory and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs.

On December 10, 2008, plaintiffs in the Delaware Lawsuits, Yahoo! and the individual defendants entered into a Stipulation and Agreement of Settlement (the "Settlement Agreement") to resolve all claims that were or could have been asserted by the plaintiffs or members of the settlement class, consisting of all persons who held Yahoo! common stock at any time between January 31 and December 7, 2008, or by or on behalf of Yahoo! Inc. in the Delaware Lawsuits or in any forum relating to the subject matter of the actions. On March 6, 2009, the Delaware Court of Chancery issued its order granting final approval of the settlement, entering final judgment dismissing the class and derivative action, and granting plaintiffs an award of attorneys' fees and costs.

On or after February 1, 2008, five separate stockholder lawsuits were filed in the Santa Clara County Superior Court against Yahoo! Inc., members of the Board and selected former officers by plaintiffs Edward Fritsche, the Thomas Stone Trust, Tom Turberg, Congregation Beth Aaron, and the Louisiana Municipal Police Employees' Retirement System (collectively, the "California Lawsuits"). The California Lawsuits were consolidated, and on March 12, 2008, a Consolidated Amended Class Action and Derivative Complaint was filed, captioned *In re Yahoo! Inc. Shareholder Litigation,* in Santa Clara County Superior Court. The Consolidated Amended Class and Derivative Complaint alleged that the Board breached fiduciary duties in connection with Microsoft's unsolicited proposal to acquire Yahoo!. The Consolidated Amended Class and Derivative Complaint sought declaratory and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs. On March 28, 2008, the Santa Clara County Superior Court stayed the action pending resolution of the similar proceedings pending in the Delaware Court of Chancery. On March 23, 2009, following entry of final approval of settlement and final order of judgment in the Delaware Lawsuits, the California Lawsuits were voluntarily dismissed with prejudice by plaintiffs.

Prior to dismissal of the California Lawsuits, the complaint originally filed by plaintiff Congregation Beth Aaron in Santa Clara County Superior Court was voluntarily dismissed by plaintiff and re-filed in the U.S. District Court for the Northern District of California. The Congregation Beth Aaron federal court complaint alleges claims for breach of fiduciary duty and corporate waste in connection with Yahoo!'s consideration of proposals by Microsoft to purchase all or a part of Yahoo!, adoption of severance plans, and the June 12, 2008 agreement between Google Inc. and Yahoo!. The complaint also alleges claims under Section 14(a) of the Exchange Act for alleged false statements or omissions in Yahoo!'s June 9, 2008 proxy statement regarding the severance plans and for control person liability under Section 20(a) of the Exchange Act, and also alleges that the defendants' decision to settle the Delaware Lawsuits constituted an independent breach of fiduciary duty. The complaint seeks unspecified compensatory damages, injunctive relief, and an award of plaintiffs' attorneys' fees and costs. Yahoo! filed a motion to dismiss the Congregation Beth Aaron Complaint (which the director defendants joined) based upon the settlement release and final order of judgment entered in the Delaware Lawsuits. The hearing on the motion to dismiss is scheduled for May 29, 2009.

While the outcome of these matters is currently not determinable, the Company does not believe, based on current knowledge, that any of the foregoing legal proceedings or claims is likely to have a material adverse effect on its financial position, results of operations, or cash flows. In the event of a determination adverse to Yahoo!, its subsidiaries, directors, or officers, in these matters, however, 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. The Company may also incur substantial expenses in defending against these claims.

Note 11 SEGMENTS

The Company manages its business geographically. The primary areas of measurement and decision-making are the U.S. and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
Revenues by segment:		
United States	$1,305,340	$1,187,930
International	512,262	392,112
Total revenues	$1,817,602	$1,580,042
Segment operating income before depreciation, amortization, and stock-based compensation expense:		
United States	$ 313,093	$ 292,732
International	120,040	116,246
Total segment operating income before depreciation, amortization, and stock-based compensation expense	433,133	408,978
Depreciation and amortization	(187,511)	(181,573)
Stock-based compensation expense	(125,005)	(126,720)
Income from operations	$ 120,617	$ 100,685
Capital expenditures, net:		
United States	$ 123,468	$ 57,365
International	16,325	13,116
Total capital expenditures, net	$ 139,793	$ 70,481

	December 31, 2008	March 31, 2009
Property and equipment, net:		
United States	$ 1,396,031	$ 1,342,759
International	140,150	126,962
Total property and equipment, net	$ 1,536,181	$ 1,469,721

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 in the three months ended March 31, 2008 and 2009, respectively.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2009
Marketing services:		
Owned and Operated sites	$ 965,660	$ 871,764
Affiliate sites	606,784	511,417
Marketing services	1,572,444	1,383,181
Fees	245,158	196,861
Total revenues	$ 1,817,602	$ 1,580,042

Note 12 INCOME TAXES

The effective tax rate for the three months ended March 31, 2009 was 34 percent, compared to approximately 39 percent for the same period in 2008. The effective tax rate for the three months ended March 31, 2009 differs from the statutory federal income tax rate of 35 percent primarily due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, and a one-time tax benefit related to a California state law change that was enacted during the quarter. The effective tax rate for the three months ended March 31, 2009 was lower than the rate for the same period in 2008 primarily due to the effect of the California state law change.

The Company's total amount of unrecognized tax benefits as of March 31, 2009 is $789 million, of which $351 million is recorded in deferred and other long-term tax liabilities, net on the condensed consolidated balance sheet.

The Company's federal and California income tax returns for the years ended December 31, 2005 and 2006 are currently under examination by the Internal Revenue Service and the California Franchise Tax Board.

Note 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table set forth the financial assets, measured at fair value, by level within the fair value hierarchy of SFAS 157 as of March 31, 2009 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Total
Money market funds(1)	$ 1,048,359	$ —	$ 1,048,359
Available for sale securities			
U.S. Government and agency securities(1)	—	1,384,046	1,384,046
Municipal bonds(1)	—	330,144	330,144
Asset backed-securities(1)	—	8,907	8,907
Commercial paper(1)	—	253,806	253,806
Corporate debt securities(1)	—	64,393	64,393
Corporate equity securities(2)	86,629	—	86,629
Total assets at fair value	$ 1,134,988	$ 2,041,296	$ 3,176,284

(1) The money market funds, U.S. government and agency securities, municipal bonds, asset-backed securities, commercial paper, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheet.
(2) The corporate equity securities are classified as part of the other long-term assets in the condensed consolidated balance sheet.

The amount of cash and cash equivalents as of March 31, 2009 includes $601 million in cash deposited with commercial banks.

The fair value of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair value of the Company's Level 2 financial assets are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. As of March 31, 2009, the Company did not have any significant Level 3 financial assets or liabilities.

Note 14 RESTRUCTURING CHARGES, NET

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

	Three Months Ended March 31, 2008	March 31, 2009
Employee severance pay and related costs	$ 29,169	$ 1,809
Non-cancelable lease, contract termination, and other charges	—	2,992
Sub-total before reversal of stock-based compensation expense	29,169	4,801
Reversal of stock-based compensation expense for forfeitures	(12,284)	—
Restructuring charges, net	$ 16,885	$ 4,801

Q108 Restructuring Plan. During the three months ended March 31, 2008, the Company implemented a strategic workforce realignment to more appropriately allocate resources to its key strategic initiatives. The Company incurred total pre-tax cash charges of approximately $29 million in severance pay expenses and related cash expenses during the three months ended March 31, 2008 in connection with this workforce realignment. The pre-tax cash charges were offset by a $12 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards. The strategic workforce realignment was completed during the fourth quarter of 2008. Of the $17 million restructuring charges, net recorded in the three months ended March 31, 2008, $13 million was related to the U.S. segment and $4 million was related to the International segment.

Q408 Restructuring Plan. During the three months ended December 31, 2008, the Company implemented cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. In connection with the continued implementation of these initiatives, during the first quarter of 2009, additional charges of $5 million were recorded for severance benefits provided and facilities vacated during the period, consisting of a $6 million charge related to the U.S. segment and a reversal of $1 million related to the International segment.

Restructuring Accruals. As of March 31, 2009, there is an aggregate $37 million outstanding restructuring liability with respect to the cost reduction initiatives. This amount relates to $16 million of employee severance pay expenses which the Company expects to substantially pay out by the end of the second quarter of 2009, and $21 million of non-cancelable lease costs which the Company expects to pay over the terms of the related obligations which extend to the end of 2017.

The activity in the Company's restructuring accruals for the three months ended March 31, 2009 is summarized as follows (in thousands):

	Three months ended March 31, 2009
Balance as of December 31, 2008	$ 89,887
Employee severance pay and related costs	3,547
Non-cancelable lease, contract termination, and other charges(*)	4,062
Write-off of tenant improvement, furniture, and fixed assets	—
Reversal of previous charges	(2,808)
Restructuring charges, net	$ 4,801
Cash paid	(58,010)
Non-cash adjustments	277
Balance as of March 31, 2009	$ 36,955

(*) Includes $1 million in professional services relating to the restructuring

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

	December 31, 2008	March 31, 2009
United States	$ 68,410	$ 23,728
International	21,477	13,227
Total restructuring accruals	$ 89,887	$ 36,955

Note 15 SUBSEQUENT EVENTS

Cost Initiatives. On April 21, 2009, the Company announced that it expects to reduce its number of then-current employees worldwide by approximately 5 percent. The Company expects to incur cash charges related to this workforce reduction for severance and other related costs. Total charges are expected to include these cash costs and may also include charges or credits related to stock-based compensation expense. The Company expects to recognize the foregoing charges during the three months ending June 30, 2009, but is unable, at this time, to estimate the amount of cash and total charges that it will incur.

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

Forward-Looking Statements

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

- expectations about revenues, including revenues for marketing services and fees;
- expectations about growth in users;
- expectations about cost of revenues and operating expenses;
- expectations about the amount of unrecognized tax benefits;
- expectations about our on-going cost initiatives;
- anticipated capital expenditures;
- impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies; and
- expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements.

These statements involve certain known and unknown risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those listed in Part II, Item 1A. "Risk Factors" of this Report. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Report to reflect actual results or future events or circumstances.

Overview

Yahoo! Inc., together with its consolidated subsidiaries ("our," "we," or "us"), is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. We are focused on powering our communities of users, advertisers, publishers, and developers by creating indispensable experiences built on trust. Together with our owned and operated online properties and services ("Yahoo! Properties" or "Owned and Operated sites"), we also provide our advertising offerings and access to Internet users beyond Yahoo! through our distribution network of third-party entities ("Affiliates"), who have integrated our advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. We generate revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services we provide to our users are free, we do charge fees for a range of premium services.

We provide a range of marketing services that make it easier and more effective for advertisers and marketers to reach and connect with users who visit Yahoo! Properties and our Affiliate sites. We believe that our marketing services enable advertisers to deliver highly relevant marketing messages to their target audiences.

Our offerings to users on Yahoo! Properties currently fall into six categories: Front Doors, Communities, Search, Communications, Audience, and Connected Life. The majority of our offerings are available in more than 30 languages. We manage and measure our business geographically. Our principal geographies are the United States ("U.S.") and International.

As used below, "Page Views" is defined as our internal estimate of the total number of Web pages viewed by users on Owned and Operated sites. "Search" is defined as an online search query that may yield Internet search results ranked and sorted based on relevance to the user's search query. "Sponsored search results" are a subset of the overall search results and provide links to paying advertisers' Web pages. A "click-through" occurs when a user clicks on an advertisers' language.

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First Quarter Results

Operating Results	Three Months Ended March 31, 2008	2009	2008-2009 Dollar Change
	(In thousands)		
Revenues	$1,817,602	$1,580,042	$(237,560)
Income from operations	$ 120,617	$ 100,685	$ (19,932)

Cash Flow Results	Three Months Ended March 31, 2008	2009	2008-2009 Dollar Change
	(In thousands)		
Net cash provided by operating activities	$786,305	$ 262,349	$(523,956)
Net cash provided by (used in) investing activities	$ 18,410	$(216,331)	$(234,741)
Net cash (used in) provided by financing activities	$ (5,159)	$ 15,720	$ 20,879

Our revenue decline of 13 percent year over year can be attributed to a reduction in our marketing services revenues primarily due to the economic environment and the impact of foreign currency rate fluctuations. Marketing services and fees revenues experienced 12 percent and 20 percent year over year declines, respectively. The decline in income from operations reflects a decrease in revenues partially offset by decreases in operating expenses of $163 million. The decrease in operating expenses is due to our cost reduction initiatives.

Cash generated from our operations is a measure of the cash productivity of our business model. Our operating activities in the first quarter of 2009 generated adequate cash to meet our operating needs. Cash used in investing activities in the first quarter of 2009 included capital expenditures of $70 million and net purchases of marketable debt securities of $140 million.

Results of Operations

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

	Three Months Ended March 31, 2008	(*)	2009	(*)	Percent Change
Marketing services:					
Owned and Operated sites	$ 965,660	53%	$ 871,764	55%	(10)%
Affiliate sites	606,784	34%	511,417	33%	(16)%
Marketing services	1,572,444	87%	1,383,181	88%	(12)%
Fees	245,158	13%	196,861	12%	(20)%
Total revenues	$1,817,602	100%	$1,580,042	100%	(13)%

(*) Percent of total revenues.

We generate marketing services revenues principally from display advertising on Owned and Operated sites and from search advertising. We also receive revenues for click-throughs on content match links (advertising in the form of contextually relevant advertiser links) on Owned and Operated and Affiliate sites and display advertising on Affiliate sites. The net revenues and related volume metrics from these additional sources are not currently material and are excluded from the discussion and calculation of average revenue per Page View on Owned and Operated sites and average revenue per search on Affiliate sites that follows.

We currently expect revenues to decrease for the three months ending June 30, 2009 compared to the three months ended June 30, 2008 due primarily to the economic environment. Adverse economic conditions have caused some advertisers to spend less on online advertising which could negatively affect the growth rate of our revenues, particularly our display revenues as advertisers spend less on brand advertising. In addition, strengthening of the U.S. Dollar against other currencies could have a further negative impact on our international revenues.

Marketing Services Revenues from Owned and Operated Sites. Marketing services revenues from Owned and Operated sites for the three months ended March 31, 2009 decreased by $94 million, or 10 percent, as compared to the same period in 2008. The primary components of our marketing services revenues from Owned and Operated sites are search and display advertising. For the three months ended March 31, 2009, revenues from search advertising and display advertising on Owned and Operated sites declined 3 percent and 13 percent, respectively, compared to the same period of 2008. We believe the decline in overall marketing services revenues was mainly due to the economic environment and the effects of foreign currency exchange rate fluctuations.

Although increased user activity levels on Yahoo! Properties has contributed to a higher volume of search queries, Page Views, and advertising impression displays, lower advertising spending and a shift to lower yielding inventory in both search and display advertising has resulted in decreased revenues.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views to more accurately reflect the total number of Web pages viewed by users on Yahoo! Properties. Based on this process, from time to time we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to our Owned and Operated sites. Using our updated methodology, for the three months ended March 31, 2009 as compared to the same period in 2008, Page Views increased 8 percent and revenue per Page View decreased 16 percent. The decline in revenue per Page View was due to the decline in revenues from the factors discussed above.

Marketing Services Revenues from Affiliate sites. Marketing services revenues from Affiliate sites for the three months ended March 31, 2009 decreased $95 million, or 16 percent, as compared to the same period in 2008. The decrease was driven primarily by lower advertising spending and a shift to lower yielding inventory.

The number of searches on Affiliate sites increased by approximately 37 percent in the three months ended March 31, 2009, as compared to the same period in 2008. As we continue to employ network quality initiatives, we have seen an increase in traffic from our Affiliate partners. The increase in the volume of searches is primarily attributed to increases in searches per Affiliate.

The average revenue per search on our Affiliate sites decreased by 39 percent in the three months ended March 31, 2009, as compared to the same period in 2008, primarily as a result of lower advertising spending and a shift to lower yielding inventory.

Fees Revenues. Our fees revenues include premium fee-based services such as Internet broadband services, sports, music, photos, games, personals, premium e-mail offerings, and services for small businesses. Other fee-based revenues include royalties, licenses, and mobile services.

Fees revenues for the three months ended March 31, 2009 decreased $48 million, or 20 percent, as compared to the same period of 2008. The decrease in fees revenues can be primarily attributed to changes in certain of our broadband access partnerships, from being fee-paying user based to an advertising revenue sharing model as well as our outsourcing of the voice over internet protocol, or VOIP, and subscription music businesses.

As used in this discussion, “fee-paying users” is based on the total number of fee-based subscriptions aggregated from each Yahoo! Property. To calculate the average revenue per fee-paying user, we divide the revenue generated from the subscriptions by the average fee-paying users during the quarter.

The number of fee-paying users for our fee-based services decreased to 8.4 million as of March 31, 2009 compared to 17.4 million as of March 31, 2008, a decrease of 52 percent as a result of the business model changes described above. Average monthly revenues per fee-paying user was approximately $4 for the three months ended March 31, 2009, compared to approximately $3 for the same period in 2008. The increase in average monthly revenues per fee-paying user for the three months ended March 31, 2009 is due to the change in mix of fee-based subscribers, primarily the reduction in broadband subscribers due to the renegotiation of broadband partnerships from fee-paying user based to an advertising revenue sharing model.

Adjusting the number of fee-paying users as of March 31, 2008 to remove fee-paying users related to our renewed broadband relationships, our fee-paying users would have been 9.6 million as compared to 8.4 million as of March 31, 2009, a decrease of 13 percent.

Costs and Expenses. Operating costs and expenses consist of cost of revenues, sales and marketing, product development, general and administrative, amortization of intangible assets, and restructuring charges, net. Cost of revenues consists of traffic acquisition costs, Internet connection charges, and other expenses associated with the production and usage of Yahoo! Properties, including amortization of acquired intellectual property rights and developed technology.

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

	Three Months March 31, 2008	(*)	2009	(*)	Percent Change	Dollar Change
Cost of revenues	$755,083	42%	$700,737	44%	(7)%	$ (54,346)
Sales and marketing	$424,591	23%	$321,112	20%	(24)%	$(103,479)
Product development	$305,606	17%	$306,043	19%	0%	$ 437
General and administrative	$171,080	9%	$136,997	9%	(20)%	$ (34,083)
Amortization of intangibles	$ 23,740	1%	$ 9,667	1%	(59)%	$ (14,073)
Restructuring charges, net	$ 16,885	1%	$ 4,801	0%	(72)%	$ (12,084)

(*) Percent of total revenues.

Stock-based compensation expense was allocated as follows (in thousands):

	Three Months Ended March 31, 2008	2009
Cost of revenues	$ 3,280	$ 3,579
Sales and marketing	65,538	49,897
Product development	48,082	54,278
General and administrative	20,389	18,966
Restructuring expense reversals, net	(12,284)	—
Total stock-based compensation expense	$125,005	$126,720

For additional information about stock-based compensation see Note 9 — "Stock-Based Compensation" in the Notes to the condensed consolidated financial statements elsewhere in this quarterly report as well as "Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2008 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

Traffic Acquisition Costs ("TAC"). TAC consist of payments made to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo! Properties. We enter into agreements of varying duration that involve TAC. There are generally three economic structures of the Affiliate agreements: fixed payments based on a guaranteed minimum amount of traffic delivered, which often carry reciprocal performance guarantees from the Affiliate; variable payments based on a percentage of our revenues or based on a certain metric, such as number of searches or paid clicks; or a combination of the two. We expense TAC under two different methods. Agreements with fixed payments are expensed ratably over the term the fixed payment covers, and agreements based on a percentage of revenues, number of paid introductions, number of searches, or other metrics are expensed based on the volume of the underlying activity or revenues multiplied by the agreed-upon price or rate.

Compensation, Information Technology, Depreciation and Amortization, and Facilities Expenses. Compensation expense consists primarily of salary, bonuses, commissions, and stock-based compensation expense. Information and technology expense includes telecom usage charges and data center operating costs. Depreciation and amortization expense consists primarily of depreciation of server equipment and information technology assets and amortization of developed or acquired technology and intellectual property rights. Facilities expense consists primarily of building maintenance costs, rent expense, and utilities.

The changes in operating costs and expenses for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	Facilities	TAC	Other	Total
Cost of revenues	$ 1,824	$ (263)	$ 1,514	$ 166	$(41,748)	$(15,839)	$ (54,346)
Sales and marketing	(53,955)	114	(26)	(3,725)	—	(45,887)	(103,479)
Product development	(170)	(3,727)	7,056	(1,069)	—	(1,653)	437
General and administrative	(18,468)	(803)	(410)	1,208	—	(15,610)	(34,083)
Amortization of intangibles	—	—	(14,073)	—	—	—	(14,073)
Restructuring charges, net	—	—	—	—	—	(12,084)	(12,084)
Total	$ (70,769)	$ (4,679)	$ (5,939)	$(3,420)	$(41,748)	$(91,073)	$(217,628)

Compensation Expense. Total compensation expense decreased $71 million for the three months ended March 31, 2009, as compared to the same period of 2008. The decrease was primarily due to decreases in our total headcount, primarily in the sales and marketing function (partially offset by increased headcount in the product development function).

TAC. TAC decreased $42 million for the three months ended March 31, 2009, as compared to the same period of 2008. The decrease was primarily driven by the decline in revenues as well was as changes in Affiliate partner mix. The decrease in TAC was slightly offset by a small increase in average TAC rates.

Other Expenses. Other expenses decreased $91 million for the three months ended March 31, 2009, as compared to the same period of 2008 mainly due to decreases in marketing-related expenses of $37 million, decreases in restructuring charges, net of $12 million, and decreases in content costs of $18 million. The decrease in marketing-related expenses was due to fewer marketing ad campaigns and advertising expenses during the first quarter 2009 as compared to the same period of 2008 as we continue to manage our costs. Content costs, included in costs of revenues and driven by our rich media offerings, decreased due to lower content costs for various properties as we transition out of and/or outsource certain offerings. In addition, decreases in third-party service provider expenses of $12 million was primarily due to lower costs for advisors related to Microsoft's proposal to acquire all or part of the Company, other strategic alternatives, including the Google agreement, the proxy contest, and related litigation defense in the first quarter of 2009 as compared to the same period in 2008.

We currently expect our operating costs to decrease for the second quarter of 2009 compared to the second quarter of 2008 due primarily to our cost reduction initiatives.

Restructuring Charges, Net. During the first quarter of 2008, we implemented a strategic workforce realignment to more appropriately allocate resources to our key strategic initiatives. During the fourth quarter of 2008, we implemented cost reduction initiatives, including a workforce reduction and consolidation of our real estate facilities. In connection with the cost reduction initiative under taken during the fourth quarter of 2008, we recorded charges in the first quarter of 2009 for severance benefits provided and facilities vacated during the quarter.

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

	Three Months Ended	
	March 31, 2008	March 31, 2009
Employee severance pay and related costs	$ 29,169	$ 1,809
Non-cancelable lease, contract termination, and other charges	—	2,992
Sub-total before reversal of stock-based compensation expense	29,169	4,801
Reversal of stock-based compensation expense for forfeitures	(12,284)	—
Restructuring charges, net	$ 16,885	$ 4,801

In addition to the charges described above, we currently expect to incur charges in the remainder of 2009 of between $30 million and $40 million for non-cancelable lease costs, relocation costs, and the write-off of tenant improvements and furniture and fixtures as we continue to exit facilities identified as part of the 2008 cost reduction initiatives. See Note 14 — "Restructuring charges, net" in the Notes to the condensed consolidated financial statements for additional information.

On April 21, 2009, we announced that we expect to reduce our number of then-current employees worldwide by approximately 5 percent. We expect to incur cash charges related to this workforce reduction for severance and other related costs. Total charges are expected to include these cash costs and may also include charges or credits related to stock-based compensation expense. We expect to recognize the foregoing charges during the second quarter of 2009, but are unable, at this time, to estimate the amount of cash and total charges we will incur.

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

	Three Months Ended March 31,		2008-2009
	2008	2009	Change
		(In thousands)	
Interest and investment income	$23,167	$ 6,848	$(16,319)
Investment gains (losses), net	(2,210)	90	2,300
Other	(6,292)	(1,978)	4,314
Total other income, net	$14,665	$ 4,960	$ (9,705)

Other income, net was $5 million for the three months ended March 31, 2009, a decrease of $10 million, as compared to the same period in 2008. Interest and investment income for the first quarter of 2009 decreased $16 million mainly due to a lower average interest rate of 0.8 percent compared to 3.6 percent for the same period in 2008. Other charges decreased by $4 million for the three months ended March 31, 2009, as compared to the same period of 2008, primarily due to the adoption of FSP APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)". No such charges were recorded during the three months ended March 31, 2009, because the debt matured on April 1, 2008. See Note 8 — "Debt" in the Notes to the condensed consolidated financial statements for additional information.

Other income, net may fluctuate in future periods due to realized gains and losses on investments, impairments of investments, changes in our average investment balances, and changes in interest and foreign currency exchange rates.

Income Taxes. The effective tax rate for the three months ended March 31, 2009 was 34 percent, compared to approximately 39 percent for the same period in 2008. These effective tax rates differ from the amounts computed by applying the federal statutory income tax rate primarily due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, and a one- time tax benefit related to a California state law change that was enacted during the quarter. The effective tax rate in 2009 was lower than the rate for the same period in 2008 primarily due to the effect of the California state law change. We currently expect the effective tax rate for fiscal year 2009 to be 44 percent to 47 percent, excluding the one-time benefit of the California state law change and any other discrete items that may occur during the remainder of the year.

During the three months ended March 31, 2009, we recorded a decrease in our total unrecognized tax benefits of approximately $9 million bringing the balance to $789 million. Over the next twelve months, our existing tax positions are expected to generate an increase in total unrecognized tax benefits.

Earnings in Equity Interests. Earnings in equity interests for the three months ended March 31, 2009 was $49 million, as compared to $455 million for the same period in 2008. Earnings in equity interests for the first quarter of 2008 included a $401 million net non-cash gain related to Alibaba Group Holding Limited's ("Alibaba Group") initial public offering ("IPO") of Alibaba.com Limited ("Alibaba.com"), net of tax. In connection with the IPO, we made a direct investment of 1 percent in Alibaba.com. See Note 3 — "Investments in Equity Interests" in the Notes to the condensed consolidated financial statements for additional information.

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

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, amortization, and stock-based compensation expense for making financial decisions and allocating resources.

Summarized information by segment was as follows (dollars in thousands):

	Three Months Ended March 31, 2008	(*)	2009	(*)	Percent Change
Revenues by segment:					
United States	$1,305,340	72%	$1,187,930	75%	(9)%
International	512,262	28%	392,112	25%	(23)%
Total revenues	$1,817,602	100%	$1,580,042	100%	(13)%

(*) Percent of total revenues.

	Three Months Ended March 31, 2008	2009	Percent Change
Segment operating income before depreciation, amortization, and stock-based compensation expense:			
United States	$ 313,093	$ 292,732	(7)%
International	120,040	116,246	(3)%
Total segment operating income before depreciation, amortization, and stock-based compensation expense	433,133	408,978	(6)%
Depreciation and amortization	(187,511)	(181,573)	(3)%
Stock-based compensation expense	(125,005)	(126,720)	1%
Income from operations	$ 120,617	$ 100,685	(17)%

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 for the three months ended March 31, 2009 or 2008, respectively.

United States. United States revenues for the three months ended March 31, 2009 decreased $117 million, or 9 percent, as compared to the same period in 2008. Our year over year decreases in revenues were a result of a decline in advertising across the majority of Yahoo! Properties and in our fee-based services, particularly display advertising. United States operating income before depreciation, amortization, and stock-based compensation expense for the three months ended March 31, 2009 decreased $20 million, or 7 percent compared to the same period in 2008.

International. International revenues for the three months ended March 31, 2009 decreased $120 million, or 23 percent, as compared to the same period in 2008. The decline in international revenues was mainly due to the economic environment, the sale of Kelkoo SAS during the fourth quarter of 2008, and the effects of foreign currency exchange rate fluctuations. International operating income before depreciation, amortization, and stock-based compensation expense for the three months ended March 31, 2009 decreased $4 million, or 3 percent compared to the same period in 2008.

International revenues accounted for approximately 25 percent of total revenues in the three months ended March 31, 2009, compared to 28 percent in the same period in 2008.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian Dollars, British Pounds, Euros, Korean Won, and Taiwan Dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three months ended March 31, 2008, our international revenues for the three months ended March 31, 2009 would have been higher than we reported by approximately $92 million and our International segment operating loss before depreciation, amortization, and stock-based compensation expense would have been higher than we reported by $11 million.

Critical Accounting Policies and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2008 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations. We have made no significant changes to our critical accounting estimates since December 31, 2008.

Recent Accounting Pronouncements

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

Liquidity and Capital Resources

	As of December 31, 2008	As of March 31, 2009
	(Dollars in thousands)	
Cash and cash equivalents	$2,292,296	$2,318,509
Short-term marketable debt securities	1,159,691	1,127,141
Long-term marketable debt securities	69,986	245,445
Total cash, cash equivalents, and marketable debt securities	$3,521,973	$3,691,095
Percentage of total assets	26%	27%

Cash Flow Results	Three Months Ended March 31, 2008	2009
	(In thousands)	
Net cash provided by operating activities	$786,305	$ 262,349
Net cash provided by (used in) investing activities	$ 18,410	$(216,331)
Net cash (used in) provided by financing activities	$ (5,159)	$ 15,720

Our operating activities for the three months ended March 31, 2009 and 2008 generated adequate cash to meet our operating needs. As of March 31, 2009, we had cash, cash equivalents, and marketable debt securities totaling $3.7 billion, compared to $3.5 billion at December 31, 2008.

During the three months ended March 31, 2009, we invested a net $70 million in capital expenditures. The cash used for these investments was offset by $262 million of cash generated from operating activities and $4 million from the issuance of common stock as a result of the exercise of employee stock options. In the three months ended March 31, 2009, $10 million was used for tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock. During the three months ended March 31, 2008, we used $79 million in direct stock repurchases and $52 million for tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock. Additionally, we invested $140 million in net capital expenditures and $166 million in net acquisitions. The cash used for these investments was offset by $786 million of cash generated from operating activities (including a $350 million one-time payment from AT&T Inc. recorded in deferred revenue) and $127 million from the issuance of common stock as a result of the exercise of stock options.

We expect to continue to generate positive cash flows from operations for the second quarter of 2009. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position, and the sale of additional equity securities could result in dilution to our stockholders.

See Note 13 — “Fair Value of Financial Instruments” in the Notes to the condensed consolidated financial statements for additional information.

Cash flow changes

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes, and non-operating gains and losses from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense net of stock-based restructuring expense reversals, non-cash restructuring charges, tax benefits from stock-based awards, and excess tax benefits from stock-based awards. Cash provided by operating activities was greater than net income in the three months ended March 31, 2009 mainly due to the net impact of non-cash adjustments to income.

Cash used in investing activities was primarily attributable to capital expenditures, purchases of intangible assets, as well as acquisitions including our strategic investments. In the three months ended March 31, 2009, we invested $70 million in net capital expenditures and $5 million to purchase intangible assets. In the three months ended March 31, 2008, we invested $140 million in net capital expenditures, $9 million to purchase intangible assets, a net $166 million in acquisitions, and a net $10 million in other investing activities.

Cash used in financing activities is driven by employee option exercises and employee stock purchases offset by our stock repurchases. Our cash proceeds from employee option exercises and employee stock purchases were $4 million for the three months ended March 31, 2009, compared to $127 million for the same period of 2008.

During the three months ended March 31, 2009, we did not repurchase any shares of common stock. We used $10 million for tax withholding payments related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock. During the three months ended March 31, 2008, we used $79 million in the direct repurchase of 3.4 million shares of our common stock at an average price of $23.39 per share. In addition, $52 million was used for tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock ($18 million of which relates to reacquired shares in treasury stock related to restricted stock awards).

Financing

In April 2003, we issued $750 million of the Notes which matured on April 1, 2008. During the three months ended March 31, 2008, $167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to the holders of the Notes. On April 1, 2008, the remaining $583 million of the Notes were converted and 28.5 million shares of Yahoo! common stock were issued to the Note holders. See Note 8 — “Debt” in the Notes to the condensed consolidated financial statements for additional information.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were $70 million for the three months ended March 31, 2009, compared to $140 million in the same period in 2008. Our capital expenditures for the remainder of 2009 are expected to be consistent with 2008 levels.

Contractual obligations and commitments

Leases. We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 23 years, expiring between 2009 and 2027.

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A summary of lease commitments as of March 31, 2009 is as follows (in millions):

	Gross Operating Lease Commitments
Nine months ending December 31, 2009	$ 112
Years ending December 31,	
2010	130
2011	106
2012	93
2013	83
2014	76
Due after 5 years	223
Total gross lease commitments	$ 823

	Capital Lease Commitment
Nine months ending December 31, 2009	$ 5
Years ending December 31,	
2010	7
2011	7
2012	7
2013	8
2014	8
Due after 5 years	39
Gross lease commitment	$ 81
Less: interest	(38)
Net lease commitment	$ 43

Affiliate Commitments. In connection with our contracts to provide sponsored search and/or display advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of March 31, 2009, these commitments totaled $246 million, of which $88 million will be payable in the remainder of 2009, $129 million will be payable in 2010, and $29 million will be payable in 2011.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to $53 million through 2023.

Income Taxes. As of March 31, 2009, the unrecognized tax benefits that resulted in an accrued liability amounted to $351 million and are classified as deferred and other long-term tax liabilities, net on our condensed consolidated balance sheets. As of March 31, 2009, the settlement period for our income tax liabilities cannot be determined. However, no significant liabilities are expected to become due within the next twelve months.

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

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to the impact of interest rate changes, foreign currency exchange rate 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 cash and marketable debt securities portfolio. We invest excess cash in money market funds and liquid marketable debt instruments of the U.S. Government and its agencies, state municipalities, and in high-quality corporate issuers.

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 March 31, 2009 and December 31, 2008, we had investments in short-term marketable debt securities of approximately $1.1 billion and $1.2 billion, respectively. Such investments had a weighted-average yield of approximately 0.7 percent and 1.2 percent, respectively. As of March 31, 2009 and December 31, 2008, we had investments in long-term marketable debt securities of approximately $245 million and $70 million, respectively. Such investments had a weighted average yield of approximately 1.1 percent and 4.0 percent, respectively. A hypothetical 100 basis point increase in interest rates would result in an approximate $7 million and $2 million decrease, respectively, in the fair value of our available-for-sale debt securities as of March 31, 2009 and December 31, 2008.

Foreign Currency Risk. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian Dollars, British Pounds, Euros, Korean Won, and Taiwan Dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three months ended March 31, 2008, our international revenues for the three months ended March 31, 2009 would have been higher than we reported by approximately $92 million and our International segment operating loss before depreciation, amortization, and stock-based compensation expense would have been higher than we reported by $11 million.

As mentioned above, we are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders' equity. In addition, we and our subsidiaries have certain assets and liabilities that are denominated in currencies other than the respective entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a gain or loss. We record these foreign currency transaction gains and losses, realized and unrealized, in other income, net on the condensed consolidated statements of income. During the three months ended March 31, 2009 and 2008, our net foreign currency transaction gains and losses, realized and unrealized, were not material.

Investment Risk. We are exposed to investment risk as it relates to changes in the market value of our investments. We have investments in marketable debt securities and public equity investments.

Our cash and debt investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of March 31, 2009 and 2008, net unrealized gains and losses on these investments were not material.

We invest in equity instruments of public companies for business and strategic purposes and have classified these securities as available-for-sale or investment in equity interests. These investments may be 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 the sale of available-for-sale investments, which were not material as of March 31, 2009 and 2008. Our objective in managing exposure to stock market fluctuations is to minimize the impact of stock market declines to earnings and cash flows. Using a hypothetical reduction of 10 percent in the stock price of these available-for-sale investments, the fair value of our equity investments would decrease by approximately $8 million and $11 million as of March 31, 2009 and 2008, respectively.

Item 4. ***Controls and Procedures***

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

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see Note 10 — "Commitments and Contingencies" to our condensed consolidated financial statements, which is incorporated by reference herein.

Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the 10-K for the year ended December 31, 2008.

We face significant competition for users, advertisers, publishers and distributors, principally from Google, Microsoft, and AOL.

We face significant competition from Google, Microsoft, and AOL, which each offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo!. Among other areas, we compete against these companies:

- to attract and retain users;
- to attract advertisers;
- to attract third-party Website publishers to participate in our Affiliate network; and
- to obtain agreements with software publishers, internet access providers, mobile carriers, device manufacturers and others to promote or distribute our services to their users.

Google, Microsoft and AOL offer products and services that directly compete for users with our offerings, including consumer e-mail, desktop search, local search, instant messaging, photos, maps, video sharing, content channels, mobile applications, and shopping services.

We also compete with traditional media companies to attract advertising dollars, both domestically and internationally. Currently many advertisers direct a portion, but only a portion, of their advertising budgets to Internet advertising. In response, traditional media companies are increasingly expanding their content offerings onto the Web and thus are competing not only to keep offline advertising dollars but also for a share of online advertising dollars. We further compete for users, advertisers and developers with the wide variety of other providers of online services, including social media and networking sites like Facebook and MySpace.com. In recent years, social networks and social media sites have attracted an increased share of users' online time.

Some of our existing competitors and possible additional entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. For example AOL, as a subsidiary of Time Warner Inc., may have access to content from Time Warner's movie, television, music, book, periodical, news, sports, and other media holdings; access to a network of cable and other broadband users and delivery technologies; and advertising offerings. In addition, Google and Microsoft have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions and research and development.

If our competitors are more successful than we are in developing compelling products or attracting and retaining users, advertisers, publishers, developers, or distributors, our revenues and growth rates could decline. In addition, competitors may consolidate with each other and new competitors may enter the market.

The majority of our revenues are derived from marketing services, and the reduction in spending by or loss of current or potential advertisers would cause our revenues and operating results to decline.

For the three months ended March 31, 2009, 88 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenues depends upon:

- maintaining and growing our user base;

- maintaining and growing our popularity as an Internet destination site;
- attracting more advertisers to our user base;
- broadening our relationships with advertisers to small-and medium-sized businesses;
- the successful implementation and acceptance of our advertising exchange by advertisers, website publishers, and online advertising networks;
- the successful ongoing implementation, acceptance and improvement of our new advertising management platform, APT from Yahoo!;
- the successful implementation, acceptance and improvement of our search technologies;
- maintaining and expanding our Affiliate program for search and display marketing services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

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

Deterioration in general economic conditions has caused and could cause additional decreases or delays in marketing services spending by our advertisers and could harm our ability to generate marketing services revenues and our results of operations.

Marketing services expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive most of our revenues from marketing services, the current deterioration in economic conditions has caused and could cause additional decreases in or delays in advertising spending and is likely to reduce our marketing services revenues and negatively impact our short term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements due to the current deterioration in economic conditions could negatively impact our results of operations.

If our cost reduction initiatives do not yield anticipated benefits or if we do not manage our operating expenses effectively, our profitability might decline.

We have implemented cost reduction initiatives designed to better align our operating expenses with our revenues, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to implement these initiatives and to manage costs to better and more efficiently manage our business. Our cost reduction initiatives, however, might not yield the anticipated benefits. Our operating expenses might also increase, from their reduced levels, as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo! brand, fund product development, and acquire and integrate complementary businesses and technologies. In addition, deteriorating economic conditions or other factors could cause our business to contract requiring us to implement additional cost cutting measures. If we do not recognize the anticipated benefits of our cost reduction initiatives, our expenses increase at a greater pace than our revenues, or we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

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

We deploy our own Internet search technology to provide search results on our network. Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We must continually invest in improving our users' experience, including search relevance, speed, and services responsive to users' needs and preferences, to continue to attract, retain, and expand our user base. If we are unable to provide innovative search technologies and other services which generate significant traffic to our Websites, our business could be harmed, causing our revenues to decline.

We rely on the value of our brands, and a failure to maintain or enhance the Yahoo! brands in a cost-effective manner could harm our operating results.

We believe that maintaining and enhancing our brands, including those that contain the Yahoo! name as well as those that do not, is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry in the Internet market. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we anticipate spending increasing amounts of money on, and devoting greater resources to, advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors, including among other issues: service outages; product malfunctions; data privacy and security issues; exploitation of our trademarks by others without permission; and poor presentation or integration of our search marketing listings by Affiliates on their sites or in their software and services.

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

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

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

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

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

Internet, technology, media companies, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other Internet-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As a result, disputes regarding the ownership of technologies and rights associated with online business are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in a number of lawsuits regarding patent issues and have been notified of a number of other potential disputes.

In addition to patent claims, third-parties have asserted, and are likely in the future to assert, claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition. In addition, third-parties have made, and may continue to make, trademark infringement and related claims against us over the display of search results triggered by search terms that include trademark terms. Currently, we are engaged in lawsuits regarding such trademark issues.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement claims. 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 or be prevented from using such rights, which could require us to change our business practices in the future and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. In addition, many of our agreements with our customers or Affiliates require us to indemnify them for some types of third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. The occurrence of any of these results could harm our brand and negatively impact our operating results.

We are subject to U.S. and foreign government regulation of Internet, mobile, and voice over internet protocol, or VOIP, products and services which could subject us to claims, judgments, and remedies including monetary liabilities and limitations on our business practices.

We are subject to regulations and laws directly applicable to providers of Internet, mobile, and VOIP services both domestically and internationally. The application of existing domestic and international laws and regulations to Yahoo! relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile, television and intellectual property ownership and infringement in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international 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, adult content, tobacco, or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. We may incur substantial liabilities for expenses necessary to defend such litigation or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

A number of U.S. federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act ("DMCA") 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. Portions of the Communications Decency Act ("CDA") are intended to provide statutory protections to online service providers who distribute third-party content. Yahoo! relies on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children's Online Privacy Protection Act is intended to impose restrictions on the ability of online services to collect user information from minors. In addition, Providing Resources, Officers, and Technology to Eradicate Cyber Threats to Our Children Act of 2008 ("PROTECT Act") requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Other federal and state laws and legislative efforts designed to protect children on the Internet may impose additional requirements on the Company. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failure on our part to comply with these regulations may subject us to significant liabilities.

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

Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from and about our users. We have posted on our and many of our Affiliates' Websites our own privacy policies and practices concerning the collection, use, and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any data-related consent orders, Federal Trade Commission requirements or orders, or other federal, state, or international privacy or consumer protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business.

Further, failure or perceived failure by us to comply with our policies, applicable requirements, or industry self-regulatory principles related to the collection, use, sharing or security of personal information, or other privacy or data protection-related matters could result in a loss of user confidence in us, damage to the Yahoo! brands, and ultimately in a loss of users, advertising partners, or Affiliates which could adversely affect our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning data privacy and retention issues which could adversely impact our business. The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current data protection policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

We may be subject to legal liability for online services.

We host a wide variety of services and technology products that enable individuals and businesses to exchange information, generate content, advertise products and services, conduct business, and engage in various online activities on a domestic and an international basis. The law relating to the liability of providers of these online services and products for activities of their users is currently unsettled both within the U.S. and internationally. Claims have been threatened and have been brought against us for defamation, negligence, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information to which we provide links or that may be posted online or generated by our users. In addition, Yahoo! has been and may again in the future be subject to domestic or international actions alleging that the availability of certain content within our services violates laws in domestic and international jurisdictions. Defense of any such actions could be costly and involve significant time and attention of our management and other resources and may require us to change our business in a manner adverse to our business.

We arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content, such as stock quotes and trading information, under the Yahoo! brand or via distribution on Yahoo! Properties. We may be subject to claims concerning these products, services, or content by virtue of our involvement in marketing, branding, broadcasting, or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services, or content. While our agreements with respect to these products, services, and content, often provide that we will be indemnified against such liabilities, the ability to receive such indemnification depends on the financial resources of the other party to the agreement and any amounts received might not be adequate to cover our liabilities or the costs associated with defense of such proceedings.

It is also possible that if the manner in which information is provided or any information provided directly by us contains errors or is otherwise wrongfully provided to users, third parties could make claims against us. For example, we offer Web-based e-mail services, which expose us to potential risks, such as liabilities or claims resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, or interruptions or delays in e-mail service. We may also face purported consumer class actions or state actions relating to our online services, including our fee-based services (particularly in connection with any decision to discontinue a fee-based service). In addition, our customers, third-parties or government entities may assert claims or actions against us if our online services or technologies are used to spread or facilitate malicious or harmful code or applications. Investigating and defending these types of claims is expensive, even if the claims are without merit or do not ultimately result in liability, could subject us to significant monetary liability or cause a change in business practices that could impact our ability to compete.

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

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

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our on-going business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;

- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement claims against the acquired company;
- the impairment of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- our lack of, or limitations on, our control over the operations of our joint venture companies;
- in the case of foreign acquisitions and investments, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems, and operational differences; and
- the impact of known potential liabilities or unknown liabilities associated with the companies we acquired or in which we invested.

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

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

We continue to diversify and evolve our business both in the U.S. and internationally. As a result of diversification, acquisitions, and international expansion in recent years, more than one-half of our employees are now based outside of our Sunnyvale, California headquarters. If we are unable to effectively manage a large and geographically dispersed group of employees or to anticipate our future growth and personnel needs our business may be adversely affected.

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

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

As some of the most visited sites on the Internet, Yahoo! Properties deliver a significant number of products, services, and Page Views to users around the world. The products and services offered by Yahoo! have expanded and changed significantly over time and are expected to continue to expand and change rapidly in the future to accommodate new technologies and Internet advertising solutions and new means of content delivery, such as rich media, audio, video, and mobile.

In addition, the Internet and online services industry is characterized by rapid technological change. Widespread adoption of new Internet, networking or telecommunications technologies, or other technological changes could require substantial expenditures to modify or adapt our services or infrastructure. The technology architectures utilized for our services are highly complex and may not provide satisfactory support in the future, as usage increases and products and services expand, change and become more complex. In the future, we may make additional changes to our architectures and systems, including moving to completely new architectures and systems. Such changes may be technologically challenging to develop and implement, may take time to test and deploy, may cause us to incur substantial costs or data loss, and may cause delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising exchange participants to become dissatisfied with our service and move to competing providers or seek remedial actions or compensation.

Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store, and integrate data that will enable us to track each user's preferences. Any difficulties experienced in adapting our architectures and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

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

We offer fee-based enhancements to many of our free services, including e-mail, personals, finance, games, music, photographs, and sports. The development cycles for these technologies are long and generally require significant investment by us. We have invested and will continue to invest in new products and services. Some of these new products and services might not generate anticipated revenue or might not meet anticipated user adoption rates. We have previously discontinued some non-profitable premium services and may discontinue others. We must, however, continue to provide new services that are compelling to our users while continuing to develop an effective method for generating revenues for such services. General economic conditions as well as the rapidly evolving competitive landscape may affect users' willingness to pay for such services. If we cannot generate revenues from these services that are greater than the cost of providing such services, our operating results could be harmed.

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

Our business is dependent on our ability to recruit, hire, motivate and retain talented, highly skilled personnel. Achieving this objective may be difficult due to many factors, including the intense competition for such highly skilled personnel in the San Francisco Bay Area, where our corporate headquarters and the headquarters of several of our vertical and horizontal competitors are located, fluctuations in global economic and industry conditions, changes in Yahoo!'s management or leadership, competitors' hiring practices, and the effectiveness of our compensation programs. If we do not succeed in recruiting, retaining, and motivating our key employees and in attracting new key personnel, we may be unable to meet our business plan and as a result, our stock price may decline.

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

Our future success depends in part on our ability to aggregate compelling content and deliver that content through our online properties. We in-license much of the content on our online properties, such as news items, stock quotes, weather reports, maps and audio and video content, from third-parties. We believe that users will increasingly demand high-quality audio and video content, such as music, film, speeches, news footage, concerts, and other special events. Such content may require us to make substantial payments to third parties from whom we license or acquire such content. Our ability to maintain and build relationships with third-party content providers is critical to our success. In addition, as new methods for accessing the Internet become available, including through alternative devices, we may need to enter into amended content agreements with existing third-party content providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us, and potential content providers may not offer their content to us at all, or may offer it on terms that are not 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 and other media providers, such as radio or television providers, may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate Yahoo! from other businesses. If we are unable to license or acquire compelling content at reasonable prices, 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 of our services may not grow as anticipated, or may decline, which could harm our operating results.

We rely on third-party providers of rich media products to provide the technologies required to deliver rich media content to our users, and any change in the licensing terms, costs, availability or user acceptance of these products could adversely affect our business.

We rely on leading providers of streaming media products to license the software necessary to deliver rich media 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 rich media free of charge, but providers of rich 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 rich media products. We have limited or no control over the availability or acceptance of rich media software, and to the extent that any of these circumstances occur, our business may be adversely affected.

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

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

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

In some markets we depend on a limited number of distribution arrangements for a significant percentage of our user activity. A failure by our distributors to attract or retain their user bases would negatively impact our user activity and, in turn, would reduce our revenues.

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

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

More individuals are utilizing non-Personal Computer (“PC”), devices to access the Internet and versions of our services developed for these devices might not gain widespread adoption by the devices’ users, manufacturers, or distributors or might fail to function as intended on some devices.

The number of individuals who access the Internet through devices other than a PC, such as mobile telephones, personal digital assistants, smart phones, hand held computers, televisions, and set-top box devices, has increased dramatically, and the trend is likely to continue. Our services were originally designed for rich, graphical environments such as those available on the desktop and PC. The lower resolution, functionality, and memory associated with alternative devices currently available may make the use of our services through such devices difficult, and the versions of our services developed for these devices may not be compelling to users, manufacturers, or distributors of alternative devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our services may not work or be viewable on these devices as a result. As we have limited experience to date in operating versions of our services developed or optimized for users of alternative devices, and as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our services for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of such versions. We may be unable to attract and retain a substantial number of alternative device manufacturers, distributors, content providers, and users to our services, or to capture a sufficient share of an increasingly important portion of the market for these services, and, therefore, we may be unsuccessful in attracting both advertisers and premium service subscribers to these services.

To the extent that an access provider or device manufacturer enters into a distribution arrangement with one of our competitors, we face an increased risk that our users will favor the services or properties of that competitor. The manufacturer or access provider might promote a competitor's services or might impair users' access to our services by making its devices incompatible with our software or by not listing our services in a convenient directory. If competitive distributors impair access to our services, or if they simply are more successful than our distributors in developing compelling products that attract and retain users or advertisers, then our revenues could decline.

In the future, as new methods for accessing the Internet become available, including through alternative devices, we may need to enter into amended distribution agreements with existing distributors to cover the new devices and new agreements with additional distributors. We face a risk that existing and potential new distributors may decide not to offer distribution of our properties and services on reasonable terms, or at all. If we fail to obtain distribution or to obtain distribution on terms that are reasonable, we might not be able to fully execute our business plan.

In international markets we compete with local Internet service providers that may have competitive advantages.

In a number of international markets, especially those in Asia, Europe, and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services. Many of these companies have a dominant market share in their territories and are owned by local telecommunications providers which give them a competitive advantage. Local providers of competing online services may also 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. Further, the local providers may have greater regulatory and operational flexibility than Yahoo! due to the fact that we are subject to both U.S. and foreign regulatory requirements. We must continue to improve our local 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.

Our international operations are subject to increased risks which could harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials;
- seasonal volatility in business activity;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;
- different and more stringent user protection, data protection, privacy and other laws; and
- risks related to other government regulation or required compliance with local laws.

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

New technologies could block our advertisements or our search marketing listings, which would harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block the display of our advertisements or our search marketing listings. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of advertisements or clicks on search marketing listings on Web pages. As a result, advertisement-blocking technology could reduce the number and relevancy of advertisements and search results that we are able to deliver and, in turn, our advertising revenues and operating results.

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

A large amount of information on the Internet is provided in proprietary document formats such as Microsoft Word. These proprietary document formats may limit the effectiveness of our search technology by preventing our technology from accessing the content of such documents. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with our ability to access the document contents with our search technology. This would mean that the document contents would not be included in our search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If a software provider also competes with us, it may give its search technologies, or the technologies of our competitors, a preferential ability to search documents in its proprietary format. Any of these results could harm our brand and our operating results.

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, power loss, telecommunications failures, cyber attacks, terrorist attacks, and similar events.
- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, physical and electronic break-ins, sabotage, and similar disruptions from unauthorized tampering, as well as coordinated denial-of-service attacks. We are distributing servers among additional data centers around the world to create redundancies; however, we do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of delays or disruptions to service.
- We rely on third-party providers for our principal Internet connections and co-location of a significant portion of our data servers, as well as for key components of our e-mail and VOIP services, news and stock quote delivery, chat services, mapping, streaming, geo-targeting and other services. We have little or no control over these third-party providers. Any disruption of the services they provide us or any failure of these third-party providers to handle higher volumes of use could, in turn, cause delays or disruptions in our services. In addition, if our agreements with these third-party providers are terminated due to failure to reach agreement on terms or otherwise, we might not have a readily available alternative.

Prolonged delays or disruptions to our service could result in a loss of users, damage our brand and harm our operating results. In addition, users' ability or willingness to access our services might be impaired by spam, viruses, worms, spyware, phishing, and other acts of malice by third parties affecting the user generally or the user's use of our services in particular.

If we fail to prevent click fraud or if we choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability might decline.

A portion of our marketing services revenues arises from advertisers that pay for advertising on a price-per-click basis, meaning that the advertisers pay a fee every time a user clicks on their advertising. This pricing model can be vulnerable to so-called "click fraud," which occurs when clicks are submitted on ads by a user who is motivated by reasons other than genuine interest in the subject of the ad. On Yahoo! Properties and Affiliate sites, we are exposed to the risk of click fraud or other clicks or conversions that advertisers may perceive as undesirable. If fraudulent or other malicious activity is perpetrated by others and we are unable to detect and prevent it, or if we choose to manage traffic quality in a way that advertisers find unsatisfactory, the affected advertisers may experience or perceive a reduced return on their investment in our advertising programs which could lead the advertisers to become dissatisfied with our advertising programs and they might refuse to pay or demand refunds. This could damage our brand and lead to a loss of advertisers and revenues. Advertiser dissatisfaction has led to litigation alleging click fraud and other types of traffic quality-related claims and could potentially lead to further litigation or government regulation of advertising. We may also issue refunds or credits as a result of such activity. Any increase in costs due to any such litigation, government regulation or legislation, refunds or credits could negatively impact our profitability.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenues arises from international operations. Revenues generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

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

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets and investments in equity interests for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, the company in which we invested. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill, amortizable intangible assets, or investments in equity interests becomes impaired. Any such charge would adversely impact our results of operations.

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

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination is made.

Uncertainty resulting from potential proposals to acquire all or part of Yahoo! may adversely affect our business.

In 2008, we received proposals to acquire all or a part of our Company. Third parties may in the future make proposals to acquire all or part of the Company or take other actions that might create uncertainty for our employees, publishers, advertisers, and other business partners. This continuing uncertainty could negatively impact our business.

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 three months ended March 31, 2009, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $11.01 to $14.09 per share and the closing sale price on April 30, 2009 was $14.29 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements and implementations of technological innovations or new services, upgrades 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 of companies in which we have an equity investment, including Yahoo! Japan and Alibaba Group Holding Limited; and news reports relating to us, 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. 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 or other stock-based awards. A sustained decline in our stock price and market capitalization could lead to an impairment charge of our long-lived assets.

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 that acquisition.

In addition, our Board of Directors has the authority to issue up to 10 million shares of Preferred Stock (of which 2 million 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 in control of Yahoo! without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock. Further, some provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or 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 in control of Yahoo!.

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

None.

Item 3. ***Defaults Upon Senior Securities***

None.

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

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

SIGNATURES

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

	YAHOO! INC.
Dated: May 8, 2009	By: /s/ BLAKE JORGENSEN Blake Jorgensen Chief Financial Officer (Principal Financial Officer)
Dated: May 8, 2009	By: /s/ MICHAEL MURRAY Michael Murray Senior Vice President, Finance and Chief Accounting Officer (Principal Accounting Officer)

Table of Contents

YAHOO! INC.

Index to Exhibits

Exhibit Number	Description
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (filed July 28, 2000) and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, filed as Exhibit 4.1 below and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed February 6, 2009 and incorporated herein by reference).
4.1	Amended and Restated Rights Agreement (including the form of Rights Certificate), dated as of April 1, 2005, by and between Yahoo! Inc. and Equiserve Trust Company, N.A., as rights agent (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 4, 2005 and incorporated herein by reference).
10.13+*	Summary of Compensation Payable to Named Executive Officers.
10.17(A)+	Employment Agreement Letter, dated January 13, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed January 15, 2009 and incorporated herein by reference).
10.17(B)+	Notice of Stock Option Grant and Stock Option Award Agreement, dated January 30, 2009, between the Registrant and Carol Bartz (previously filed as Exhibits 10.17(B) and 10.17(C), respectively, to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.17(C)+	Restricted Stock Award Agreement, dated January 30, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.17(D) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.17(D)+	Incentive Notice of Stock Option Grant and Stock Option Award Agreement, dated February 25, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.17(E) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.17(E)+	Incentive Restricted Stock Unit Award Agreement (time-based vesting), dated February 25, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.17(F) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.17(F)+	Incentive Performance Restricted Stock Unit Award Agreement (TSR version), dated February 25, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.17(G) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.17(G)+	Incentive Performance Restricted Stock Unit Award Agreement (OCF version), dated February 25, 2009, between the Registrant and Carol Bartz (previously filed as Exhibit 10.17(H) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.18+	Yahoo! Inc. Executive Incentive Plan (previously filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 27, 2009) and incorporated herein by reference).
10.19+*	Employment Letter, dated January 7, 2008, between the Registrant and Aristotle Balogh.
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 8, 2009.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 8, 2009.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 8, 2009.

* Filed herewith.

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

Exhibit 10.13

Summary of Compensation Payable to Named Executive Officers

Base Salary. The Compensation Committee (the "Committee") of the Board of Directors of Yahoo! Inc. ("Yahoo") has previously approved the annual base salaries of Yahoo's principal executive officer, principal financial officer, and the other executive officers who were named in the Summary Compensation Table of the Company's Proxy Statement filed with the Securities and Exchange Commission on April 29, 2009 and who are currently employed by the Company (together, the "Named Executive Officers"). The following table shows the current annual base salary for 2009 for each of the Named Executive Officers:

Name and Principal Position	Salary ($)
Carol Bartz Chief Executive Officer	1,000,000
Jerry Yang Chief Yahoo	1
Blake Jorgensen Chief Financial Officer	500,000(1)
Aristotle Balogh Chief Technology Officer and Executive Vice President of Products	550,000
Michael J. Callahan Executive Vice President, General Counsel and Secretary	420,000

(1) Mr. Jorgensen will be leaving the Company but is remaining through a transition period.

Bonus. In addition to receiving a base salary, Yahoo!'s Named Executive Officers are also generally eligible to receive an annual bonus.

Yahoo's Named Executive Officer bonuses for 2009 will be determined under Yahoo's Executive Incentive Plan. The Named Executive Officer's respective target bonus opportunities (expressed as a percentage of base salary) under the Executive Incentive Plan for 2009 are as follows: Ms. Bartz - 200%, Mr. Balogh - 100% and Mr. Callahan - 75%. Mr. Yang and Mr. Jorgensen will not participate in the Executive Incentive Plan. The Committee also has the ability to award discretionary bonuses from time to time in circumstances the Committee determines to be appropriate.

Long-Term Incentives. The Named Executive Officers are also eligible to receive equity-based incentives and other awards from time to time at the discretion of the Committee. Equity-based incentives granted by Yahoo! to the Named Executive Officers are reported on Form 4 filings with the Securities and Exchange Commission.

[Letterhead of Yahoo! Inc.]

January 7, 2008

Aristotle Balogh

Dear Ari:

On behalf of Yahoo! Inc. ("Yahoo!" or the "Company"), I am pleased to offer you the position of Chief Development Officer, reporting to Yahoo!'s Chief Executive Officer, Jerry Yang. Your appointment is subject to approval by the Company's Board of Directors and your compensation package as outlined herein is subject to approval of the Compensation Committee of the Board of Directors ("Compensation Committee"). For purposes of this letter, your first day of work at Yahoo! will be considered your "Employment Start Date".

Compensation

Your starting annual base salary will be $45,833 per month ($550,000 annually), less applicable taxes and withholdings, paid semi-monthly and subject to annual review. You will also be eligible to receive an annual target cash bonus of 100% of your annual base salary ($550,000) to be determined by the Compensation Committee in its discretion based on your performance and the Company's performance for the relevant year. Any bonus payment will be subject to applicable taxes and withholdings. To qualify for the incentive bonus, you must remain continuously employed with the Company through the date that any incentive bonus is approved by the Compensation Committee.

Sign-On Bonus

You also will receive a sign-on bonus of $100,000, less applicable taxes and withholdings, to be paid within 30 days of your Employment Start Date.

Stock Options

As a part of the Yahoo! team, we strongly believe that ownership of the Company by our employees is an important factor to our success. Therefore, as part of your compensation, management will recommend that the Compensation Committee grant you an option to purchase 425,000 shares of Yahoo! Inc.'s common stock (the "Option"). The exercise price for the Option will be the fair market value of Yahoo! common stock on the date of grant as determined by the Compensation Committee. The Option will be subject to the terms and conditions of Yahoo! Inc.'s 1995 Stock Plan, as amended, and the applicable notice of stock option grant and stock option agreement (which will include the stock option vesting schedule), and vesting of the Option is contingent on your continued employment with Yahoo! through each vesting date. Subject to approval by the Compensation Committee, twenty-five percent (25%) of the shares subject to the Option will vest on the first anniversary of your Employment Start Date. Thereafter, one-eighth of the shares subject to the Option shall vest and become exercisable every six months, such that the Option will be fully vested on the fourth anniversary of your Employment Start Date.

Restricted Stock Units

Management will recommend that the Compensation Committee grant you an award of 150,000 Restricted Stock Units subject to the terms of the Yahoo! Inc. 1995 Stock Plan, as amended, and the applicable restricted stock unit award agreement. Subject to the approval of the Compensation Committee, this RSU award will vest as follows: 100,000 RSUs to vest on the second anniversary of the date of grant, and 50,000 RSUs to vest on the third anniversary of the date of grant, provided that on each such vesting date you have been continuously employed with Yahoo! through such date. Following each vesting date, you will receive one share of Yahoo! Inc. common stock for each RSU that vested as of such date (subject to tax withholding).

In addition, management will also recommend that the Compensation Committee grant you an award of 25,000 Restricted Stock Units, subject to the terms of the Yahoo! Inc. 1995 Stock Plan, as amended, and the applicable restricted stock unit award agreement. Subject to the approval of the Compensation Committee, this RSU award will vest as follows: 8,333 RSUs to vest on the first anniversary of the date of grant, 8,333 RSUs to vest on the second anniversary of the date of grant, and 8,334 RSUs to vest on the third anniversary of the date of grant, provided that on each such vesting date you have been continuously employed with Yahoo! through such date. Following each vesting date, you will receive one share of Yahoo! Inc. common stock for each RSU that vested as of such date (subject to tax withholding).

Benefits

Benefits. A significant part of your total compensation at Yahoo! is derived from the benefits that Yahoo! provides. Yahoo! provides a very competitive benefits package for its eligible full- and part-time employees. Eligible Yahoos may participate in Yahoo!'s health insurance benefits (medical, dental and vision), life insurance, short term and long term disability, the Employee Stock Purchase Plan, 401(k) Plan, and Yahoo!'s Flexible Spending Plan (Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account). Yahoos working less than 40 hours may not be eligible for all benefit programs or certain benefits may be provided on a pro-rated basis. Please refer to benefit plan documents for eligibility. Of course, Yahoo! may change its benefits at any time. Prior to New Hire Orientation, you will be provided a website address and logon instructions to access detailed information about Yahoo! benefits programs, including the plan documents.

Yahoo! will reimburse you for reasonable business expenses incurred in connection with your employment, upon presentation of appropriate documentation, in accordance with the Company's expense reimbursement policies and you will be eligible to participate in the travel policy established by Yahoo! generally for its senior management.

Paid Time Off. Currently, regular full-time Yahoos are eligible to accrue up to ten (10) days of vacation in their first year of employment, fifteen (15) days of vacation in their second year of employment, and an additional day for each subsequent year. Vacation is accrued based on hours worked, therefore Yahoos who work a part-time schedule accrue vacation on a pro-rata basis. In addition, Yahoo! currently provides eligible employees with ten (10) paid holidays and two (2) personal floating holidays each year.

Relocation Assistance

To assist you with relocation to the Sunnyvale, California area, Yahoo! has partnered with Paragon Relocation Resources to administer our relocation assistance program. You will be eligible to receive relocation assistance according to the attached Domestic Relocation Plan Overview up to a maximum of $450,000. Once you have returned your signed offer letter to Yahoo!, you will be contacted by a representative of Paragon Relocation Resources to initiate your move. The relocation benefits will be subject to, and governed by, the terms and requirements of the applicable Yahoo! and Paragon relocation plans and policies ("Relocation Policies"). Subject to the Relocation Policies, they include the following:

> **Home Sale.** Home Sale Assistance will be provided through Paragon Relocation Resources to help market and sell your primary home. All reasonable non-recurring closing costs as well as reasonable sales commission of up to 6% of the sales price will be reimbursed. This program is structured to take advantage of tax rulings so as to provide a tax-free benefit. Therefore, you must speak with your consultant from Paragon Relocation Resources prior to listing your property to be eligible for this benefit.
>
> **Home Purchase.** Home Purchase Benefits will be offered to help you secure a home in the new location. Yahoo! will reimburse normal and reasonable closing costs. This benefit includes the payment of non-recurring closing costs (including a Loan Origination Fee capped at 1%) capped at 2% of the purchase price. Mortgage services will be provided by Paragon Relocation Resources and will allow a direct bill of the closing costs to Yahoo!. This reimbursement is taxable and will be grossed-up to offset your tax liability.

Proprietary Agreement. As an employee of Yahoo!, it is likely that you will become knowledgeable about confidential and/or proprietary information related to the operations, products and services of the Company and its clients. To protect the interests of both the Company and its clients, all employees are required to read and sign an Employee Confidentiality and Assignment of Inventions Agreement ("Proprietary Agreement") prior to beginning employment. A copy of this agreement is enclosed. Please sign it and return it along with your signed copy of this letter.

Proprietary Information Obligations Checklist. Similarly, you may have confidential or proprietary information from a prior employer that should not be used or disclosed to anyone at Yahoo!. Therefore, Yahoo! requests that you read, complete, and bring with you on your first day of employment, the enclosed Proprietary Information Obligations Checklist to this effect. In addition, Yahoo! requests that you comply with any existing and/or continuing contractual obligations that you may have with your former employers.

Obligations

During your employment, you shall devote your full business efforts and time to Yahoo!. This obligation, however, shall not preclude you from engaging in appropriate civic, charitable or religious activities or from serving on the boards of directors of one or two companies that are not competitors to Yahoo!, as long the activities do not materially interfere or conflict with your responsibilities to, or your ability to perform your duties of employment by, Yahoo! under this Agreement. Any outside activities must be in compliance with Yahoo!'s Guide to Business Conduct and Ethics.

Noncompetition

You agree that, during your employment with Yahoo! you will not engage in, or have any direct or indirect interest in any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, consultant, partner or otherwise) that is competitive with the business of Yahoo!, including, without limitation, any then-current activities relating to providing Internet navigational products or services and any then-current activities providing search, e-mail, chat, e-commerce, instant messaging, content (e.g., music, video), ISP (e.g., connectivity, bandwidth or storage) or other Internet-based delivery or functionality. Notwithstanding the preceding sentence, you may own not more than 1% of the securities of any company whose securities are publicly traded.

Employment At-Will. Please understand that this letter does not constitute a contract of employment for any specific period of time, but will create an employment at-will relationship that may be terminated at any time by you or Yahoo!, with or without cause and with or without advance notice. The at-will nature of the employment relationship may not be modified or amended except by written agreement signed by Yahoo!'s Chief People Officer and you.

Code of Conduct and Yahoo! Policies. Yahoo! is committed to creating a positive work environment and conducting business ethically. As an employee of Yahoo!, you will be expected to abide by the Company's policies and procedures including, but not limited to, Yahoo!'s Guide2Working@Y! and Yahoo!'s Guide to Business Conduct and Ethics. Yahoo! requests that you review, sign and bring with you on your Employment Start Date, the enclosed Guide to Business Conduct and Ethics@Yahoo! and Privacy Policy Acknowledgment Form.

Arbitration. You acknowledge that you have reviewed and agree to the enclosed Arbitration Agreement and Guide2Working@Yahoo! and At-Will Acknowledgment form, which is incorporated into this letter by reference. Please review, sign and bring this document with you on your Employment Start Date.

Entire Agreement. This offer letter and the referenced documents and agreements constitute the entire agreement between you and Yahoo! with respect to the subject matter hereof and supersede any and all prior or contemporaneous oral or written representations, understandings, agreements or communications between you and Yahoo! concerning those subject matters.

Work Authorization/Visa. If you are in need of a work authorization, please let our Staffing Coordinator know at the time that you accept this offer. Please note that the number of employment visas available each year is limited by the U.S. government. In the event that your request for or extension of an employment visa is denied or an employment visa cannot be obtained within a reasonable amount of time (as determined by Yahoo!, in its sole discretion), Yahoo! reserves the right to withdraw or suspend this offer and/or your employment may be terminated (or if your employment has not begun, you may not become employed by Yahoo!). In the event that Yahoo! has agreed to sponsor you for an employment visa, Yahoo! will cover all expenses associated with the visa application process.

Eligibility to Work in the United States. In order for Yahoo! to comply with United States law, we ask that on your Employment Start Date you bring to Yahoo! appropriate documentation to verify your authorization to work in the United States. Yahoo! may not employ anyone who cannot provide documentation showing that they are legally authorized to work in the United States.

Background Check. Please understand that this offer is contingent upon the successful completion of your background check.

Accepting this Offer. We hope you will say yes quickly, however, we'll give you until 5:00 p.m. (PST) on January 14, 2008 to accept this offer. This offer is contingent on you starting employment at Yahoo! on or before February 25, 2008. **To accept this offer, please sign this letter in the space provided below and fax it, the signed Proprietary Agreement, and the signed Proprietary Information Obligations Checklist to Claudia Jara at 408-349-7498. Please also mail the original signed offer letter, the signed Proprietary Agreement and the signed Proprietary Information Obligations Checklist to Claudia Jara in the envelope provided.** A second copy of each document has been provided for you to keep for your records.

Day 1: After your acceptance is received, your Recruiter/Coordinator will email you information about New Hire Orientation. If you will not be starting on a Monday coinciding with orientation, please make arrangements with your manager to complete the necessary eligibility to work and payroll forms on your Employment Start Date.

We look forward to your joining us and hope that you find your employment with Yahoo! enjoyable and professionally rewarding.

Very truly yours,

Libby Sartain
Chief People Officer

I accept this offer of employment with Yahoo! Inc. and agree to the terms and conditions outlined in this letter.

/s/ Ari Balogh 3/3/08
Signature Date

2/6/08
Planned Start Date

(Contingent upon completion of a satisfactory background investigation.)

Enclosures:

Employee Confidentiality and Assignment of Inventions Agreement
Proprietary Information Obligations Checklist
Guide to Business Conduct and Ethics@Yahoo! and Privacy Policy Acknowledgment Form
Arbitration Agreement and Guide2Working@Yahoo! and At-Will Acknowledgment Form
Domestic Relocation Plan Overview
Relo 1

Cc: HR file

EXHIBIT 31.1

Certification of Chief Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Carol Bartz, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2009

By: /s/ CAROL BARTZ
Carol Bartz
Chief Executive Officer

EXHIBIT 31.2

**Certification of Chief Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Blake Jorgensen, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2009

By: /s/ BLAKE JORGENSEN
Blake Jorgensen
Chief Financial Officer

EXHIBIT 32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the "Company") for the quarter ended March 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Carol Bartz, as Chief Executive Officer of the Company, and Blake Jorgensen, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

	/s/ CAROL BARTZ
Name:	Carol Bartz
Title:	Chief Executive Officer
Dated:	May 8, 2009

	/s/ BLAKE JORGENSEN
Name:	Blake Jorgensen
Title:	Chief Financial Officer
Dated:	May 8, 2009

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.