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

Form 10-Q

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

For the quarterly period ended September 30, 2010

Or

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

For the transition period from _____ to _____

Commission file number 000-28018

Yahoo! Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

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

Class	Outstanding at October 29, 2010
Common Stock, \$0.001 par value	1,303,499,916

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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		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
	(Unaudited, in thousands except per share amounts)			
Revenue	\$ 1,575,399	\$ 1,601,203	\$ 4,728,338	\$ 4,799,542
Cost of revenue	708,898	680,754	2,122,088	2,069,858
Gross profit	866,501	920,449	2,606,250	2,729,684
Operating expenses:				
Sales and marketing	286,382	320,977	887,880	965,983
Product development	306,696	269,725	904,137	804,354
General and administrative	155,421	126,816	431,070	362,577
Amortization of intangibles	9,814	8,018	28,734	24,000
Restructuring charges, net	16,689	5,758	86,492	20,222
Total operating expenses	775,002	731,294	2,338,313	2,177,136
Income from operations	91,499	189,155	267,937	552,548
Other income, net	105,390	191,351	182,360	290,267
Income before income taxes and earnings in equity interests	196,889	380,506	450,297	842,815
Provision for income taxes	(77,727)	(86,413)	(182,490)	(204,381)
Earnings in equity interests	68,654	104,166	181,744	288,247
Net income	187,816	398,259	449,551	926,681
Less: Net income attributable to noncontrolling interests	(1,723)	(2,128)	(4,513)	(7,038)
Net income attributable to Yahoo! Inc.	\$ 186,093	\$ 396,131	\$ 445,038	\$ 919,643
Net income attributable to Yahoo! Inc. common stockholders per share — basic	\$ 0.13	\$ 0.30	\$ 0.32	\$ 0.67
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	\$ 0.13	\$ 0.29	\$ 0.31	\$ 0.66
Shares used in per share calculation — basic	1,401,961	1,333,753	1,396,090	1,370,145
Shares used in per share calculation — diluted	1,424,854	1,343,094	1,415,220	1,382,255
Stock-based compensation expense by function:				
Cost of revenue	\$ 2,688	\$ 698	\$ 8,930	\$ 2,289
Sales and marketing	\$ 30,150	\$ 19,066	\$ 115,698	\$ 54,284
Product development	\$ 57,964	\$ 22,647	\$ 163,889	\$ 81,152
General and administrative	\$ 23,628	\$ 8,686	\$ 65,159	\$ 31,752
Restructuring expense reversals	\$ —	\$ —	\$ (7,600)	\$ —

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

YAHOO! INC.
Condensed Consolidated Balance Sheets

	December 31, 2009	September 30, 2010
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,275,430	\$ 1,615,560
Short-term marketable debt securities	2,015,655	1,203,850
Accounts receivable, net	1,003,362	939,159
Prepaid expenses and other current assets	300,325	341,632
Total current assets	4,594,772	4,100,201
Long-term marketable debt securities	1,226,919	636,009
Property and equipment, net	1,426,862	1,549,445
Goodwill	3,640,373	3,656,496
Intangible assets, net	355,883	265,414
Other long-term assets	194,933	225,455
Investments in equity interests	3,496,288	3,783,513
Total assets	<u>\$14,936,030</u>	<u>\$14,216,533</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 136,769	\$ 115,912
Accrued expenses and other current liabilities	1,169,815	922,043
Deferred revenue	411,144	313,531
Total current liabilities	1,717,728	1,351,486
Long-term deferred revenue	122,550	63,325
Capital lease and other long-term liabilities	83,021	139,384
Deferred and other long-term tax liabilities, net	494,095	552,986
Total liabilities	2,417,394	2,107,181
Commitments and contingencies (Note 11)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,413,718 shares issued and 1,406,075 shares outstanding as of December 31, 2009 and 1,428,686 shares issued and 1,301,858 shares outstanding as of September 30, 2010	1,410	1,425
Additional paid-in capital	10,640,367	11,018,718
Treasury stock at cost, 7,643 shares as of December 31, 2009 and 126,828 shares as of September 30, 2010	(117,331)	(1,866,742)
Retained earnings	1,599,638	2,519,281
Accumulated other comprehensive income	369,236	404,316
Total Yahoo! Inc. stockholders' equity	12,493,320	12,076,998
Noncontrolling interests	25,316	32,354
Total equity	<u>12,518,636</u>	<u>12,109,352</u>
Total liabilities and equity	<u>\$14,936,030</u>	<u>\$14,216,533</u>

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30, 2009	September 30, 2010
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 449,551	\$ 926,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	412,043	387,240
Amortization of intangible assets	145,019	97,969
Stock-based compensation expense, net	346,076	169,477
Non-cash restructuring charges	7,257	2,813
Tax benefits from stock-based awards	(13,694)	91,268
Excess tax benefits from stock-based awards	(70,128)	(131,648)
Deferred income taxes	43,680	15,752
Earnings in equity interests	(181,744)	(288,247)
Dividends received from equity investee	27,628	60,918
Gain from sales of investments, assets, and other, net	(166,970)	(222,900)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	172,442	59,464
Prepaid expenses and other	724	(18,502)
Accounts payable	(53,036)	(19,789)
Accrued expenses and other liabilities	(82,537)	(169,707)
Deferred revenue	(77,028)	(123,744)
Net cash provided by operating activities	<u>959,283</u>	<u>837,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(264,058)	(466,685)
Purchases of marketable debt securities	(3,530,766)	(1,789,061)
Proceeds from sales of marketable debt securities	83,164	1,371,852
Proceeds from maturities of marketable debt securities	2,106,020	1,784,056
Proceeds from sales of marketable equity securities	265,194	—
Acquisitions, net of cash acquired	(17,773)	(112,361)
Purchases of intangible assets	(28,814)	(18,793)
Proceeds from sales of divested businesses	—	325,000
Other investing activities, net	3,652	(19,392)
Net cash (used in) provided by investing activities	<u>(1,383,381)</u>	<u>1,074,616</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	74,485	99,667
Repurchases of common stock	(90,778)	(1,749,311)
Excess tax benefits from stock-based awards	70,128	131,648
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(45,989)	(44,383)
Other financing activities, net	—	(1,442)
Net cash provided by (used in) financing activities	<u>7,846</u>	<u>(1,563,821)</u>
Effect of exchange rate changes on cash and cash equivalents	58,046	(7,710)
Net change in cash and cash equivalents	(358,206)	340,130
Cash and cash equivalents at beginning of period	2,292,296	1,275,430
Cash and cash equivalents at end of period	<u>\$ 1,934,090</u>	<u>\$ 1,615,560</u>

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. (“Yahoo!” or the “Company”) is an innovative technology company that operates one of the most trafficked Internet destinations in the world and attracts hundreds of millions of users every month through its engaging media, content and communications offerings. Yahoo! connects its users to what matters to them most, and delivers powerful audience solutions through its unique combination of Science + Art + Scale. To users, Yahoo! provides online properties and services (“Yahoo! Properties” or “Owned and Operated sites”). To advertisers, Yahoo! provides a range of marketing services designed to reach and connect with users of its Owned and Operated sites, as well as with Internet users beyond Yahoo! Properties, through a distribution network of third-party entities (“Affiliates”) that have integrated Yahoo!’s advertising offerings into their Websites or other offerings (“Affiliate sites”).

The Company generates revenue 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. 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, revenue, and expenses and the related disclosure of contingent assets and liabilities. On a regular 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, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted except for the Company’s change in revenue recognition policy pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2009 was derived from the Company’s audited financial statements for the year ended December 31, 2009, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Revenue Recognition. In October 2009, the Financial Accounting Standards Board (“FASB”) amended the accounting standard for multiple deliverable revenue arrangements, which provided updated guidance on whether multiple deliverables exist, how deliverables in an arrangement should be separated, and how consideration should be allocated. This standard eliminates the use of the residual method and will require arrangement consideration to be allocated based on the relative selling price for each deliverable. The selling price for each arrangement deliverable can be established based on vendor specific objective evidence (“VSOE”) and third-party evidence (“TPE”) if VSOE is not available. The new standard provides additional flexibility to utilize an estimate of selling price (“ESP”) if neither VSOE nor TPE is available.

The Company elected to early adopt this accounting standard on January 1, 2010 on a prospective basis for applicable transactions originating or materially modified after December 31, 2009. The adoption of this standard did not have a significant impact on the Company’s revenue recognition for multiple deliverable arrangements. Upon adoption, the selling prices for certain custom advertising solutions may use the best estimate of selling price as provided under the new standard. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial position, cash flows, or results of operations for the three and nine months ended September 30, 2010.

The Company’s revenue is derived principally from services, which comprise marketing services for advertisers and publishers and offerings to users. The Company classifies this revenue as marketing services and fees.

YAHOO! INC.

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

In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the related fee is reasonably assured. The Company's arrangements generally do not include a provision for cancellation, termination, or refunds that would significantly impact revenue recognition.

Marketing services revenue is generated from several offerings including the display of graphical advertisements ("display advertising"), the display of text-based links to an advertiser's Website ("search advertising"), listing-based services, and commerce-based transactions.

The Company recognizes revenue from display advertising on Yahoo! Properties as "impressions" are delivered. An "impression" is delivered when an advertisement appears in pages viewed by users. Arrangements for these services generally have terms of up to one year and in some cases the terms may be up to three years.

The Company offers customized display advertising solutions to advertisers. These customized display advertising solutions combine the Company's standard display advertising with customized content, customer insights, and campaign analysis. Due to the unique nature of these products, the Company may not be able to establish selling prices based on historical stand-alone sales or third party evidence; therefore, the Company may use its best estimate to establish selling prices. The Company establishes best estimates within a range of selling prices considering multiple factors including, but not limited to, factors such as class of advertiser, size of transaction, seasonality, margin objectives, observed pricing trends, available online inventory, industry pricing strategies, and market conditions. The Company believes the use of the best estimates of selling price will allow revenue recognition in a manner consistent with the underlying economics of the transaction.

The Company also recognizes revenue from search advertising on Yahoo! Properties. Search advertising revenue is recognized as "click-throughs" occur. A "click-through" occurs when a user clicks on an advertiser's search result listing.

Marketing services revenue also includes listings and transaction revenue. Listings revenue is generated from a variety of consumer and business listings-based services, including classified advertising such as Yahoo! Autos, Yahoo! Real Estate, and other services. The Company recognizes listings revenue when the services are performed. Transaction revenue is generated from facilitating commercial transactions through Yahoo! Properties, principally from Small Business, Yahoo! Travel and Yahoo! Shopping. The Company recognizes transaction revenue when there is evidence that qualifying transactions have occurred (for example, when travel arrangements are booked through Yahoo! Travel).

In addition to delivering search and display advertising on Yahoo! Properties, the Company also generates revenue from search and/or display advertising offerings on Affiliate sites. The Company pays Affiliates for the revenue generated from the display of these advertisements on the Affiliates' Websites. These payments are called traffic acquisition costs ("TAC"). The revenue derived from these arrangements that involve traffic supplied by Affiliates is reported gross of the payment to Affiliates. This revenue is reported gross due to the fact that the Company is the primary obligor to the advertisers who are the customers of the advertising service.

Fees revenue consists of revenue generated from a variety of consumer and business fee-based services, including Internet broadband services, royalties received from joint venture partners, and premium mail, as well as services for small businesses. The Company recognizes fees revenue when the services are performed.

The Company accounts for cash consideration given to customers, for which it does not receive a separately identifiable benefit or cannot reasonably estimate fair value, as a reduction of revenue rather than as an expense. Cash consideration received in an arrangement with a provider may require consideration of classification of amounts received as revenue or a reimbursement of costs incurred. Additionally, the Company reports revenue for which it is the primary obligor in the arrangement and for which it provided a product or service at the gross amount.

Current deferred revenue is comprised of contractual billings in excess of recognized revenue and payments received in advance of revenue recognition. Long-term deferred revenue includes amounts received from customers for which services will not be delivered within the next 12 months.

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

Basic and diluted net income attributable to Yahoo! common stockholders per share is computed using the weighted average number of common shares outstanding during the period, excluding net income attributable to participating securities (restricted stock awards granted under the Company's 1995 Stock Plan and restricted stock units granted under the 1996 Directors' Stock Plan (the "Directors' Plan")). Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares are calculated using the treasury stock method and consist of unvested restricted stock and shares underlying unvested restricted stock units, the incremental common shares issuable upon the exercise of stock options, and shares to be purchased under the 1996 Employee Stock Purchase Plan, as amended and restated in June 2009 (the "Employee Stock Purchase Plan"). The Company calculates potential tax windfalls and shortfalls by including the impact of pro forma deferred tax assets.

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

YAHOO! INC.
Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Potentially dilutive securities representing approximately 87 million and 86 million shares of common stock for the three and nine months ended September 30, 2010, respectively, and 119 million and 126 million shares of common stock for the three and nine months ended September 30, 2009, 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):

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2009</u>	<u>September 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>	<u>September 30,</u> <u>2010</u>
Basic:				
Numerator:				
Net income attributable to Yahoo! Inc	\$ 186,093	\$ 396,131	\$ 445,038	\$ 919,643
Less: Net income allocated to participating securities	(166)	(41)	(509)	(156)
Net income attributable to Yahoo! Inc. common stockholders — basic	<u>\$ 185,927</u>	<u>\$ 396,090</u>	<u>\$ 444,529</u>	<u>\$ 919,487</u>
Denominator:				
Weighted average common shares	<u>1,401,961</u>	<u>1,333,753</u>	<u>1,396,090</u>	<u>1,370,145</u>
Net income attributable to Yahoo! Inc. common stockholders per share — basic	<u>\$ 0.13</u>	<u>\$ 0.30</u>	<u>\$ 0.32</u>	<u>\$ 0.67</u>
Diluted:				
Numerator:				
Net income attributable to Yahoo! Inc.	\$ 186,093	\$ 396,131	\$ 445,038	\$ 919,643
Less: Net income allocated to participating securities	(21)	(37)	(47)	(77)
Less: Effect of dilutive securities issued by equity investees	(514)	(653)	(314)	(2,018)
Net income attributable to Yahoo! Inc. common stockholders — diluted	<u>\$ 185,558</u>	<u>\$ 395,441</u>	<u>\$ 444,677</u>	<u>\$ 917,548</u>
Denominator:				
Denominator for basic calculation	1,401,961	1,333,753	1,396,090	1,370,145
Weighted average effect of Yahoo! Inc. dilutive securities:				
Restricted stock and restricted stock units	12,746	5,068	11,555	6,236
Stock options and employee stock purchase plan	10,147	4,273	7,575	5,874
Denominator for diluted calculation	<u>1,424,854</u>	<u>1,343,094</u>	<u>1,415,220</u>	<u>1,382,255</u>
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	<u>\$ 0.13</u>	<u>\$ 0.29</u>	<u>\$ 0.31</u>	<u>\$ 0.66</u>

Note 3 ACQUISITIONS

During the nine months ended September 30, 2010, the Company acquired three companies in transactions which were accounted for as business combinations. The total purchase price for these acquisitions was \$114 million. The total cash consideration of \$114 million less cash acquired of \$2 million resulted in a net cash outlay of \$112 million. Of the purchase price, \$75 million was preliminarily allocated to goodwill, \$32 million to amortizable intangible assets, \$17 million to tangible assets, \$2 million to cash acquired, and \$12 million to net assumed liabilities. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. In connection with the acquisitions, the Company issued stock-based awards valued at \$9 million, and such amount is being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

The Company's business combinations completed during the nine months ended September 30, 2010 did not have a material impact on the Company's condensed consolidated financial statements, and therefore pro forma disclosures have not been presented.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2009	September 30, 2010	Percent Ownership of Common Stock
Alibaba Group	\$2,167,007	\$ 2,225,928	43%
Yahoo Japan	1,329,281	1,557,585	35%
Total	<u>\$3,496,288</u>	<u>\$ 3,783,513</u>	

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 its consolidated subsidiaries, and any related amortization expense, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of income.

As of September 30, 2010, the difference between the Company's carrying value of its investment in Alibaba Group and its proportionate share of Alibaba Group's stockholders' equity is summarized as follows (in thousands):

Carrying value of investment in Alibaba Group	\$2,225,928
Proportionate share of Alibaba Group stockholders' equity	1,590,374
Excess of carrying value of investment over proportionate share of Alibaba Group's stockholders' equity ^(*)	<u>\$ 635,554</u>

^(*) The excess carrying value has been primarily assigned to goodwill.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010
Operating data:				
Revenue	\$194,079	\$348,105	\$ 503,355	\$ 903,872
Gross profit	\$142,178	\$259,465	\$ 360,793	\$ 679,539
Income (loss) from operations ^(*)	\$ 2,756	\$ 62,570	\$ (40,920)	\$ (71,004)
Net income (loss)	\$ 19,776	\$ 50,237	\$ (26,683)	\$ (49,975)
Net income (loss) attributable to Alibaba Group	\$ 9,555	\$ 35,917	\$ (54,956)	\$ (88,719)
Balance sheet data:				
Current assets			\$ 3,191,097	\$3,968,545
Long-term assets			\$ 2,308,099	\$2,326,339
Current liabilities			\$ 1,559,975	\$2,299,311
Long-term liabilities			\$ 24,082	\$ 52,363
Non-voting participating redeemable shares			\$ 1,733	\$ 768
Noncontrolling interests			\$ 185,055	\$ 243,042

^(*) The loss from operations of \$71 million for the nine months ended June 30, 2010 is primarily due to Alibaba Group's impairment loss of \$192 million on goodwill related to the business that Yahoo! contributed to Alibaba Group. This impairment does not impact Yahoo!'s earnings in equity interests as Yahoo!'s investment balance related to this contributed business was carried over at cost and therefore Yahoo! has no basis in the impaired goodwill.

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three and nine months ended September 30, 2009 and 2010, these transactions were not material.

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 its consolidated subsidiaries, and any related amortization expense, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of income.

YAHOO! INC.

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

Differences between U.S. GAAP and accounting principles generally accepted in Japan (“Japanese GAAP”), 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. The Company does, however, make adjustments to the earnings in equity interests line in the condensed consolidated statements of income for any differences between U.S. GAAP and Japanese GAAP.

The fair value of the Company’s ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately \$7 billion as of September 30, 2010.

During the nine months ended September 30, 2009 and 2010, the Company received cash dividends from Yahoo Japan in the amounts of \$26 million and \$61 million, net of taxes, respectively, which were recorded as reductions to the Company’s investment in Yahoo Japan.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>
	(in thousands)			
Operating data:				
Revenue	\$ 776,208	\$ 854,726	\$ 2,358,466	\$ 2,645,443
Gross profit	\$ 644,205	\$ 685,605	\$ 1,983,975	\$ 2,139,644
Income from operations	\$ 351,469	\$ 398,735	\$ 1,076,054	\$ 1,230,947
Net income	\$ 198,090	\$ 237,492	\$ 599,376	\$ 730,296
Net income attributable to Yahoo Japan	\$ 197,341	\$ 236,129	\$ 595,890	\$ 725,754
			<u>September 30, 2009</u>	<u>June 30, 2010</u>
			(in thousands)	
Balance sheet data:				
Current assets			\$ 1,599,624	\$ 2,130,670
Long-term assets			\$ 2,395,863	\$ 2,524,217
Current liabilities			\$ 997,722	\$ 1,003,322
Long-term liabilities			\$ 3,556	\$ 28,964
Noncontrolling interests			\$ 26,662	\$ 26,195

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 revenue earned by Yahoo Japan for the delivery of sponsored search results. In addition, the Company recognizes revenue from license fees received from Yahoo Japan. These arrangements resulted in revenue of approximately \$76 million and \$78 million for the three months ended September 30, 2009 and 2010, respectively, and revenue of approximately \$224 million and \$228 million, respectively, for the nine months ended September 30, 2009 and 2010. As of December 31, 2009 and September 30, 2010, the Company had a net receivable balance from Yahoo Japan of approximately \$41 million and \$43 million, respectively.

Note 5 GOODWILL

The Company’s goodwill balance was \$3.6 billion as of December 31, 2009, of which \$2.6 billion was recorded in the Americas segment, \$0.6 billion in the EMEA segment, and \$0.4 billion in the Asia Pacific segment. The change in the carrying amount of goodwill for the nine months ended September 30, 2010 was primarily due to the addition of \$75 million related to acquisitions in the Americas segment, foreign currency translation gains of \$1 million, a reduction of \$19 million related to the allocation of goodwill for the February 2010 sale of Zimbra, Inc., and a reduction of \$41 million related to the allocation of goodwill for the August 2010 sale of HotJobs. As of September 30, 2010, the Company’s goodwill balance was \$3.7 billion, of which \$2.7 billion was recorded in the Americas segment, \$0.6 billion in the EMEA segment, and \$0.4 billion in the Asia Pacific segment.

YAHOO! INC.

**Notes to Condensed Consolidated Financial Statements—Continued
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Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2009	September 30, 2010		
	Net	Gross Carrying Amount	Accumulated Amortization ^(*)	Net
Customer and advertiser related relationships	\$ 83,232	\$ 131,598	\$ (64,912)	\$ 66,686
Developed technology and patents	239,285	384,729	(213,846)	170,883
Trade names, trademarks, and domain names	33,366	76,777	(48,932)	27,845
Total intangible assets, net	\$ 355,883	\$ 593,104	\$ (327,690)	\$ 265,414

^(*) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately \$17 million as of September 30, 2010.

For the three months ended September 30, 2009 and 2010, the Company recognized amortization expense for intangible assets of \$39 million and \$30 million, respectively, including \$29 million in cost of revenue for the three months ended September 30, 2009 and \$22 million in cost of revenue for the three months ended September 30, 2010. For the nine months ended September 30, 2009 and 2010, the Company recognized amortization expense for intangible assets of \$145 million and \$98 million, respectively, including \$116 million in cost of revenue for the nine months ended September 30, 2009 and \$74 million in cost of revenue for the nine months ended September 30, 2010. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2010 and each of the succeeding years is as follows: three months ending December 31, 2010: \$28 million; 2011: \$99 million; 2012: \$70 million; 2013: \$32 million; 2014: \$17 million; and 2015: \$3 million.

Note 7 OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Interest and investment income	\$ 4,822	\$ 5,489	\$ 16,310	\$ 17,669
Gain on sale of marketable equity securities	98,167	—	164,851	—
Gain on sale of Zimbra, Inc.	—	—	—	66,130
Gain on sale of HotJobs	—	186,345	—	186,345
Other	2,401	(483)	1,199	20,123
Total other income, net	\$ 105,390	\$ 191,351	\$ 182,360	\$ 290,267

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

Gain on sale of marketable equity securities includes gains from sales of investments in publicly traded companies. In May 2009, the Company sold all of its Gmarket shares for net proceeds of \$120 million. The Company recorded a pre-tax gain of \$67 million. In September 2009, the Company sold its direct investment in Alibaba.com for net proceeds of \$145 million. The Company recorded a pre-tax gain of \$98 million in connection with the Company's sale of its Alibaba.com shares. In February 2010, the Company sold Zimbra, Inc. for net proceeds of \$100 million. The Company recorded a pre-tax gain of \$66 million. In August 2010, the Company sold HotJobs for net proceeds of \$225 million. The Company recorded a pre-tax gain of \$186 million.

Other consists of foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies, gains/losses from sales of marketable debt securities and/or investments in privately held companies, and other non-operating items.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Note 8 COMPREHENSIVE INCOME

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Net income	\$ 187,816	\$ 398,259	\$ 449,551	\$ 926,681
Change in net unrealized gains (losses), net on available-for-sale securities, net of tax and reclassification adjustments	5,707	(1,608)	(1,694)	4,140
Foreign currency translation adjustments	87,233	201,640	185,002	30,940
Other comprehensive income	92,940	200,032	183,308	35,080
Comprehensive income	280,756	598,291	632,859	961,761
Comprehensive income attributable to noncontrolling interests	(1,723)	(2,128)	(4,513)	(7,038)
Comprehensive income attributable to Yahoo! Inc.	\$ 279,033	\$ 596,163	\$ 628,346	\$ 954,723

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

	December 31, 2009	September 30, 2010
Unrealized gains on available-for-sale securities, net of tax	\$ 4,921	\$ 9,061
Foreign currency translation, net of tax	364,315	395,255
Accumulated other comprehensive income	\$ 369,236	\$ 404,316

Note 9 INVESTMENTS

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

	December 31, 2009			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	\$1,781,674	\$ 868	\$ (1,825)	\$1,780,717
Municipal bonds	465,823	739	(3)	466,559
Corporate debt securities, commercial paper, and bank certificates of deposit	995,291	1,305	(1,298)	995,298
Corporate equity securities	2,597	—	—	2,597
Total investments in available-for-sale securities	\$3,245,385	\$ 2,912	\$ (3,126)	\$3,245,171

	September 30, 2010			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	\$1,105,096	\$ 1,790	\$ (108)	\$1,106,778
Municipal bonds	18,476	21	—	18,497
Corporate debt securities, commercial paper, and bank certificates of deposit	712,410	2,343	(169)	714,584
Corporate equity securities	2,597	—	(1,289)	1,308
Total investments in available-for-sale securities	\$1,838,579	\$ 4,154	\$ (1,566)	\$1,841,167

	December 31, 2009	September 30, 2010
Reported as:		
Short-term marketable debt securities	\$2,015,655	\$ 1,203,850
Long-term marketable debt securities	1,226,919	636,009
Other assets	2,597	1,308
Total	\$3,245,171	\$ 1,841,167

YAHOO! INC.

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

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial for both 2009 and the nine months ended September 30, 2010 as the carrying value approximates fair value because of the short maturity of those instruments.

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

	December 31, 2009	September 30, 2010
Due within one year	\$2,015,655	\$ 1,203,850
Due after one year through five years	1,226,919	636,009
Total available-for-sale marketable debt securities	<u>\$3,242,574</u>	<u>\$ 1,839,859</u>

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

	December 31, 2009					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	\$ 886,657	\$ (1,825)	\$ —	\$ —	\$ 886,657	\$ (1,825)
Municipal bonds	8,760	(3)	—	—	8,760	(3)
Corporate debt securities and commercial paper	352,031	(1,298)	—	—	352,031	(1,298)
Total investments in available-for-sale securities	<u>\$1,247,448</u>	<u>\$ (3,126)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,247,448</u>	<u>\$ (3,126)</u>

	September 30, 2010					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	\$ 211,690	\$ (108)	\$ —	\$ —	\$ 211,690	\$ (108)
Corporate debt securities and commercial paper	125,777	(169)	—	—	125,777	(169)
Corporate equity securities	1,308	(1,289)	—	—	1,308	(1,289)
Total investments in available-for-sale securities	<u>\$338,775</u>	<u>\$ (1,566)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$338,775</u>	<u>\$ (1,566)</u>

The Company's investment portfolio consists of liquid high-quality fixed income government, agency, municipal, and corporate debt securities, money market funds, and time deposits with financial institutions. 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. Fixed income securities may have their fair market value adversely impacted due to a deterioration of the credit quality of the issuer. The longer the term of the securities, the more susceptible they are to changes in market rates. Investments are reviewed periodically to identify possible other-than-temporary impairment. The Company has no current requirement or intent to sell these securities. The Company expects to recover up to (or beyond) the initial cost of investment for securities held.

The FASB's authoritative guidance on fair value measurements establishes a framework for measuring fair value and requires disclosures about fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

- Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

YAHOO! INC.

**Notes to Condensed Consolidated Financial Statements—Continued
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The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy as of December 31, 2009 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 364,602	\$ —	\$ 364,602
Available-for-sale securities:			
Government and agency securities ⁽¹⁾	—	1,938,608	1,938,608
Municipal bonds ⁽¹⁾	—	470,031	470,031
Commercial paper and bank certificates of deposit ⁽¹⁾	—	445,786	445,786
Corporate debt securities ⁽¹⁾	—	641,104	641,104
Available-for-sale securities at fair value	\$ 364,602	\$ 3,495,529	\$ 3,860,131
Corporate equity securities ⁽²⁾	2,597	—	2,597
Total assets at fair value	\$ 367,199	\$ 3,495,529	\$ 3,862,728

⁽¹⁾ The money market funds, Government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, 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 sheets.

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

The amount of cash and cash equivalents as of December 31, 2009 includes \$658 million in cash deposited with commercial banks, of which \$205 million are time deposits.

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy as of September 30, 2010 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 355,474	\$ —	\$ 355,474
Available-for-sale securities:			
Government and agency securities ⁽¹⁾	—	1,419,802	1,419,802
Municipal bonds ⁽¹⁾	—	18,497	18,497
Commercial paper and bank certificates of deposit ⁽¹⁾	—	206,596	206,596
Corporate debt securities ⁽¹⁾	—	573,715	573,715
Available-for-sale securities at fair value	\$ 355,474	\$ 2,218,610	\$ 2,574,084
Corporate equity securities ⁽²⁾	1,308	—	1,308
Total assets at fair value	\$ 356,782	\$ 2,218,610	\$ 2,575,392

⁽¹⁾ The money market funds, Government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, 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 sheets.

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

The amount of cash and cash equivalents as of September 30, 2010 includes \$881 million in cash deposited with commercial banks, of which \$337 million are time deposits.

The fair values of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair values 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. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During the nine months ended September 30, 2010, the Company did not make significant transfers between Level 1 and Level 2 assets. As of December 31, 2009 and September 30, 2010, the Company did not have any significant Level 3 financial assets.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
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Note 10 STOCKHOLDERS' EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of September 30, 2010, there was \$2 million of unamortized stock-based compensation cost related to the Employee Stock Purchase Plan which is expected to be recognized over a weighted average period of less than two months.

Stock Options. The Company's 1995 Stock Plan, the Directors' 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 for the nine months ended September 30, 2010 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2009	119,593	\$ 25.74
Options granted	9,329	\$ 14.89
Options exercised ^(*)	(4,912)	\$ 9.07
Options expired	(26,575)	\$ 38.75
Options cancelled/forfeited	(8,385)	\$ 18.29
Outstanding at September 30, 2010	<u>89,050</u>	<u>\$ 22.34</u>

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

As of September 30, 2010, there was \$124 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.1 years.

The Company determines the grant-date fair value of stock options, including the options granted under the Employee Stock 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	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.0%	1.6%	2.9%	2.3%
Expected volatility	41.8%	36.1%	58.9%	68.1%
Expected life (in years)	4.00	4.5	0.83	0.11

	Stock Options		Purchase Plan ^(*)	
	Nine Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.9%	2.0%	2.9%	2.3%
Expected volatility	49.1%	34.7%	61.1%	68.7%
Expected life (in years)	4.00	4.5	1.17	0.33

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

Restricted stock awards and restricted stock units activity for the nine months ended September 30, 2010 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Awarded and unvested at December 31, 2009 ^(*)	26,189	\$ 21.14
Granted ^(*)	15,689	\$ 15.45
Vested	(7,713)	\$ 22.30
Forfeited	(5,338)	\$ 17.14
Awarded and unvested at September 30, 2010 ^(*)	<u>28,827</u>	<u>\$ 18.47</u>

^(*) Includes the maximum number of shares issuable under the Company's performance-based executive incentive restricted stock unit awards.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
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As of September 30, 2010, there was \$234 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 2.4 years.

During the nine months ended September 30, 2010, 7.7 million shares subject to 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 2.8 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 \$44 million for the nine months ended September 30, 2010 and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

During the nine months ended September 30, 2009, 9.2 million shares subject to 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 3.1 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 \$46 million for the nine months ended September 30, 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, 0.2 million shares were reacquired by the Company to satisfy the related tax withholding obligations and \$3 million was recorded as treasury stock. Payments of \$43 million related to the net share settlement of 2.9 million 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.

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. 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 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 financial performance targets as well as the executive's continued employment through that vesting date. The annual financial performance targets are established at the beginning of each fiscal year and, accordingly, the tranche of the award subject to each annual target is treated as a separate annual grant for accounting purposes. The fair value of each of the 2009 tranche and the 2010 tranche of the February 2009 annual financial performance restricted stock unit grant was \$3 million. Based on the Company's relative attainment of the 2009 performance target, 75 percent of the target amount of the 2009 tranche shares will vest, provided each executive remains employed through the third anniversary of the grant date. For accounting purposes, the 2009 and 2010 tranches are being recognized as stock-based compensation expense over a three- and two-year service period, respectively. 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. The fair value of these restricted stock units is \$13 million and is being recognized as stock-based compensation expense over a three-year service period.

Separately in February 2010, the Compensation Committee approved additional 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. 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 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 financial performance targets as well as the executive's continued employment through that vesting date. The annual financial performance targets are established at the beginning of each fiscal year and, accordingly, the portion of the award subject to each annual target is treated as a separate annual grant for accounting purposes. The amount of stock-based compensation recorded for the first type of restricted stock unit will vary depending on the Company's attainment of annual financial performance targets and the completion of the service period. The fair value of the 2010 tranche of the February 2010 annual financial performance restricted stock unit grant is \$4 million and is being recognized as stock-based compensation expense over a three-year service period. 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. The fair value of these restricted stock units is \$15 million and is being recognized as stock-based compensation expense over a three-year service period.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
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Stock Repurchases. On June 24, 2010, the Company's Board of Directors approved a new stock repurchase program. Under the new program, which expires in June 2013, the Company is authorized to repurchase up to \$3 billion of its outstanding shares of common stock from time to time. The repurchases may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. During the nine months ended September 30, 2010, the Company repurchased approximately 119 million shares of its common stock at an average price of \$14.68 per share for a total of \$1,749 million. Of such repurchases, \$973 million was under the Company's previous stock repurchase program approved by the Board of Directors in October 2006, which was exhausted during the third quarter of 2010, and \$776 million was under the June 2010 stock repurchase program.

Note 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating lease and capital lease agreements with original lease periods of up to 13 years, expiring between 2010 and 2019.

During the second quarter of 2010, the Company acquired certain office space for a total of \$72 million (\$7 million in cash and the assumption of \$65 million in debt). In the first quarter of 2010, the property was reclassified from an operating lease to a capital lease as a result of a commitment to purchase the property. Accordingly, in the second quarter the Company reduced the capital lease obligation for the \$7 million cash outlay and reclassified the remaining \$65 million as assumed debt in its condensed consolidated balance sheets.

A summary of gross and net lease commitments as of September 30, 2010 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Three months ending December 31, 2010	\$ 42	\$ (2)	\$ 40
Years ending December 31,			
2011	160	(9)	151
2012	131	(7)	124
2013	110	(6)	104
2014	88	(6)	82
2015	69	(4)	65
Due after 5 years	69	(1)	68
Total gross and net lease commitments	<u>\$ 669</u>	<u>\$ (35)</u>	<u>\$ 634</u>
			Capital Lease Commitment
Three months ending December 31, 2010			\$ 2
Years ending December 31,			
2011			7
2012			7
2013			8
2014			8
2015			8
Due after 5 years			30
Gross lease commitment			<u>\$ 70</u>
Less: interest			<u>(29)</u>
Net lease commitment			<u>\$ 41</u>

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent TAC, to its Affiliates. As of September 30, 2010, these commitments totaled \$134 million, of which \$37 million will be payable in the remainder of 2010, \$87 million will be payable in 2011, \$7 million will be payable in 2012, and \$3 million will be payable in 2013.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to \$38 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

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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.

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, photo and video sites, auction sites, shopping services, and other communications and community features.

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 April 1, 2009, the parties filed a motion with the Court for preliminary approval of a stipulated global settlement. On October 5, 2009, the Court granted class certification and granted final approval of the settlement and plan of allocation. Notices of appeal by various individuals objecting to the settlement have been filed with the U.S. Court of Appeals for the Second Circuit.

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 former Brodsky/Hacker class action litigation relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Exchange Act. On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had previously substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a shareholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment. The Court sustained Yahoo!'s demurrer, which challenged the sufficiency of the claim. Plaintiff filed an amended complaint on June 21, 2010. The Yahoo! defendants refiled demurrers to the amended complaint on July 23, 2010 and reply briefs were filed on October 15, 2010.

Plaintiff Congregation Beth Aaron voluntarily dismissed an action filed in Santa Clara County Superior Court and on December 3, 2008 re-filed in the U.S. District Court for the Northern District of California alleging claims for breach of fiduciary duty and corporate waste in connection with Yahoo!'s consideration of proposals by Microsoft Corporation to purchase all or a part of Yahoo! in 2008, adoption of severance plans, and the June 12, 2008 agreement between Google Inc. and Yahoo!. Plaintiff filed an amended complaint on February 20, 2009. 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 similar Microsoft-related 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. On June 15, 2009, the District Court granted defendants' motion to dismiss. Plaintiff appealed, and on October 21, 2010 the U.S. Court of Appeals for the Ninth Circuit affirmed the lower court's dismissal of all of Congregation Beth Aaron's claims.

While the outcome of the unsettled 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.

YAHOO! INC.
**Notes to Condensed Consolidated Financial Statements—Continued
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Note 12 SEGMENTS

The Company manages its business geographically. Through the first quarter of 2010, the primary areas of measurement and decision-making were the U.S. and International. Beginning in the second quarter of 2010, the business management structure of the Company was redefined along three geographies: Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Prior period presentations have been updated to conform to the segments currently being used by management to evaluate the operational performance of the Company.

In the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the segment profitability measure reported by the Company was segment operating income before depreciation, amortization, and stock-based compensation expense. Management no longer uses this measure to evaluate the operational performance of the Company's segments. Beginning in the first quarter of 2010, management relies on an internal reporting process that provides revenue and direct costs by segment and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company's segments. Prior period presentations have been updated to conform to the current profitability measures being used by management to evaluate the financial performance of the Company's segments.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Revenue by segment:				
Americas	\$ 1,177,504	\$ 1,146,511	\$ 3,579,198	\$ 3,434,739
EMEA	142,571	133,094	439,542	415,432
Asia Pacific	255,324	321,598	709,598	949,371
Total revenue	1,575,399	1,601,203	4,728,338	4,799,542
Direct costs by segment ⁽¹⁾ :				
Americas	456,733	427,575	1,348,083	1,281,631
EMEA	76,216	76,447	245,390	241,068
Asia Pacific	127,420	173,077	361,174	515,673
Global operating costs ⁽²⁾	514,663	516,101	1,508,524	1,533,714
Restructuring charges, net	16,689	5,758	86,492	20,222
Depreciation and amortization	177,749	161,993	557,062	485,209
Stock-based compensation expense	114,430	51,097	353,676	169,477
Income from operations	\$ 91,499	\$ 189,155	\$ 267,937	\$ 552,548

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Capital expenditures, net:				
Americas	\$ 85,805	\$ 133,101	\$ 226,680	\$ 372,451
EMEA	4,192	11,881	15,591	47,012
Asia Pacific	8,906	18,892	21,787	47,222
Total capital expenditures, net	\$ 98,903	\$ 163,874	\$ 264,058	\$ 466,685
Property and equipment, net:			December 31, 2009	September 30, 2010
Americas			\$1,314,712	\$ 1,405,081
EMEA			40,311	62,370
Asia Pacific			71,839	81,994
Total property and equipment, net			\$1,426,862	\$ 1,549,445

YAHOO! INC.
**Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Marketing services:				
Owned and Operated sites	\$ 851,382	\$ 876,596	\$ 2,581,445	\$ 2,632,467
Affiliate sites	525,966	557,232	1,556,934	1,662,351
Marketing services	1,377,348	1,433,828	4,138,379	4,294,818
Fees	198,051	167,375	589,959	504,724
Total revenue	<u>\$ 1,575,399</u>	<u>\$ 1,601,203</u>	<u>\$ 4,728,338</u>	<u>\$ 4,799,542</u>

Note 13 INCOME TAXES

The effective tax rates for the three and nine months ended September 30, 2010 were 23 percent and 24 percent, respectively, compared to 39 percent and 41 percent for the same periods in 2009. The effective tax rates for the three and nine months ended September 30, 2010 differ from the statutory federal income tax rate of 35 percent due to the reduction of the Company's reserves for tax uncertainties and the usage of loss carryforwards to offset the tax on the gains from sales of Zimbra, Inc. and HotJobs. In addition to those recognized benefits, the effective tax rate differs from the statutory rate as a result of several factors, including state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rates for the three and nine months ended September 30, 2010 differed from the rates for the same periods in 2009 as a result of the same factors.

During the quarter ended June 30, 2010, the U.S. Internal Revenue Service (the "IRS") completed its field examination of the Company's 2005 and 2006 tax returns and issued notices of proposed adjustment. The Company reached an agreement with the IRS in connection with several of the adjustments and adjusted its reserves accordingly. There are other proposed adjustments, including an intercompany transfer pricing matter which could have a significant impact on the Company's tax liability in future years if not resolved favorably, that the Company has not agreed to and is contesting through the administrative process. During the quarter ended September 30, 2010, the IRS commenced an examination of the Company's 2007 and 2008 tax returns. The Company believes its existing reserves for all tax matters are adequate. During the quarter ended September 30, 2010, the Company also filed with the IRS amended federal tax returns for its fiscal years 2000 to 2008, to elect foreign tax credits for foreign taxes paid versus the previous election to deduct foreign taxes from taxable income, reducing income taxes payable by \$102 million. The Company's tax provisions for all years had been computed on the basis of foreign tax credits, and differences between book and tax treatment were charged to additional paid-in capital due to the interaction of stock option deductions and the foreign tax credit computations. Accordingly, the \$102 million reduction in income taxes payable has been reflected as a credit to additional paid-in capital.

The Company's gross amount of unrecognized tax benefits as of September 30, 2010 is \$634 million, of which \$484 million is recorded on the condensed consolidated balance sheets. In the nine months ended September 30, 2010, the Company reached an agreement with the IRS in connection with several adjustments to prior years' tax returns and this agreement resulted in a reduction to the Company's gross unrecognized tax benefits of \$312 million. Of this \$312 million reduction in unrecognized tax benefits, \$160 million resulted in an effective tax rate benefit during the nine months ended September 30, 2010, of which \$81 million relates to the three months ended March 31, 2010 and \$79 million relates to the three months ended September 30, 2010. The reduction to the gross unrecognized tax benefits has been partially offset by increases from current year tax positions. In total, the gross unrecognized tax benefits as of September 30, 2010 decreased by \$260 million from the recorded balance as of December 31, 2009.

The Company is in various stages of the examination and appeals process in connection with all of its tax audits worldwide and it is difficult to determine when these examinations will be settled. In addition, the Company is working to complete a pre-filing agreement with the IRS for its 2009 U.S. Federal income tax return. As a result of all of the above, it is reasonably possible that over the next twelve-month period the Company may experience an increase or decrease in its unrecognized tax benefits. It is not possible to determine either the magnitude or range of any increase or decrease at this time.

Note 14 RESTRUCTURING CHARGES, NET

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Employee severance pay and related costs	\$ 3,505	\$ (215)	\$ 35,703	\$ 735
Non-cancelable lease, contract termination, and other charges	13,184	5,973	58,389	19,487
Sub-total before reversal of stock-based compensation expense	16,689	5,758	94,092	20,222
Reversal of stock-based compensation expense for forfeitures	—	—	(7,600)	—
Restructuring charges, net	<u>\$ 16,689</u>	<u>\$ 5,758</u>	<u>\$ 86,492</u>	<u>\$ 20,222</u>

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
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Although the Company does not allocate restructuring charges to its segments, the amounts of the restructuring charges relating to each segment are presented below.

Q4'08 Restructuring Plan. During the fourth quarter of 2008, the Company implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. During the three and nine months ended September 30, 2009, the Company incurred total pre-tax cash charges of approximately \$13 million and \$60 million, respectively, in severance, facility, and other restructuring costs related to the Q4'08 restructuring plan. Net charges under the Q4'08 restructuring plan relating to the Americas segment were \$11 million and \$57 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q4'08 restructuring plan relating to the EMEA segment were \$2 million and \$3 million for the three and nine months ended September 30, 2009, respectively. During the three and nine months ended September 30, 2010, the Company incurred total pre-tax cash charges of approximately \$3 million and \$17 million, respectively, in facility and other restructuring costs related to the Q4'08 restructuring plan. Net charges under the Q4'08 restructuring plan relating to the Americas segment were \$2 million and \$16 million for the three and nine months ended September 30, 2010, respectively. Net charges under the Q4'08 restructuring plan relating to the EMEA segment were \$1 million for both the three and nine months ended September 30, 2010.

Q2'09 Restructuring Plan. During the second quarter of 2009, the Company implemented new cost reduction initiatives to further reduce the Company's worldwide workforce by approximately 5 percent. During the three and nine months ended September 30, 2009, the Company incurred total pre-tax cash charges of approximately \$4 million and \$35 million in severance and other related costs related to the Q2'09 restructuring plan. For the nine months ended September 30, 2009, the pre-tax cash charges were offset by an \$8 million reduction related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Net charges under the Q2'09 restructuring plan relating to the Americas segment were \$3 million and \$19 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q2'09 restructuring plan relating to the EMEA segment were \$1 million and \$7 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q2'09 restructuring plan relating to the Asia Pacific segment were \$0 and \$1 million for the three and nine months ended September 30, 2009, respectively. During the three and nine months ended September 30, 2010, the Company incurred insignificant charges related to the Q2'09 restructuring plan.

Q4'09 Restructuring Charges. During the fourth quarter of 2009, the Company decided to close one of its EMEA facilities and began implementation of a workforce realignment at the facility to focus resources on its strategic initiatives. The Company exited the facility in the third quarter of 2010. In connection with the strategic realignment efforts, an executive of one of the Company's acquired businesses departed. During both the three and nine months ended September 30, 2010, the Company incurred total pre-tax cash charges of \$3 million in severance, facility and other related costs related to the Q4'09 restructuring charges, consisting of charges related to the EMEA segment.

Restructuring Accruals. As of December 31, 2009 and September 30, 2010, the aggregate outstanding restructuring liability related to the cost reduction initiatives was \$79 million and \$61 million, respectively. Of the \$61 million restructuring liability as of September 30, 2010, \$7 million relates to employee severance pay expenses which the Company expects to substantially pay out by the end of the second quarter of 2011, and \$54 million relates to non-cancelable lease costs which the Company expects to pay over the terms of the related obligations, which extend to the second quarter of 2017.

The activity in the Company's restructuring accruals for the nine months ended September 30, 2010 is summarized as follows (in thousands):

	Q4'08 Restructuring Plan	Q2'09 Restructuring Plan	Q4'09 Restructuring Charges	Total
Balance as of January 1, 2010	\$ 59,965	\$ 4,302	\$ 14,765	\$ 79,032
Employee severance pay and related costs	389	313	928	1,630
Non-cancelable lease, contract termination, and other charges	18,511	—	625	19,136
Other non-cash charges	72	—	2,725	2,797
Reversal of previous charges	(2,446)	(425)	(470)	(3,341)
Restructuring charges, net for the nine months ended September 30, 2010	\$ 16,526	\$ (112)	\$ 3,808	\$ 20,222
Cash paid	(24,966)	(3,105)	(6,971)	(35,042)
Non-cash adjustments	781	(505)	(3,632)	(3,356)
Balance as of September 30, 2010	\$ 52,306	\$ 580	\$ 7,970	\$ 60,856

YAHOO! INC.**Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)**

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

	December 31, 2009	September 30, 2010
Americas	\$ 52,860	\$ 46,449
EMEA	25,869	14,341
Asia Pacific	303	66
Total restructuring accruals	<u>\$ 79,032</u>	<u>\$ 60,856</u>

Note 15 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

On December 4, 2009, the Company entered into a Search and Advertising Services and Sales Agreement (“Search Agreement”) with Microsoft Corporation (“Microsoft”) under which Microsoft will be the Company’s exclusive platform technology provider for algorithmic and paid search services and non-exclusive provider for contextual advertising. The Company also entered into a License Agreement with Microsoft. Under the License Agreement, Microsoft acquired an exclusive 10-year license to the Company’s core search technology and will have the ability to integrate this technology into its existing Web search platforms. The Company received regulatory clearance from both the U.S. Department of Justice and the European Commission on February 18, 2010 and commenced implementation of the Search Agreement on February 23, 2010. Under the Search Agreement, the Company will be the exclusive worldwide relationship sales force for both companies’ premium search advertisers, which include advertisers meeting certain spending or other criteria, advertising agencies that specialize in or offer search engine marketing services and their clients, and resellers and their clients seeking assistance with their paid search accounts. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement.

During the first five years of the term of the Search Agreement, in the transitioned markets the Company will be entitled to receive 88 percent of the net revenue generated from Microsoft’s services on Yahoo! Properties (the “Revenue Share Rate”) and the Company is also entitled to receive its share (at the Revenue Share Rate) of the net revenue generated from Microsoft’s services on Affiliate sites after the Affiliate’s share of net revenue is deducted. For new Affiliates during the term of the Search Agreement, and for all Affiliates after the first five years of such term, the Company will receive its share (at the Revenue Share Rate) of the net revenue generated from Microsoft’s services on Affiliate sites after the Affiliate’s share of net revenue and certain Microsoft costs are deducted. On the fifth anniversary of the date of implementation of the Search Agreement, Microsoft will have the option to terminate the Company’s sales exclusivity for premium search advertisers. If Microsoft exercises its option, the Revenue Share Rate will increase to 93 percent for the remainder of the term of the Search Agreement, unless the Company exercises its option to retain the Company’s sales exclusivity, in which case the Revenue Share Rate would be reduced to 83 percent for the remainder of the term. If Microsoft does not exercise such option, the Revenue Share Rate will be 90 percent for the remainder of the term of the Search Agreement.

Microsoft has agreed to reimburse the Company for certain transition costs up to an aggregate total of \$150 million during the first three years of the Search Agreement. From February 23, 2010 until the applicable services are fully transitioned to Microsoft, Microsoft will also reimburse the Company for the costs of running its algorithmic and paid search services subject to specified exclusions and limitations. These search operating cost reimbursements and certain employee retention costs are separate from and in addition to the \$150 million of transition cost reimbursement payments.

The global transition of the Company’s algorithmic and paid search platforms to Microsoft and migration of its paid search advertisers and publishers is expected to take up to 24 months from February 2010, when the Company commenced implementation of the Search Agreement, and will be done on a market by market basis. The Company began reflecting reimbursements from Microsoft for transition costs and the cost of running its algorithmic and paid search services during the quarter ended March 31, 2010. Based on the Company’s current levels of revenue and operating expenses, it expects the Search Agreement, when fully implemented, to have a positive impact on its operating income and to result in capital expenditures savings.

The Company’s results for the three and nine months ended September 30, 2010 reflect \$81 million and \$202 million, respectively, in search operating cost reimbursements from Microsoft under the Search Agreement. Search operating cost reimbursements will continue until the Company has fully transitioned to Microsoft’s search platform. As the Company transitions each market, search operating cost reimbursements will decline and the underlying expenses will be removed from the Company’s cost structure.

The Company’s results for the three and nine months ended September 30, 2010 also reflect transition cost reimbursements from Microsoft under the Search Agreement, which were equal to the transition costs of \$18 million and \$60 million, respectively, incurred by Yahoo! related to the Search Agreement in the three and nine months ended September 30, 2010. In addition, in the nine months ended September 30, 2010, \$43 million was recorded for reimbursement of transition costs incurred in 2009, \$15 million for employee retention costs incurred in 2010, and \$5 million for employee retention costs incurred in 2009. The 2009 transition cost reimbursements were recorded in 2010 after regulatory clearance in the U.S. and Europe was received, implementation of the Search Agreement commenced, and Microsoft became obligated to make such payments. In the future, quarterly transition cost reimbursements are expected to continue to be roughly equal to quarterly transition costs.

YAHOO! INC.

**Notes to Condensed Consolidated Financial Statements—Continued
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Reimbursement receivables are recorded as the reimbursable costs are incurred and are applied against the operating expense categories in which the costs were incurred. As of September 30, 2010, a total of \$325 million of reimbursable expenses had been incurred by the Company related to the Search Agreement. Of that amount, \$281 million had been received from Microsoft and \$44 million was classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of September 30, 2010.

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 revenue for marketing services and fees;
- expectations about growth in users;
- expectations about cost of revenue and operating expenses;
- expectations about the amount of unrecognized tax benefits and the adequacy of our existing tax reserves;
- anticipated capital expenditures;
- expectations about the implementation and the financial and operational impacts of our search agreement with Microsoft;
- 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 (“Yahoo!,” the “Company,” “we,” “us,” or “our”), is an innovative technology company that operates one of the most trafficked Internet destinations in the world and attracts hundreds of millions of users every month through its engaging media, content and communications offerings. Yahoo! connects its users to what matters to them most, and delivers powerful audience solutions through its unique combination of Science + Art + Scale. To users, we provide online properties and services (“Yahoo! Properties” or our “Owned and Operated sites”). To advertisers, we provide a range of marketing services designed to reach and connect with users of our Owned and Operated sites, as well as with Internet users beyond Yahoo! Properties, through a distribution network of third-party entities (our “Affiliates”) that have integrated our advertising offerings into their Websites or other offerings (“Affiliate sites”). We believe that our marketing services enable advertisers to deliver highly relevant marketing messages to their target audiences.

We generate revenue by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Our marketing services offerings include the display of graphical advertisements (“display advertising”), the display of text-based links to an advertiser’s Website (“search advertising”), listing-based services, and commerce-based transactions. Additionally, although many of the services we provide to users are free, we charge fees for a range of premium services.

Our offerings to users on Yahoo! Properties currently fall into four categories: Integrated Consumer Experiences, Applications (Communications and Communities), Search, and Media Products and Solutions. The majority of our offerings are available in more than 25 languages. We manage and measure our business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa) and Asia Pacific.

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 advertiser’s link.

Third Quarter Results

Operating Results	Three Months Ended September 30,		Dollar Change	Nine Months Ended September 30,		Dollar Change
	2009	2010		2009	2010	
	(In thousands)					
Revenue	\$ 1,575,399	\$ 1,601,203	\$ 25,804	\$ 4,728,338	\$ 4,799,542	\$ 71,204
Income from operations	\$ 91,499	\$ 189,155	\$ 97,656	\$ 267,937	\$ 552,548	\$ 284,611
	(In thousands)					
Cash Flow Results			Nine Months Ended September 30,		Dollar Change	
			2009	2010		
Net cash provided by operating activities			\$ 959,283	\$ 837,045	\$ (122,238)	
Net cash (used in) provided by investing activities			\$(1,383,381)	\$ 1,074,616	\$ 2,457,997	
Net cash provided by (used in) financing activities			\$ 7,846	\$(1,563,821)	\$(1,571,667)	

Our revenue increased 2 percent for both the three and nine months ended September 30, 2010, compared to the same periods in 2009. This can be attributed to an increase in our marketing services revenue, offset by a decrease in our fees revenue. The increase in income from operations of \$98 million and \$285 million for the three and nine months ended September 30, 2010, respectively, reflects a slight increase in revenue, offset by a decrease in operating expenses of \$44 million and \$161 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. The decrease in operating expenses is primarily attributable to decreases in stock-based compensation expense, depreciation and amortization expenses, and restructuring charges, as well as the effects of the cost savings resulting from our arrangement with Microsoft, offset by increased marketing expenses.

Cash generated by operating activities is a measure of the cash productivity of our business model. Our operating activities in the nine months ended September 30, 2010 generated adequate cash to meet our operating needs. Cash provided by investing activities in the nine months ended September 30, 2010 included net proceeds from sales, maturities, and purchases of marketable debt securities of \$1,367 million and proceeds from the sales of divested businesses of \$325 million, offset by net capital expenditures of \$467 million and \$112 million, net used for acquisitions. Cash used in financing activities included \$1,749 million used in the direct repurchase of common stock and \$44 million used for tax withholding payments related to the net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock, offset by \$100 million in proceeds from employee option exercises and employee stock purchases.

Search Agreement with Microsoft Corporation

Our results for the three and nine months ended September 30, 2010 reflect \$81 million and \$202 million, respectively, in search operating cost reimbursements from Microsoft under our Search and Advertising Services and Sales Agreement (“Search Agreement”). Search operating cost reimbursements and cost savings are expected to continue in the fourth quarter of 2010 at an estimated rate of \$75 to \$85 million. Search operating cost reimbursements will continue until we have fully transitioned to Microsoft’s search platform. The global transition of the algorithmic and paid search platforms to Microsoft and migration of paid search advertisers and publishers is expected to take up to 24 months from February 23, 2010, the date we began implementing the Search Agreement, and will be done on a market by market basis. Algorithmic and paid search has been transitioned to the Microsoft platform in the United States and Canada, and we continue to transition algorithmic and paid search in other markets. As we transition each market, search operating cost reimbursements will decline and the underlying expenses will be removed from our cost structure.

Our results for the three and nine months ended September 30, 2010 also reflect transition cost reimbursements from Microsoft under the Search Agreement, which were equal to the transition costs of \$18 million and \$60 million, respectively, incurred by Yahoo! related to the Search Agreement in the three and nine months ended September 30, 2010. In addition, in the nine months ended September 30, 2010, we recorded \$43 million for reimbursement of transition costs incurred in 2009, \$15 million for employee retention costs incurred in 2010, and \$5 million for employee retention costs incurred in 2009. The 2009 transition cost reimbursements were recorded in 2010 after regulatory clearance in the U.S. and Europe was received, implementation of the Search Agreement commenced, and Microsoft became obligated to make such payments. In the fourth quarter of 2010, quarterly transition cost reimbursements are expected to continue to be roughly equal to quarterly transition costs.

We record receivables for the reimbursements as costs are incurred and apply them against the operating expense categories in which the costs were incurred. As of September 30, 2010, we had incurred a total of \$325 million of reimbursable expenses related to the Search Agreement. Of that amount, \$281 million had been received from Microsoft, and \$44 million was classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets as of September 30, 2010. The \$44 million of reimbursements were received during the fourth quarter.

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During the first five years of the Search Agreement, in transitioned markets Yahoo! is entitled to receive 88 percent of the net revenue generated from Microsoft's services on Yahoo! Properties and Yahoo! is also entitled to receive 88 percent of the net revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of net revenue is deducted. In the transitioned markets, we will report GAAP revenue received under the Search Agreement on a net basis, after traffic acquisition costs ("TAC") to search partners and the revenue share to Microsoft, rather than on a gross basis. As a result of the required change in revenue presentation and this expected revenue share with Microsoft, our revenue and TAC for the fourth quarter is expected to be lower than it otherwise would have been by approximately \$210 million and \$180 million, respectively. However, based on our current levels of revenue and operating expenses, we expect the Search Agreement, when fully implemented, to have a positive impact on our operating income and to result in capital expenditures savings.

See Note 15 – "Search Agreement with Microsoft Corporation" in the Notes to the condensed consolidated financial statements for additional information.

Results of Operations

Revenue. Revenue by groups of similar services was as follows (dollars in thousands):

	Three Months Ended September 30,				Percent Change	Nine Months Ended September 30,				Percent Change
	2009	(*)	2010	(*)		2009	(*)	2010	(*)	
Marketing services:										
Owned and Operated sites	\$ 851,382	54%	\$ 876,596	55%	3%	\$2,581,445	55%	\$2,632,467	55%	2%
Affiliate sites	525,966	33%	557,232	35%	6%	1,556,934	33%	1,662,351	34%	7%
Marketing services	1,377,348	87%	1,433,828	90%	4%	4,138,379	88%	4,294,818	89%	4%
Fees	198,051	13%	167,375	10%	(15)%	589,959	12%	504,724	11%	(14)%
Total revenue	<u>\$1,575,399</u>	<u>100%</u>	<u>\$1,601,203</u>	<u>100%</u>	2%	<u>\$4,728,338</u>	<u>100%</u>	<u>\$4,799,542</u>	<u>100%</u>	2%

(*) Percent of total revenue.

We generate marketing services revenue principally from display advertising on Owned and Operated sites and from search advertising. We also receive revenue 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 revenue 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 revenue to decrease for the three months ending December 31, 2010, as compared to the three months ended December 31, 2009. The decrease is attributable to several factors associated with the transition of algorithmic and paid search results to Microsoft in the U.S. and Canada, including the required change in GAAP revenue presentation for transitioned markets from a gross to a net (after TAC) basis, the revenue share with Microsoft in transitioned markets, and several impacts related to the transition that are expected to be short-term in nature. Additionally, other efforts undertaken by the Company, including the discontinuance of our paid inclusion search product as part of our advertising quality initiatives, the divestitures and outsourcing of non-core businesses and offerings, as well as changes in certain of our broadband access partnerships from being fee-paying user based to other fee structures such as fixed fee, are also among the factors expected to contribute to the decrease in revenues.

Marketing Services Revenue from Owned and Operated Sites. Marketing services revenue from Owned and Operated sites for the three and nine months ended September 30, 2010 increased by 3 percent and 2 percent, respectively, compared to the same periods in 2009. The primary components of our marketing services revenue from Owned and Operated sites are search and display advertising. For the three and nine months ended September 30, 2010, revenue from display advertising on Owned and Operated sites increased 17 percent and 18 percent, respectively, compared to the same periods in 2009. For the three and nine months ended September 30, 2010, revenue from search advertising on Owned and Operated sites decreased 7 percent and 10 percent, respectively, compared to the same periods in 2009. Increased advertising spending in display and a shift towards higher-yielding display inventory have resulted in increased display revenue. Search advertising revenue decreased primarily due to the impact of discontinuing our paid inclusion search product as part of our advertising quality initiatives.

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. For the three and nine months ended September 30, 2010, Page Views decreased 4 percent and 3 percent, respectively, and revenue per Page View increased 7 percent and 5 percent, respectively, compared to the same periods in 2009.

Marketing Services Revenue from Affiliate Sites. Marketing services revenue from Affiliate sites for the three and nine months ended September 30, 2010 increased 6 percent and 7 percent, respectively, compared to the same periods in 2009. The number of searches on Affiliate sites decreased by approximately 6 percent and remained flat, respectively, for the three and nine months ended September 30, 2010, compared to the same periods in 2009. The increase in revenue is primarily attributed to the impact of foreign exchange rate fluctuations in the Asia Pacific segment, a new Affiliate in the Asia Pacific segment added in the fourth quarter of 2009, and increased revenue per search, offset slightly by declining search volume. The average revenue per search on our Affiliate sites increased by 12 percent and 8 percent for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009.

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Fees Revenue. Our fees revenue consists of revenue generated from a variety of consumer and business fee-based services, including Internet broadband services, royalties received from joint venture partners, and premium mail, as well as services for small businesses. Fees revenue for the three and nine months ended September 30, 2010 decreased by 15 percent and 14 percent, respectively, compared to the same periods in 2009. The decrease in fees revenue is primarily attributed to changes in certain of our broadband access partnerships, from being fee-paying user based to other fee structures such as fixed fee. In addition, revenue from other premium services has declined year-over-year as we continue to outsource various offerings.

Costs and Expenses. Operating costs and expenses consist of cost of revenue, sales and marketing, product development, general and administrative, amortization of intangible assets, and restructuring charges, net. Cost of revenue consists of TAC, 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.

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

	Three Months Ended September 30,				Percent Change	Dollar Change
	2009	(*)	2010	(*)		
Cost of revenue	\$708,898	45%	\$680,754	43%	(4)%	\$(28,144)
Sales and marketing	\$286,382	18%	\$320,977	20%	12%	\$34,595
Product development	\$306,696	19%	\$269,725	17%	(12)%	\$(36,971)
General and administrative	\$155,421	10%	\$126,816	8%	(18)%	\$(28,605)
Amortization of intangibles	\$9,814	1%	\$8,018	1%	(18)%	\$(1,796)
Restructuring charges, net	\$16,689	1%	\$5,758	0%	(65)%	\$(10,931)

	Nine Months Ended September 30,				Percent Change	Dollar Change
	2009	(*)	2010	(*)		
Cost of revenue	\$2,122,088	45%	\$2,069,858	43%	(2)%	\$(52,230)
Sales and marketing	\$887,880	19%	\$965,983	20%	9%	\$78,103
Product development	\$904,137	19%	\$804,354	17%	(11)%	\$(99,783)
General and administrative	\$431,070	9%	\$362,577	8%	(16)%	\$(68,493)
Amortization of intangibles	\$28,734	1%	\$24,000	1%	(16)%	\$(4,734)
Restructuring charges, net	\$86,492	2%	\$20,222	0%	(77)%	\$(66,270)

(*) Percent of total revenue.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2010	2009	2010
Cost of revenue	\$2,688	\$698	\$8,930	\$2,289
Sales and marketing	30,150	19,066	115,698	54,284
Product development	57,964	22,647	163,889	81,152
General and administrative	23,628	8,686	65,159	31,752
Restructuring expense reversals, net	—	—	(7,600)	—
Total stock-based compensation expense	\$114,430	\$51,097	\$346,076	\$169,477

For additional information about stock-based compensation, see Note 10—“Stockholders’ Equity and Employee Benefits” in the Notes to the condensed consolidated financial statements as well as “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2009 under the caption Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Traffic Acquisition Costs. TAC consists 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 revenue 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 revenue, number of paid introductions, number of searches, or other metrics are expensed based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

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.

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The changes in operating costs and expenses for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	Facilities	TAC	Other	Total
Cost of revenue	\$ (13,884)	\$ (23,905)	\$ (13,655)	\$ (224)	\$32,813	\$ (9,289)	\$ (28,144)
Sales and marketing	9,121	(756)	(528)	(2,088)	—	28,846	34,595
Product development	(35,016)	894	2,284	(5,897)	—	764	(36,971)
General and administrative	(16,659)	(91)	(299)	796	—	(12,352)	(28,605)
Amortization of intangibles	—	—	(1,796)	—	—	—	(1,796)
Restructuring charges, net	—	—	—	—	—	(10,931)	(10,931)
Total	\$ (56,438)	\$ (23,858)	\$ (13,994)	\$ (7,413)	\$32,813	\$ (2,962)	\$ (71,852)

The changes in operating costs and expenses for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	Facilities	TAC	Other	Total
Cost of revenue	\$ (22,609)	\$ (64,190)	\$ (68,451)	\$ 1,799	\$112,246	\$ (11,025)	\$ (52,230)
Sales and marketing	5,473	(1,768)	(388)	(8,463)	—	83,249	78,103
Product development	(101,895)	14,513	2,836	(12,572)	—	(2,665)	(99,783)
General and administrative	(34,267)	(239)	(1,119)	5,606	—	(38,474)	(68,493)
Amortization of intangibles	—	—	(4,734)	—	—	—	(4,734)
Restructuring charges, net	—	—	—	—	—	(66,270)	(66,270)
Total	\$ (153,298)	\$ (51,684)	\$ (71,856)	\$ (13,630)	\$112,246	\$ (35,185)	\$ (213,407)

Compensation Expense. Total compensation expense decreased \$56 million and \$153 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. The declines were primarily driven by a decrease in stock-based compensation expense due to recent grants having a lower grant date fair value than grants currently vesting. The decline in stock-based compensation expense was partially offset by increased salaries and wages from increased headcount, primarily in the product development and sales and marketing functions. In addition, for the three and nine months ended September 30, 2010 we recorded reimbursements from Microsoft of \$39 million and \$161 million, respectively, for employee costs, for which there were no similar reimbursements in the same periods of 2009. For the three and nine months ended September 30, 2010, the net impact of the reimbursements by Microsoft for our cost of running search was a reduction in compensation expense of \$27 million and \$97 million, respectively, compared to the same periods of 2009.

Information Technology. Information technology expense decreased \$24 million and \$52 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. The declines for the three and nine months ended September 30, 2010 were primarily due to reimbursements recorded from Microsoft of \$27 million and \$68 million, respectively, for information technology costs, for which there were no similar reimbursements in the same periods of 2009. For the three and nine months ended September 30, 2010, the net impact of the reimbursements by Microsoft for our cost of running search was a reduction in information technology expense of \$27 million and \$68 million, respectively, compared to the same periods of 2009.

Depreciation and Amortization. Depreciation and amortization expense decreased \$14 million and \$72 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. The decreases were due to decreased amortization expense for fully amortized intangible assets acquired in prior years. In addition, for the three and nine months ended September 30, 2010 we recorded reimbursements from Microsoft of \$8 million and \$18 million, respectively, for depreciation and amortization costs, for which there were no similar reimbursements in the same periods of 2009. For the three and nine months ended September 30, 2010, the net impact of the reimbursements by Microsoft for our cost of running search was a reduction in depreciation and amortization expense of \$8 million and \$18 million, respectively, compared to the same periods of 2009.

TAC. TAC increased \$33 million and \$112 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. The increase for the three months ended September 30, 2010 was primarily driven by a new Affiliate in the Asia Pacific segment added in the fourth quarter of 2009 and increases in revenue from Affiliate sites. The increase for the nine months ended September 30, 2010 was due to the factors noted above as well as the impact of foreign exchange rates.

Facilities and Other Expenses. Facilities and other expenses decreased \$10 million for the three months ended September 30, 2010, compared to the same period in 2009 mainly due to a decrease in restructuring charges of \$11 million, decreased content costs of \$5 million, and decreased third-party service provider expenses of \$5 million, offset by increased marketing expenses of \$19 million. Facilities and other expenses decreased \$49 million for the nine months ended September 30, 2010, compared to the same period in 2009 mainly due to a decrease in restructuring charges of \$66 million and decreased third-party service provider expenses of \$35 million, offset by increased marketing expenses of \$74 million and increased travel and entertainment expenses of \$10 million.

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Marketing-related expenses increased due to additional marketing advertising campaigns including our global branding campaign during the three and nine months ended September 30, 2010, compared to the same periods in 2009. Third-party service-provider expenses decreased primarily due to lower advisory and consulting costs. In addition, for the three and nine months ended September 30, 2010, we recorded total cost reimbursements from Microsoft of \$25 million and \$78 million, respectively, for other costs, for which there were no similar reimbursements in the same periods of 2009. For the three and nine months ended September 30, 2010, the net impact of the reimbursements by Microsoft for our cost of running search was a reduction in facilities and other expenses of \$19 million and \$62 million, respectively, compared to the same periods of 2009.

We currently expect our operating costs to decrease for the three months ending December 31, 2010, compared to the same period of 2009, due to declines in marketing expenses and stock-based compensation expense.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010
Employee severance pay and related costs	\$ 3,505	\$ (215)	\$ 35,703	\$ 735
Non-cancelable lease, contract termination, and other charges	13,184	5,973	58,389	19,487
Sub-total before reversal of stock-based compensation expense	16,689	5,758	94,092	20,222
Reversal of stock-based compensation expense for forfeitures	—	—	(7,600)	—
Restructuring charges, net	\$ 16,689	\$ 5,758	\$ 86,492	\$ 20,222

Although we do not allocate restructuring charges to the segments, the amounts of the restructuring charges relating to each segment are presented below.

Q4'08 Restructuring Plan. During the fourth quarter of 2008, we implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. During the three and nine months ended September 30, 2009, we incurred total pre-tax cash charges of approximately \$13 million and \$60 million, respectively, in severance, facility, and other restructuring costs related to the Q4'08 restructuring plan. Net charges under the Q4'08 restructuring plan relating to the Americas segment were \$11 million and \$57 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q4'08 restructuring plan relating to the EMEA segment were \$2 million and \$3 million for the three and nine months ended September 30, 2009, respectively. During the three and nine months ended September 30, 2010, we incurred total pre-tax cash charges of approximately \$3 million and \$17 million, respectively, in facility and other restructuring costs related to the Q4'08 restructuring plan. Net charges under the Q4'08 restructuring plan relating to the Americas segment were \$2 million and \$16 million for the three and nine months ended September 30, 2010, respectively. Net charges under the Q4'08 restructuring plan relating to the EMEA segment were \$1 million for both the three and nine months ended September 30, 2010. As of September 30, 2010, the aggregate outstanding restructuring liability related to the Q4'08 restructuring plan was \$52 million, most of which relates to non-cancelable lease costs that we expect to pay over the lease terms of the related obligations, which end by the second quarter of 2017.

Q2'09 Restructuring Plan. During the second quarter of 2009, we implemented new cost reduction initiatives to further reduce our worldwide workforce by approximately 5 percent. During the three and nine months ended September 30, 2009, we incurred total pre-tax cash charges of approximately \$4 million and \$35 million, respectively, in severance and other related costs related to the Q2'09 restructuring plan. For the nine months ended September 30, 2009, the pre-tax cash charges were offset by an \$8 million reduction related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Net charges under the Q2'09 restructuring plan relating to the Americas segment were \$3 million and \$19 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q2'09 restructuring plan relating to the EMEA segment were \$1 million and \$7 million for the three and nine months ended September 30, 2009, respectively. Net charges under the Q2'09 restructuring plan relating to the Asia Pacific segment were \$0 and \$1 million for the three and nine months ended September 30, 2009, respectively. During the three and nine months ended September 30, 2010, we incurred insignificant charges related to the Q2'09 restructuring plan. As of September 30, 2010, the aggregate outstanding restructuring liability related to the Q2'09 restructuring plan was \$1 million, which we expect to pay out by the second quarter of 2011.

Q4'09 Restructuring Charges. During the fourth quarter of 2009, we decided to close one of our EMEA facilities and began implementation of a workforce realignment at the facility to focus resources on our strategic initiatives. We exited the facility in the third quarter of 2010. In connection with the strategic realignment efforts, an executive of one of our acquired businesses departed. During both the three and nine months ended September 30, 2010, we incurred total pre-tax cash charges of \$3 million in severance, facility and other related costs related to the Q4'09 restructuring charges, consisting of charges mainly related to the EMEA segment. As of September 30, 2010, the aggregate outstanding restructuring liability related to the Q4'09 restructuring charges was \$8 million, which we expect to pay out by the second quarter of 2011.

In addition to the charges described above, we currently expect to incur future charges of approximately \$18 million to \$26 million primarily related to non-cancelable operating costs and accretion related to exited facilities identified as part of the Q4'08 restructuring plan, of which \$17 million to \$23 million relates to the Americas segment, \$1 million to \$3 million relates to the EMEA segment, and no charge relates to the Asia Pacific segment. The future charges are expected to be recorded primarily in the fourth quarter of 2010 and 2011.

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Our restructuring charges for excess lease facilities are highly dependent upon estimated amounts of sublease income. Time required to market and obtain a subtenant or to terminate lease obligations varies considerably with commercial real estate market conditions in certain geographies. Our restructuring charges represent the best estimate of the fair value of the obligations we expect to incur and could be subject to adjustment as market conditions change and sublease agreements are signed through fiscal 2017. Refer to Note 14 — “Restructuring charges, net” in the Notes to the condensed consolidated financial statements for additional information.

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

	<u>Three Months Ended September 30,</u>		<u>Dollar</u> <u>Change</u>	<u>Nine Months Ended September 30,</u>		<u>Dollar</u> <u>Change</u>
	<u>2009</u>	<u>2010</u>		<u>2009</u>	<u>2010</u>	
Interest and investment income	\$ 4,822	\$ 5,489	\$ 667	\$ 16,310	\$ 17,669	\$ 1,359
Gain on sale of marketable equity securities	98,167	—	(98,167)	164,851	—	(164,851)
Gain on sale of Zimbra, Inc.	—	—	—	—	66,130	66,130
Gain on sale of HotJobs	—	186,345	186,345	—	186,345	186,345
Other	2,401	(483)	(2,884)	1,199	20,123	18,924
Total other income, net	<u>\$ 105,390</u>	<u>\$ 191,351</u>	<u>\$ 85,961</u>	<u>\$ 182,360</u>	<u>\$ 290,267</u>	<u>\$ 107,907</u>

In February 2010, we sold Zimbra, Inc., for net proceeds of \$100 million. We recorded a pre-tax gain of \$66 million. In August 2010, we sold HotJobs for net proceeds of \$225 million. We recorded a pre-tax gain of \$186 million. In May 2009, we tendered all of our Gmarket shares for net proceeds of \$120 million. We recorded a pre-tax gain of \$67 million. In September 2009, we sold our direct investment in Alibaba.com for net proceeds of \$145 million. We recorded a pre-tax gain of \$98 million. Other consists of foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies and other non-operating items.

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

Income Taxes. The effective tax rates for the three and nine months ended September 30, 2010 were 23 percent and 24 percent, respectively, compared to 39 percent and 41 percent for the same periods in 2009. The effective tax rate for the three and nine months ended September 30, 2010 differs from the statutory federal income tax rate of 35 percent due to the reduction of our reserves for tax uncertainties and the usage of loss carryforwards to offset the tax on the gain from the sale of Zimbra, Inc. and HotJobs. In addition to those recognized benefits, the effective tax rate differs from the statutory rate as a result of several factors, including state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rate for the three and nine months ended September 30, 2010 was lower than the rate for the same periods in 2009 as a result of the same factors.

Our gross amount of unrecognized tax benefits as of September 30, 2010 is \$634 million, of which \$484 million is recorded on the condensed consolidated balance sheets. In the nine months ended September 30, 2010, we reached an agreement with the IRS in connection with several adjustments to prior years' tax returns and this agreement resulted in a reduction to our gross unrecognized tax benefits of \$312 million. Of this \$312 million reduction in unrecognized tax benefits, \$160 million resulted in an effective tax rate benefit during the nine months ended September 30, 2010, of which \$81 million relates to the three months ended March 31, 2010 and \$79 million relates to the three months ended September 30, 2010. The reduction to the gross unrecognized tax benefits has been partially offset by increases from current year tax positions. In total, the gross unrecognized tax benefits as of September 30, 2010 decreased by \$260 million from the recorded balance as of December 31, 2009.

During the quarter ended June 30, 2010, the IRS completed its field examination of our 2005 and 2006 tax returns and issued notices of proposed adjustment. We reached an agreement with the IRS in connection with several of the adjustments and adjusted our reserves accordingly. There are other proposed adjustments, including an intercompany transfer pricing matter which could have a significant impact on our tax liability in future years if not resolved favorably, that we have not agreed to and is contesting through the administrative process. During the quarter ended September 30, 2010, the IRS commenced an examination of our 2007 and 2008 tax returns. We believe our existing reserves for all tax matters are adequate. During the quarter ended September 30, 2010, we also filed with the IRS amended federal tax returns for our fiscal years 2000 to 2008, to elect foreign tax credits for foreign taxes paid versus the previous election to deduct foreign taxes from taxable income, reducing income taxes payable by \$102 million. Our tax provisions for all years had been computed on the basis of foreign tax credits, and differences between book and tax treatment were charged to additional paid-in capital due to the interaction of stock option deductions and the foreign tax credit computations. Accordingly, the \$102 million reduction in income taxes payable has been reflected as a credit to additional paid-in capital.

Earnings in Equity Interests. Earnings in equity interests for the three and nine months ended September 30, 2010 was \$104 million and \$288 million, respectively, as compared to \$69 million and \$182 million, respectively, for the same periods in 2009, due primarily to Yahoo Japan's improved financial performance and the impact of foreign currency exchange rate fluctuations. We sold our direct investment in Alibaba.com during the three months ended September 30, 2009 for net proceeds of \$145 million. See Note 4 — “Investments in Equity Interests” in the Notes to the condensed consolidated financial statements for additional information.

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

Business Segment Results

We manage our business geographically. Through the first quarter of 2010, the primary areas of measurement and decision-making were the U.S. and International. Beginning in the second quarter of 2010, the business management structure of the Company was redefined along three geographies: Americas, EMEA (Europe, Middle East, and Africa) and Asia Pacific. Prior period presentations have been updated to conform to the segments currently being used by management to evaluate our operational performance.

In our Annual Report on Form 10-K for the year ended December 31, 2009, the segment profitability measure we reported was segment operating income before depreciation, amortization, and stock-based compensation expense. Our management team no longer uses this measure to evaluate the operational performance of our segments. Beginning in the first quarter of 2010, management relies on an internal reporting process that provides revenue and direct costs by segment and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments. Prior period presentations have been updated to conform to the current profitability measures being used by management to evaluate the financial performance of our segments.

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

	Three Months Ended			Nine Months Ended		
	September 30, 2009	September 30, 2010	Percent Change	September 30, 2009	September 30, 2010	Percent Change
Revenue by segment:						
Americas	\$ 1,177,504	\$ 1,146,511	(3%)	\$ 3,579,198	\$ 3,434,739	(4%)
EMEA	142,571	133,094	(7%)	439,542	415,432	(5%)
Asia Pacific	255,324	321,598	26%	709,598	949,371	34%
Total revenue	1,575,399	1,601,203	2%	4,728,338	4,799,542	2%
Direct costs by segment⁽¹⁾:						
Americas	456,733	427,575	(6%)	1,348,083	1,281,631	(5%)
EMEA	76,216	76,447	0%	245,390	241,068	(2%)
Asia Pacific	127,420	173,077	36%	361,174	515,673	43%
Global operating costs ^{(2) (3)}	514,663	516,101	0%	1,508,524	1,533,714	2%
Restructuring charges, net	16,689	5,758	(65%)	86,492	20,222	(77%)
Depreciation and amortization	177,749	161,993	(9%)	557,062	485,209	(13%)
Stock-based compensation expense	114,430	51,097	(55%)	353,676	169,477	(52%)
Income from operations	\$ 91,499	\$ 189,155	107%	\$ 267,937	\$ 552,548	106%

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

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

⁽³⁾ The net cost reimbursements from Microsoft are primarily included in global operating costs for the three and nine months ended September 30, 2010.

Revenue is generally attributed to individual countries according to the sales force that generated the revenue. No single foreign country accounted for more than 10 percent of revenue for the three and nine months ended September 30, 2010 or 2009.

Americas. Americas revenue for the three and nine months ended September 30, 2010 decreased \$31 million, or 3 percent, and \$144 million, or 4 percent, respectively, compared to the same periods in 2009. Our year-over-year decreases in revenue were a result of a decline in our search advertising business and our fee-based services, partially offset by an increase in our display advertising business. Search advertising revenue decreased primarily due to the impact of discontinuing our paid inclusion search product in late 2009 as part of our advertising quality initiatives. These decreases were offset by an increase in display revenue driven by increased advertising spending and a shift towards higher-yielding display inventory by our customers. For the three and nine months ended September 30, 2010, direct costs attributable to the Americas segment decreased \$29 million, or 6 percent, and \$66 million, or 5 percent, respectively, compared to the same periods in 2009. The declines are primarily due to a decrease in TAC from the decline in Affiliate search revenue in the Americas as well as decreases in content costs.

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Revenue in the Americas accounted for approximately 72 percent of total revenue in both the three and nine months ended September 30, 2010, respectively, compared to 75 percent and 76 percent for the three and nine months ended September 30, 2009, respectively.

EMEA. EMEA revenue for the three and nine months ended September 30, 2010 decreased \$9 million, or 7 percent, and \$24 million, or 5 percent, respectively, compared to the same periods in 2009. The decreases in EMEA revenue were primarily driven by a slight decline in our search advertising business as well as a decline in fees revenue. Search advertising revenue decreased primarily due to traffic quality initiatives. The decrease in fees revenue is primarily attributed to changes in certain broadband access partnerships. For the three and nine months ended September 30, 2010, direct costs attributable to the EMEA segment remained flat and decreased 2 percent, respectively, compared to the same periods in 2009. Direct costs were primarily driven by a decrease in TAC associated with the decline in Affiliate revenue.

Revenue in EMEA accounted for approximately 8 percent and 9 percent of total revenue for the three and nine months ended September 30, 2010, respectively, compared to 9 percent for both the three and nine months ended September 30, 2009.

Asia Pacific. Asia Pacific revenue for the three and nine months ended September 30, 2010 increased \$66 million, or 26 percent, and \$240 million, or 34 percent, respectively, compared to the same periods in 2009. The increases in Asia Pacific revenue were primarily driven by a new Affiliate in the Asia Pacific segment added in the fourth quarter of 2009 and the favorable effects of foreign currency exchange rate fluctuations. For the three and nine months ended September 30, 2010, direct costs attributable to the Asia Pacific segment increased \$46 million, or 36 percent, and \$154 million, or 43 percent, respectively, compared to the same periods in 2009. The increases in direct costs were primarily driven by an increase in TAC associated with the increase in Affiliate revenue. For the three and nine months ended September 30, 2010, direct costs attributable to the Asia Pacific segment increased by a greater percentage than Asia Pacific revenue in the same periods of 2009 due to an increase in TAC rates.

Revenue in Asia Pacific accounted for approximately 20 percent of total revenue for both the three and nine months ended September 30, 2010, respectively, compared to 16 percent and 15 percent for the three and nine months ended September 30, 2009, respectively.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenue 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 revenue and operating expenses. Similarly, our consolidated revenue and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and nine months ended September 30, 2009, revenue for the Americas segment for the three and nine months ended September 30, 2010 would have been lower than we reported by \$2 million and \$11 million, respectively, revenue for the EMEA segment would have been higher than we reported by \$13 million and \$6 million, respectively, and revenue for the Asia Pacific segment would have been lower than we reported by \$13 million and \$78 million, respectively. Using the foreign currency exchange rates from the three and nine months ended September 30, 2009, direct costs for the Americas segment for the three and nine months ended September 30, 2010 would have been lower than we reported by \$1 million and \$4 million, respectively, direct costs for the EMEA segment would have been higher than we reported by \$8 million and \$4 million, respectively, and direct costs for the Asia Pacific segment would have been lower than we reported by \$7 million and \$52 million, respectively.

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, revenue and expenses, and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2009 under the caption Management’s Discussion and Analysis of Financial Condition and Results of Operations. We have made no significant changes to our critical accounting policies and estimates since December 31, 2009. Refer to Note 1 — “The Company and Summary of Significant Accounting Policies” in the Notes to the condensed consolidated financial statements for a summary of the new revenue recognition guidance we recently adopted.

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Liquidity and Capital Resources

	As of December 31, 2009	As of September 30, 2010
	(Dollars in thousands)	
Cash and cash equivalents	\$1,275,430	\$ 1,615,560
Short-term marketable debt securities	2,015,655	1,203,850
Long-term marketable debt securities	1,226,919	636,009
Total cash, cash equivalents, and marketable debt securities	<u>\$4,518,004</u>	<u>\$ 3,455,419</u>
Percentage of total assets	<u>30%</u>	<u>24%</u>

	Nine Months Ended September 30,	
	2009	2010
	(In thousands)	
Net cash provided by operating activities	\$ 959,283	\$ 837,045
Net cash (used in) provided by investing activities	\$(1,383,381)	\$ 1,074,616
Net cash provided by (used in) financing activities	\$ 7,846	\$(1,563,821)

Our operating activities for the nine months ended September 30, 2010 generated adequate cash to meet our operating needs. As of September 30, 2010, we had cash, cash equivalents, and marketable debt securities totaling \$3.5 billion, compared to \$4.5 billion at December 31, 2009. During the nine months ended September 30, 2010, we repurchased 119 million shares for \$1,749 million.

During the nine months ended September 30, 2010, we generated \$837 million of cash from operating activities, net proceeds from sales and maturities of marketable debt securities of \$1,367 million, proceeds from the sales of divested businesses of \$325 million, and \$100 million from the issuance of common stock as a result of the exercise of employee stock options and employee stock purchases. This was offset by a net \$467 million in capital expenditures, a net \$112 million for acquisitions, \$1,749 million used in the direct repurchase of common stock, and \$44 million in tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock. During the nine months ended September 30, 2009, we generated \$959 million of cash from operating activities, \$265 million from proceeds from the sales of marketable equity securities, and \$74 million from the issuance of common stock as a result of the exercise of employee stock options and employee stock purchases. This was offset by a net \$264 million in capital expenditures, \$1.3 billion additional investment in marketable debt securities, \$46 million in tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock, and \$91 million in the direct repurchase of common stock.

We expect to continue to generate positive cash flows from operations for the fourth quarter of 2010. 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 issue 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 9 — “Investments” 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 from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense, non-cash restructuring charges, tax benefits from stock-based awards, excess tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. Cash provided by operating activities was lower than net income in the nine months ended September 30, 2010 due to non-cash items included in net income and changes in working capital, including lower collections on accounts receivable, higher tax payments made, and Microsoft reimbursements not yet received as cash. As of September 30, 2010, we had incurred a total of \$325 million of reimbursable expenses (including \$43 million related to 2009) in connection with the Search Agreement. Of that amount, \$281 million had been received from Microsoft, and \$44 million was classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets.

Cash provided by investing activities was primarily attributable to net proceeds from the sales and maturities of marketable debt securities and proceeds from the sale of a divested business. In the nine months ended September 30, 2010, we received net proceeds from sales, maturities, and purchases of marketable debt securities of \$1,367 million, and \$325 million from the sales of divested businesses, which were offset by the investment of \$467 million in net capital expenditures, \$112 million for net acquisitions, and \$19

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million to purchase intangible assets. During the nine months ended September 30, 2009, we invested \$264 million in net capital expenditures, \$1.3 billion in marketable debt securities, \$29 million to purchase intangible assets, and \$18 million for net acquisitions, which were offset by proceeds of \$265 million from the sales of marketable equity securities.

Cash used in financing activities is driven by stock repurchases offset by employee stock option exercises and employee stock purchases. Our cash proceeds from employee stock option exercises and employee stock purchases were \$100 million for the nine months ended September 30, 2010, compared to \$74 million for the same period of 2009. During the nine months ended September 30, 2010, we used \$1,749 million in the direct repurchase of 119 million shares of common stock at an average price of \$14.68 per share and \$44 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock. During the nine months ended September 30, 2009, we used \$91 million in the direct repurchase of 6 million shares of common stock at an average price of \$14.97 per share and \$46 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$467 million for the nine months ended September 30, 2010, compared to \$264 million in the same period of 2009. Our capital expenditures for the three months ending December 31, 2010 are expected to increase slightly compared to the same period of 2009 as we continue to invest in the infrastructure needed to support additional users and improve the performance experienced by our users.

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 13 years, expiring between 2010 and 2019.

During the second quarter of 2010, we acquired certain office space for a total of \$72 million (\$7 million in cash and the assumption of \$65 million in debt). In the first quarter of 2010, the property was re-classified from an operating lease to a capital lease as a result of a commitment to purchase the property. Accordingly, in the second quarter we reduced the capital lease obligation for the \$7 million cash outlay and reclassified the remaining \$65 million as assumed debt in our condensed consolidated balance sheets.

A summary of lease commitments as of September 30, 2010 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Three months ending December 31, 2010	\$ 42	\$ 2
Years ending December 31,		
2011	160	7
2012	131	7
2013	110	8
2014	88	8
2015	69	8
Due after 5 years	69	30
Total gross lease commitments	\$ 669	\$ 70
Less: interest	—	(29)
Net lease commitments	\$ 669	\$ 41

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of September 30, 2010, these commitments totaled \$134 million, of which \$37 million will be payable in the remainder of 2010, \$87 million will be payable in 2011, \$7 million will be payable in 2012, and \$3 million will be payable in 2013.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to \$38 million through 2023.

Income Taxes. As of September 30, 2010, the unrecognized tax benefits of \$484 million and accrued liabilities for potential interest and penalties of \$11 million are recorded on our condensed consolidated balance sheets. As of September 30, 2010, the settlement period for our income tax liabilities cannot be determined.

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 condensed 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 high-quality fixed income government, agency, municipal, and corporate debt securities, money market funds, and time deposits with financial institutions.

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. A hypothetical 100 basis point increase in interest rates would result in an approximate \$13 million and \$25 million decrease in the fair value of our available-for-sale marketable debt securities as of September 30, 2010 and December 31, 2009, respectively.

Foreign Currency Risk. Revenue and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese Yen, 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 revenue, operating expenses, and net income. Similarly, our revenue, operating expenses, and net income will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and nine months ended September 30, 2009, revenue for the Americas segment for the three and nine months ended September 30, 2010 would have been lower than we reported by \$2 million and \$11 million, respectively, revenue for the EMEA segment would have been higher than we reported by \$13 million and \$6 million, respectively, and revenue for the Asia Pacific segment would have been lower than we reported by \$13 million and \$78 million, respectively. Using the foreign currency exchange rates from the three and nine months ended September 30, 2009, direct costs for the Americas segment for the three and nine months ended September 30, 2010 would have been lower than we reported by \$1 million and \$4 million, respectively, direct costs for the EMEA segment would have been higher than we reported by \$8 million and \$4 million, respectively, and direct costs for the Asia Pacific segment would have been lower than we reported by \$7 million and \$52 million, respectively.

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 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 and nine months ended September 30, 2010, we recorded realized and unrealized foreign currency transaction losses of \$3 million and transaction gains of \$9 million, respectively. During the three months ended September 30, 2009, our net realized and unrealized foreign currency transaction losses were not material, and during the nine months ended September 30, 2009 we recorded realized and unrealized foreign currency transaction losses of \$4 million.

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.

Our cash and marketable debt securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of September 30, 2010 and 2009, net unrealized gains and losses on these investments were not material.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (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 11 — “Commitments and Contingencies” in the Notes to the 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, 2009, which was filed with the Securities and Exchange Commission on February 26, 2010, 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, 2009.

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

We face significant competition from integrated online media companies as well as from social networking sites and traditional print and broadcast media.

Google, Microsoft, and AOL 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 and retain advertisers;
- to attract and retain third-party Website publishers as participants 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.

Google, Microsoft and others 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. Similarly, the advertising networks operated by Google, Microsoft, AOL and others offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad serving technologies and sponsored search offerings. While under our Search Agreement with Microsoft, Yahoo! will become the exclusive worldwide relationship sales force for both companies' premium search advertisers and Microsoft will become Yahoo!'s exclusive platform technology provider for algorithmic and paid search services, Yahoo! and Microsoft will still continue to compete for users, advertisers, publishers and distribution partners as described above.

We further compete for users, advertisers and developers with social media and networking sites such as Facebook.com as well as the wide variety of other providers of online services. Social networking sites in particular are attracting a substantial and increasing share of users and users' online time, which could enable them to attract an increasing share of online advertising dollars.

We also compete with traditional print and broadcast 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.

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, 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. In addition, emerging start-ups may be able to innovate and provide new products and services faster than we can.

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

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

For the three and nine months ended September 30, 2010, 90 percent and 89 percent, respectively, of our total revenue came from marketing services. Our ability to continue to retain and grow marketing services revenue depends upon:

- maintaining and growing our user base;
- maintaining and growing our popularity as an Internet destination site;
- maintaining and expanding our advertiser base;

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- broadening our relationships with advertisers to small- and medium-sized businesses;
- the successful implementation of changes and improvements to our advertising management platforms and acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;
- continuing to innovate and improve users' search experiences;
- 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 most cases, our agreements with advertisers have a term of one year or less, and may be terminated at any time by the advertiser or by Yahoo!. Search marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast marketing services revenue accurately. In addition, our expense levels are based in part on expectations of future revenue, including occasional guaranteed minimum payments to our Affiliates in connection with search and/or display advertising, and are fixed over the short-term in some categories. The state of the global economy and availability of capital has impacted 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 revenue to decline. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

Adverse general economic conditions have caused and could cause decreases or delays in marketing services spending by our advertisers and could harm our ability to generate marketing services revenue 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 revenue from marketing services, the adverse economic conditions have caused, and a continuation of adverse economic conditions could cause, additional decreases in or delays in advertising spending, a reduction in our marketing services revenue and a negative impact on our short term ability to grow our revenue. Further, any decreased collectability of accounts receivable or early termination of agreements, whether resulting from customer bankruptcies or otherwise due to the current deterioration in economic conditions, could negatively impact our results of operations.

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

We have implemented cost reduction initiatives to better align our operating expenses with our revenue, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to manage costs to better and more efficiently manage our business. However, 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 our expenses increase at a greater pace than our revenue, or if we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

Transition and implementation risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft will be Yahoo!'s exclusive platform technology provider for algorithmic and paid search services. The parties commenced implementation of the Search Agreement on February 23, 2010. The global transition of Yahoo!'s algorithmic and paid search platforms to Microsoft and migration of Yahoo!'s paid search advertisers and publishers is expected to take up to 24 months and will be done on a market by market basis. The transition process is complex and requires the expenditure of significant time and resources by us. Algorithmic and paid search has been transitioned to the Microsoft platform in the United States and Canada, and we continue to transition algorithmic and paid search in other markets. Delays or difficulties in, or disruptions and inconveniences caused by, the transition process could result in the loss of advertisers, publishers, Affiliates, and employees, as well as delays in recognizing or reductions in the anticipated benefits of the transaction, any of which could negatively impact our business and operating results.

Following the transition in each market, we will be relying on Microsoft as our exclusive platform technology provider of algorithmic and paid search services. If Microsoft fails to perform as required under the Search Agreement for any reason or suffers service level interruptions or other performance issues, we may not realize the anticipated benefits of the Search Agreement, and our search revenue or our profitability could decline.

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

Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We must continually invest in improving our users' search experience—presenting users with a search experience that is responsive to their needs and preferences—in order to continue to attract, retain, and expand our user base and paid search advertiser base.

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We currently deploy our own technology to provide search results on our network, except in the U.S. and Canada, where we have transitioned to the Microsoft algorithmic and paid search platforms. Even after we complete the transition to Microsoft's platforms in all markets, we will need to continue to invest and innovate to improve our users' search experience.

We also generate advertising revenue through other online services, such as Yahoo! Mail. If we are unable to provide innovative search and other services which generate significant traffic to our Websites, our business could be harmed, causing our revenue 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 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 offerings 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 collectively among our most valuable assets. We seek to protect our intellectual property assets through patent, copyright, trade secret, trademark, and other laws of the U.S. and other countries of the world, and through contractual provisions. However, the efforts we have taken to protect our intellectual property and proprietary rights might not be sufficient or effective at stopping unauthorized use of those rights. Protection of the distinctive elements of Yahoo! might not always be available under copyright law or trademark law, or we might not discover or determine the full extent of any unauthorized use of our copyrights and trademarks in order to protect our rights. In addition, effective trademark, patent, copyright, and trade secret protection might not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. Changes in patent law, such as changes in the law regarding patentable subject matter, could also impact our ability to obtain patent protection for our innovations. 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, 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 businesses are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in a number of lawsuits regarding patent issues and have been notified of a number of other potential disputes.

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In addition to patent claims, third parties have asserted, and are likely in the future to assert, claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition, violation of federal or state statutes or other claims, including alleged violation of international statutory and common law. In addition, third parties have made, and may continue to make, 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, or international jurisdictions’ refusal to apply similar provisions to foreign lawsuits, 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 some types of information from children under the age of 13. 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 cost 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 data-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, data-retention or data-protection 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 privacy, data-retention and data-protection 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.

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These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current 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 associated with providing online services.

We host a wide variety of services and technology products that enable individuals and businesses to exchange information, upload or otherwise generate photos, videos, text, and other content, advertise products and services, conduct business, and engage in various online activities 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 an adverse manner.

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, and 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;
- litigation or other claims in connection with 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 personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;

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- in the case of foreign acquisitions and investments, the difficulty of integrating operations and systems as a result of cultural, systems, and operational differences and the impact of particular economic, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

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

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

We continue to evolve our business both in the U.S. and internationally. As a result of 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 our business, we must also expand and adapt our operational infrastructure. Our business relies on data systems, billing systems, and financial reporting and control systems, among others. All of these systems have become increasingly complex in the recent past due to the growing complexity of our business, due to acquisitions of new businesses with different systems, and due 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 of user-facing services and to respond to rapid technological change could adversely affect our business.

As some of the most visited sites on the Internet, Yahoo! Properties deliver a significant number of products, services, Page Views and advertising impressions to users around the world. 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.

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 and platforms 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, platforms and systems, including moving to completely new architectures, platforms 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 platform 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, platforms and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

We 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, and finance. 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 revenue 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 revenue 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 may not be able to execute our business plan.

Our business is dependent on our ability to recruit, hire, motivate, and retain talented, highly skilled personnel. Achieving this objective may be difficult due to many factors, including the intense competition for such highly skilled personnel in the San Francisco Bay Area and other metropolitan areas where our offices and the offices of several of our vertical and horizontal competitors are located, as well as 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 revenue and profitability may decline.

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

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

We rely on leading providers of media formats and media player technology to deliver rich media content and advertising to our users. There can be no assurance that these providers will continue to license their formats and player technologies to us on reasonable terms, or at all. Providers of rich media formats and player technologies may begin charging users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. In order for our rich media services to be successful, there must be a large base of users of these rich media technologies. We have limited or no control over the availability or acceptance of rich media technologies, and any change in the licensing terms, costs, availability, or user acceptance of these technologies could adversely affect our business.

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

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

- We maintain search and display advertising relationships with Affiliate sites, which integrate our advertising offerings into their Websites;
- We enter into distribution alliances with Internet service providers (including providers of cable and broadband Internet access) and software distributors to promote our services to their users; and
- We enter into agreements with mobile, tablet, netbook, and other 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 revenue.

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

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

More individuals are utilizing non-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, hand held computers, tablets, netbooks, 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 different hardware and software, memory, operating systems, resolution, and other functionality associated with alternative devices currently available may make our desktop and PC services unusable or difficult to use on such devices. Similarly, the licenses we have negotiated to present third-party content to desktop and PC users may not extend to users of alternative devices. In those cases, we may need to enter into new or amended agreements with the content providers in order to present a similar user-experience on the new devices. The content providers may not be willing to enter into such new or amended agreements on reasonable terms or at all.

We offer versions of many of our popular services (such as sports, finance, and news) designed to be accessed on a number of models of alternative devices. We also offer versions of some of our services (such as instant messaging) designed for specific popular devices. As new devices are introduced, it is difficult to predict the problems we may encounter in developing versions of our services for use on those devices, and we may need to devote significant resources to the creation, support, and maintenance of such versions or risk loss of market share. If we are 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, 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 (or as our competitors design mobile devices and mobile device operating systems), 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 blocking access through their devices or by not making our services available in a readily-discoverable manner on their devices. 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 revenue could decline.

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

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, the Middle East and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services. 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 revenue 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;

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- 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 and local economic conditions;
- 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 display advertisements or search marketing advertisements, which could harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block display or search advertisements. Most of our revenue is derived from fees paid by advertisers in connection with the display of graphical advertisements or clicks on search advertisements on Web pages. As a result, advertisement-blocking technology could reduce the number of display and search advertisements that we are able to deliver and, in turn, could reduce our advertising revenue 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 search technology by preventing the technology from accessing the content of such documents. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with the process of indexing the document contents with search technology. This would mean that the document contents would not be included in search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If the search platform technology we employ is unable to index proprietary format Web documents as effectively as our competitors' technology, usage of our search services might decline, which could cause our revenue to fall.

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.
- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced as we roll out improvements and upgrades, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.
- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, physical and electronic break-ins, sabotage, and similar disruptions from unauthorized access and 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.

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- 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 our payment processing capabilities and key components or features of our search, e-mail and VOIP services, news, stock quote and other content delivery, chat services, mapping, streaming, geo-targeting, music, games, 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 and loss of revenue. In addition, if our agreements with these third-party providers are terminated for any reason, we might not have a readily available alternative.

Prolonged delays or disruptions to our service could result in a loss of users, damage 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 or our third-party service provider fail to prevent click fraud or choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability may decline.

A portion of our marketing services revenue 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 or our third-party service provider are unable to detect and prevent it, or 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, demand refunds, or withdraw future business. Undetected click fraud could damage our brand and lead to a loss of advertisers and revenue. Moreover, 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. Advertisers may also be issued refunds or credits as a result of such activity. Any increase in costs due to any such litigation, government regulation or legislation, or 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 revenue arises from international operations. Revenue 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 (affecting our Company as a whole or affecting any particular segment) 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 financial results.

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. In addition, there are current proposals for new U.S. tax legislation which, if adopted, could adversely affect the Company's tax rate. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination and settlement is made.

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

The trading price of our common stock has been and may continue to be subject to broad fluctuations. During the three months ended September 30, 2010, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from \$13.11 to \$15.52 per share and the closing sale price on October 29, 2010 was \$16.49 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results, announcements and implementations of technological innovations or new services 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 Corporation (“Yahoo Japan”) and Alibaba Group Holding Limited (“Alibaba Group”); 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!.

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

Share repurchase activity during the three months ended September 30, 2010 was as follows:

Period	Total Number of Shares Purchased (*)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under Publicly Announced Programs (in 000s) (*)		
				2006 Authorization	2010 Authorization	Aggregate
At June 30, 2010				\$ 92,082	\$ 3,000,000	\$ 3,092,082
July 1 — July 31, 2010	14,043,310	\$ 14.05	14,043,310	\$ 0	\$ 2,894,707	\$ 2,894,707
August 1 — August 31, 2010	26,530,900	\$ 13.97	26,530,900	\$ 0	\$ 2,524,088	\$ 2,524,088
September 1 — September 30, 2010	21,918,436	\$ 13.69	21,918,436	\$ 0	\$ 2,224,088	\$ 2,224,088
Total July 1 — September 30, 2010	<u>62,492,646</u>	<u>\$ 13.89</u>	<u>62,492,646</u>			

(*) The share repurchases in the three months ended September 30, 2010 were made pursuant to two stock repurchase programs previously authorized by our Board of Directors. The first program was announced in October 2006 with an authorized level of \$3 billion, and permitted repurchases to be made in the open market or in privately negotiated transactions, including derivative transactions, or under a Rule 10b5-1 plan. Repurchases made during July 2010 exhausted the authorization remaining under the October 2006 program. Following exhaustion of the October 2006 program, our share repurchases were made pursuant to a second program which was approved by our Board of Directors on June 24, 2010 and announced on June 30, 2010. Under this program, we are authorized to repurchase up to \$3 billion of our outstanding shares of common stock from time to time. This program will expire in June 2013. Repurchases under this program may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

During the three months ended September 30, 2010, 6.5 million shares were repurchased under the October 2006 program for a total of \$92 million and 56.0 million shares were repurchased under the June 2010 program for a total of \$776 million, resulting in aggregate repurchases during the period of 62.5 million shares for a total of \$868 million. As of September 30, 2010, the June 2010 program had remaining authorized purchase capacity of \$2,224 million.

Item 3. Defaults Upon Senior Securities

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.

YAHOO! INC.**Index to Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, filed as Exhibit 4.1 below).
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 the Registrant 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).
10.19+*	Separation Agreement, dated October 1, 2010, between the Registrant and Hilary Schneider.
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2010.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2010.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2010.
101.INS*‡	XBRL Instance
101.SCH*‡	XBRL Taxonomy Extension Schema
101.CAL*‡	XBRL Taxonomy Extension Calculation
101.DEF*‡	XBRL Taxonomy Extension Definition
101.LAB*‡	XBRL Taxonomy Extension Labels
101.PRE*‡	XBRL Taxonomy Extension Presentation

* Filed herewith.

+ Indicates a management contract or compensatory plan or arrangement.

‡ Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or other liability provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In addition, users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

[Yahoo! Letterhead]

October 1, 2010

Hilary Schneider

Dear Hilary:

As we discussed, Yahoo! Inc. (“**Yahoo!**” or the “**Company**”) is prepared to offer you transition benefits to aid in your employment transition. Subject to the approval of the Compensation Committee of the Board of Directors of Yahoo! (“**Compensation Committee**”), if you (1) sign and comply with the terms of this separation agreement (the “**Agreement**”), which contains a release of claims, and (2) return your signed Agreement to Yahoo! Human Resources by the deadline specified in this Agreement (collectively these are the “**Agreement Eligibility Requirements**”), then Yahoo! will continue to employ you through the Separation Date specified below (unless you resign prior to that date) and will pay you a payment as described below in paragraph 3. Subject to the approval of the Compensation Committee, if you (1) continue to comply with the terms specified in this Agreement, (2) do not resign prior to April 29, 2011, (3) sign the Supplemental Release (which contains a release of claims and is attached as Exhibit A) on or after the Separation Date, (4) return your signed Supplemental Release to Yahoo! Human Resources by the deadline specified in the Supplemental Release, (5) comply with the terms of the Supplemental Release, and (6) do not revoke the Supplemental Release during the applicable revocation period (collectively these are the “**Supplemental Release Eligibility Requirements**”), then you will receive the Transition Bonus (described below) as specified in the Agreement following the Separation Date.

If you do not comply with the Agreement Eligibility Requirements, your employment may terminate prior to the Separation Date described below, and the Company will not pay some of the payments and benefits specified in this Agreement. If you do not comply with the Supplemental Release Eligibility Requirements, you will not receive the Transition Bonus and some of the other benefits specified in this Agreement.

1. Separation. If you meet the Agreement Eligibility Requirements and do not resign prior to April 29, 2011, then your last day of employment with the Company and your employment termination date will be the earlier of (a) April 29, 2011, (b) the date on which the Company terminates your employment due to your failure to comply with material Company

policies and procedures, or (c) the date of your death (as applicable, the “**Separation Date**”). You will be expected to continue to perform your current job duties relating to the Americas region and assist with the transition of work through December 31, 2010. Thereafter, you will work on special projects as assigned by Yahoo! and be available on an “on call” basis through your Separation Date to respond to questions and support any transition as requested by Yahoo!. Although you will be expected to perform assigned job duties and projects through your Separation Date, Yahoo! may allocate some or all of your job responsibilities to others. You hereby resign as an Executive Vice President of the Americas region of Yahoo! (and as an officer and director of the Company and any subsidiary, as well as a fiduciary of any benefit plan of the Company) as of December 31, 2010 or sooner if requested by Yahoo!, but such resignation shall not constitute a resignation of your employment. You shall execute such additional documents as reasonably requested by the Company to evidence your resignation (including documents that evidence the resignation of your officer position). The Company will allow you reasonable time off in order to conduct a job search or attend to personal matters, provided that you obtain the advance approval of your manager for such absences. From the date of this Agreement to your Separation Date (“**Transition Period**”), if you meet the Agreement Eligibility Requirements, Yahoo! will continue to pay you your regular base salary, and you will continue to be eligible for benefits under the Company’s plans, however, you shall not be eligible for any new equity grants or other new incentive or bonus opportunities.

2. Accrued Salary and Paid Time Off. On the Separation Date, Yahoo! will pay you all accrued salary, and all accrued and unused vacation earned through the Separation Date, subject to payroll deductions and required withholdings. You are entitled to any earned payments regardless of whether or not you sign this Agreement or the Supplemental Release.

3. Executive Incentive Plan Bonus. Subject to the approval of the Compensation Committee, if your Separation Date is on or after March 15, 2011 and you meet the Agreement Eligibility Requirements, then your 2010 Executive Incentive Plan (EIP) incentive bonus payout will be paid at a minimum of the 2010 EIP Bonus Pool funded level.¹ If you meet the eligibility requirements specified in this paragraph, your 2010 EIP incentive bonus payout will be paid in 2011 on the same schedule as it is paid to other employees of Yahoo!. This bonus is subject to payroll deductions and required withholdings.

Subject to the approval of the Compensation Committee, if your Separation Date is before March 15, 2011 and you meet the Supplemental Release Eligibility Requirements, then as part of this Agreement, Yahoo! will pay you a payment in lieu of your 2010 Executive Incentive Plan (EIP) incentive bonus payout, subject to payroll deductions and required withholding. The payment will be calculated by multiplying your EIP target incentive by the 2010 EIP Bonus Pool funded level.² If you meet the eligibility requirements specified in this paragraph, the payment will be paid to you in 2011 at the time that Yahoo! pays its employees their EIP incentive bonus payout.

¹ For example, if the 2010 EIP Bonus Pool is funded at 50%, then your 2010 EIP incentive bonus payout will be equal to your EIP target incentive multiplied by 50%. Yahoo!, in its sole discretion, may increase your 2010 EIP incentive bonus payout based on its assessment of your performance.

² For example, if the 2010 EIP Bonus Pool is funded at 50%, then your payment will be equal to your EIP target incentive multiplied by 50%. Yahoo!, in its sole discretion, may increase your payment.

For the sake of clarity, subject to the approval of the Compensation Committee, you will be entitled to either (but not both) the 2010 EIP incentive bonus or the payment in lieu of your 2010 EIP incentive bonus (both as described above), provided you meet the Agreement Eligibility Requirements or the Supplemental Release Eligibility Requirements, as applicable.

You will not be eligible for any 2011 EIP incentive bonus payout.

4. Transition Benefits. Subject to the approval of the Compensation Committee, if you comply with the Supplemental Release Eligibility Requirements, then as part of this Agreement, Yahoo! will pay you a transition bonus of four hundred twenty thousand dollars (\$420,000.00) ("**Transition Bonus**"), subject to payroll deductions and required withholdings.³ The Transition Bonus will be paid in a lump sum within twenty (20) business days after the Effective Date (as described in the Supplemental Release), but not earlier than January 1, 2011 or later than December 31, 2011, provided that you meet the Supplemental Release Eligibility Requirements. Should you accept an offer of employment for another position at Yahoo! prior to the payment of the Transition Bonus described in this Agreement, your at-will employment at Yahoo! will continue and you will not be eligible for the Transition Bonus or other benefits described in this Agreement.

5. Health Insurance. Your group health insurance will cease on the last day of the month of your Separation Date. At that time, you will be eligible to continue your group health insurance benefits at your own expense under the terms and conditions of the applicable benefit plan, federal COBRA law and/or, if applicable, state insurance laws. For more information on continued group health coverage, please contact Yahoo! Benefits at (888) 862-5822.

6. Obligations. Except as provided in Paragraph 1 above, prior to your Separation Date, you shall devote your full business efforts and time to Yahoo! (other than taking reasonable time off in order to conduct a job search). You agree that you will not engage in any activities that are in violation of Yahoo!'s Code of Ethics or any other Yahoo! policy.

³ If you do not comply with the Supplemental Release Eligibility Requirements or you engage in misconduct, you will not receive the Transition Bonus and some of the other benefits specified in this Agreement and the Supplemental Release. For purposes of this Agreement, "misconduct" shall include the following: (1) your failure or refusal to comply in any material respect with lawful Company policies or lawful directives, (2) your material breach of any contract or agreement between you and the Company (including but not limited to this Agreement, the Supplemental Release, and the Employee Confidentiality and Assignment of Inventions Agreement between you and Yahoo!), or your material breach of any statutory duty, fiduciary duty or any other material obligations that you owe to the Company, or (3) your commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or your engaging in unprofessional, unethical or other intentional acts that materially discredit the Company or are materially detrimental to the reputation, character or standing of the Company.

7. Tax Matters.

(a) Withholding. Yahoo! will withhold required federal, state and local taxes from any and all payments contemplated by this Agreement.

(b) Responsibility for Taxes. Other than Yahoo!'s obligation and right to withhold federal, state and local taxes, you will be responsible for any and all taxes, interest, and penalties that may be imposed with respect to the payments contemplated by this Agreement (including, but not limited to, those imposed under Internal Revenue Code Section 409A). To the extent that this Agreement is subject to Internal Revenue Code Section 409A, you and Yahoo! agree that the terms and conditions of this Agreement shall be construed and interpreted to the maximum extent reasonably possible, without altering the fundamental intent of this Agreement, to comply with and avoid the imputation of any tax, penalty or interest under Code Section 409A.

8. Stock Options. If you have been granted options to purchase shares of Yahoo!'s common stock, your options will cease to vest on the Separation Date, and any options that are unvested as of the Separation Date shall terminate and be forfeited as of the Separation Date. Your rights to exercise your options that are vested as of the Separation Date are set forth in the applicable stock plan and your corresponding notice of stock option grant and stock option agreement. Nothing in this Agreement modifies the terms applicable to your stock options. For more information about your stock options (if any), please review your stock option information via your E*TRADE online access at www.etrade.com. The E*TRADE website provides a complete listing of your stock option grant details, including the expiration date of your options. Should you have any questions, please contact E*TRADE directly at 800-838-0908 or Yahoo! Stock Plan Services at [\[private\]@yahoo-inc.com](mailto:[private]@yahoo-inc.com).

9. Restricted Stock and Restricted Stock Units. If you have been granted restricted stock and/or restricted stock units under Yahoo!'s 1995 Stock Plan, as amended, or other applicable stock plan, your restricted stock and restricted stock units will cease to vest on the Separation Date, and all restricted stock and restricted stock units that are unvested as of the Separation Date shall terminate and be forfeited as of the Separation Date. Nothing in this Agreement modifies the terms applicable to your restricted stock or restricted stock units. For more information about your restricted stock and restricted stock units (if any), please review your information via your E*TRADE online access at www.etrade.com. Should you have any questions, please contact E*TRADE directly at 800-838-0908 or Yahoo! Stock Plan Services at [\[private\]@yahoo-inc.com](mailto:[private]@yahoo-inc.com).

10. Employee Stock Purchase Plan. Contributions to your Employee Stock Purchase Plan ("ESPP") will cease as of the Separation Date. Under the terms of the ESPP, all contributions you made to the ESPP that have not been used to purchase stock will be returned to you without interest by Yahoo! Payroll. For more information about the ESPP, please review your information via your E*TRADE online access at www.etrade.com. Should you have any questions, please contact E*TRADE directly at 800-838-0908 or Yahoo! Stock Plan Services at [\[private\]@yahoo-inc.com](mailto:[private]@yahoo-inc.com).

11. 401(k) Plan. If you have questions about your 401(k) account, please contact Yahoo! Benefits at (888) 862-5822.

12. Life Insurance. Your life insurance coverage will cease on or before the Separation Date under the terms of the life insurance plan. The Company will provide you with information about the option to convert this coverage to an individual policy.

13. Flexible Spending Plan. If you enrolled in the Company's Flexible Spending Plan and established a Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account for the 2010 Plan Year, you have 90 days (as long as it is prior to March 31, 2011) following your Separation Date to submit any covered expenses for reimbursement provided the expenses were incurred from January 1, 2010 through the earlier of your Separation Date or December 31, 2010. If you enrolled in the Company's Flexible Spending Plan and established a Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account for the 2011 Plan Year, you have 90 days (as long as it is prior to March 31, 2012) following your Separation Date to submit any covered expenses for reimbursement provided the expenses were incurred from January 1, 2011 through your Separation Date. You may only submit expenses that you incurred prior to the Separation Date.

14. Other Compensation or Benefits. You acknowledge that, except as expressly provided in this Agreement, you will not receive any additional compensation, incentive payments, severance, transition benefits, or other benefits after the Separation Date, with the exception of any benefit, the right to which has vested, under the express terms of a written benefit plan of the Company.

15. Expense Reimbursements. You agree that, within thirty (30) days following your Separation Date, you will submit your final expense reimbursement statement and required documentation reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement. Yahoo! will reimburse you for expenses pursuant to its regular business practice. You may only submit expenses that you incurred prior to the Separation Date. For a copy of the Yahoo! expense form, please email [private]@yahoo-inc.com. You should submit completed expense reports and receipts to the Expense Report Department at Yahoo!, 701 First Avenue, Sunnyvale, California 94089.

16. Invention and Assignment to Yahoo!. During the Transition Period and after your Separation Date, you agree to perform promptly, all acts deemed necessary or desirable by Yahoo! to permit and assist it, at its expense, in obtaining and enforcing the full benefits, enjoyment, rights and title throughout the world in all intellectual property assigned to Yahoo! pursuant to your Employee Confidentiality and Assignment of Inventions Agreement(s) or similar agreement(s) including, but not limited to, disclosing information, executing documents and assisting or cooperating in legal proceedings. You understand and agree that you will not be eligible to receive the severance and other benefits specified in this Agreement until you have performed the acts specified in this paragraph (if requested by Yahoo!), such performance to be deemed complete at Yahoo!'s sole discretion.

17. Return of Company Property. By your Separation Date or earlier if requested by Yahoo!, you agree to return to Yahoo! all hard copy and electronic documents (and all copies thereof) and other property belonging to Yahoo!, its subsidiaries and/or affiliates that you have had in your possession at any time, including, but not limited to, files, notes, notebooks, correspondence, memoranda, agreements, drawings, records, business plans, forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to, computers, code, software, technical products, product requirements, user interface documentation, PDAs, pagers, telephones, credit cards, entry cards, identification badges and keys), and any materials of any kind that contain or embody any proprietary or confidential information of the Company, its subsidiaries or affiliates (and all reproductions thereof in whole or in part). If you discover after your Separation Date that you have retained any proprietary or confidential information (including, but not limited to, proprietary or confidential information contained in any electronic documents or e-mail systems in your possession or control), you also agree immediately upon discovery to send an email to [\[private\]@yahoo-inc.com](mailto:[private]@yahoo-inc.com) and inform Yahoo! of the nature and location of the proprietary or confidential information that you have retained so that Yahoo! may arrange to remove, recover, and/or collect such information. The Transition Bonus and other benefits under this Agreement will not be paid or provided until all Company property has been returned to Yahoo!.

18. Proprietary Information Obligations. You acknowledge your continuing obligations under your Employee Confidentiality and Assignment of Inventions Agreement(s) or similar agreement(s) (collectively "**NDA**"), including your obligation not to use or disclose any confidential or proprietary information of the Company, its subsidiaries or affiliated entities and not to solicit Yahoo! employees and, to the extent permitted by applicable law, not to solicit Yahoo! customers as specified in your NDA.

19. Confidentiality. You agree to hold the provisions of this Agreement and the Supplemental Release in strictest confidence and you agree not to publicize or disclose their terms in any manner whatsoever until Yahoo! publicly files the Agreement and/or Supplemental Release; *provided, however*, that you may discuss this matter in confidence with your immediate family and your attorney or other professional advisor, so long as those parties agree to be bound by this confidentiality agreement. Nothing in this section prohibits you from disclosing the terms of this Agreement in order to enforce the Agreement or as otherwise required or permitted by law. In particular, and without limitation, you agree not to disclose the terms of this Agreement or the Supplemental Release to any current or former Yahoo! employee until Yahoo! publicly files the Agreement and/or Supplemental Release. You acknowledge that Yahoo! has certain public filing obligations with which it must comply relating to this Agreement and/or Supplemental Release.

20. Nondisparagement. You agree not to make negative comments or otherwise disparage Yahoo! or its officers, directors, employees, shareholders or agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation; *provided however* that statements which are complete and made in good faith in response to any question, inquiry or request for information required by legal process shall not violate this paragraph.

21. Release of Claims. In consideration for, and as a condition of the benefits and other consideration under this Agreement, to which you are not otherwise entitled, you hereby generally and completely release the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns (collectively "**Released Party**") from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date you sign this Agreement. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to your employment with the Company or the termination of that employment; (2) all claims related to your compensation or benefits from the Company, including wages, salary, variable compensation, incentive payments, bonuses, commissions, vacation pay, expense reimbursements (to the extent permitted by applicable law), severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including without limitation claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including without limitation claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Worker Adjustment and Retraining Notification Act (as amended) and similar laws in other jurisdictions, the Employee Retirement Income Security Act of 1974 (as amended), the Family and Medical Leave Act of 1993, and the California Fair Employment and Housing Act (as amended) and similar laws in other jurisdictions, but not including claims under the federal Age Discrimination in Employment Act of 1967, as amended. To the maximum extent permitted by law, you also promise never directly or indirectly to bring or participate in an action against any Released Party under California Business & Professions Code Section 17200 or under any other unfair competition law of any jurisdiction. If, notwithstanding the above, you are awarded any money or other relief under such a claim, you hereby assign the money or other relief to the Company. Your waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date you sign this Agreement.

This Agreement includes a release of claims of discrimination and retaliation on the basis of workers' compensation status, but does not include claims for workers' compensation benefits. Excluded from this Agreement are any claims which by law cannot be waived in a private agreement between employer and employee including, but not limited to, the right to file a charge with or participate in an investigation conducted by the Equal Employment Opportunity Commission ("**EEOC**") or any state or local fair employment practices agency. You waive, however, any right to any monetary recovery or other relief should the EEOC or any other agency pursue a claim on your behalf. Finally, the release included in this Agreement does not constitute a release of any rights to indemnification you have under any agreement between you and the Company on the date hereof, any Company insurance policy relating to such matters under which you are covered, the Company's charter documents and/or applicable law.

22. Representations. You acknowledge and represent that you have not suffered any discrimination, harassment, retaliation, or wrongful treatment by any Released Party. You also acknowledge and represent that you have not been denied any rights including, but not limited

to, rights to a leave or reinstatement from a leave under the Family and Medical Leave Act of 1993, the Uniformed Services Employment and Reemployment Rights Act of 1994, or any similar law of any jurisdiction.

23. Release of Unknown Claims. You acknowledge that you have read and understand Section 1542 of the California Civil Code: **“A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”** You hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to your release of any unknown or unsuspected claims.

24. Cooperation. You agree to reasonably cooperate with and make yourself available on a continuing basis to Yahoo! and its representatives and legal advisors in connection with any matters in which you are or were involved or any existing or future claims, investigations, administrative proceedings, lawsuits and other legal and business matters, as reasonably requested by Yahoo!. You also agree that within two (2) business days of receipt (or more promptly if reasonably required by the circumstances) you shall send the Company copies of all correspondence (for example, but not limited to, subpoenas) received by you in connection with any legal proceedings involving or relating to Yahoo!, unless you are expressly prohibited by law from doing so. You agree that you will not voluntarily cooperate with any third party in any actual or threatened claim, charge, or cause of action of any nature whatsoever against any Released Party. You understand that nothing in this Agreement prevents you from cooperating with any government investigation.

25. Miscellaneous. This Agreement, including its Exhibit, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. Without limiting the generality of the preceding sentence, this Agreement, including its Exhibit, specifically supersedes any rights that you may have otherwise had (or may have otherwise become entitled to) under each of (1) your August 2006 employment letter agreement with the Company, (2) your November 20, 2008 letter regarding payments and equity vesting, and (3) the Company’s Change in Control Severance Plans. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of Yahoo!. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. Any successor to the Company’s business shall expressly assume the Company’s obligations under this Agreement. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the state of California.

IF THIS AGREEMENT IS ACCEPTABLE TO YOU, PLEASE SIGN BELOW AND RETURN THE ORIGINAL TO DAVID WINDLEY AT YAHOO!, 701 FIRST AVENUE, SUNNYVALE, CALIFORNIA 94089 BY 5:00 P.M. ON OCTOBER 5, 2010.

I wish you good luck in your future endeavors.

Sincerely,

YAHOO! INC.

By: /s/ David Windley

David Windley
Chief Human Resources Officer

Exhibit A – Supplemental Release

AGREED AND VOLUNTARILY EXECUTED:

/s/ Hilary Schneider

Hilary Schneider

10/1/10

Date

cc: Personnel File

SUPPLEMENTAL RELEASE
(To be signed on or after the Separation Date)

In return for payment of the Transition Bonus and other benefits as described in my separation agreement, dated October 1, 2010 (“**Agreement**”), the terms of which are incorporated herein by reference, I hereby generally and completely release the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns (collectively “**Released Party**”) from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to and on the date I sign this Supplemental Release. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including wages, salary, bonuses, commissions, vacation pay, expense reimbursements (to the extent permitted by applicable law), severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including without limitation claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including without limitation claims for discrimination, harassment, retaliation, attorneys’ fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (“**ADEA**”), the federal Worker Adjustment and Retraining Notification Act (as amended) and similar laws in other jurisdictions, the Employee Retirement Income Security Act of 1974 (as amended), the Family and Medical Leave Act of 1993, and the California Fair Employment and Housing Act (as amended) and similar laws in other jurisdictions. To the maximum extent permitted by law, I also promise never directly or indirectly to bring or participate in an action against any Released Party under California Business & Professions Code Section 17200 or under any other unfair competition law of any jurisdiction. If, notwithstanding the above, I am awarded any money or other relief under such a claim, I hereby assign the money or other relief to the Company. I understand that the waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date I sign this Supplemental Release.

This Supplemental Release includes a release of claims of discrimination and retaliation on the basis of workers’ compensation status, but does not include workers’ compensation claims. Excluded from this Supplemental Release are any claims which by law cannot be waived in a private agreement between employer and employee, including but not limited to the right to file a charge with or participate in an investigation conducted by the Equal Employment Opportunity Commission (“**EEOC**”) or any state or local fair employment practices agency. I waive, however, any right to any monetary recovery or other relief should the EEOC or any other agency pursue a claim on my behalf. Finally, the release included in this Supplemental Release does not constitute a release of any rights to indemnification I have under any agreement between the Company and me in effect on the date hereof, any Company insurance policy relating to such matters under which I am covered, the Company’s charter documents and/or applicable law.

I acknowledge and represent that I have not suffered any age or other discrimination, harassment, retaliation, or wrongful treatment by any Released Party. I also acknowledge and represent that I have not been denied any rights including, but not limited to, rights to a leave or reinstatement from a leave under the Family and Medical Leave Act of 1993, the Uniformed Services Employment and Reemployment Rights Act of 1994, or any similar law of any jurisdiction.

I acknowledge and agree that I have been paid all wages due and that, as to any further alleged wages, I agree that there is a good-faith dispute as to whether such wages are due, and based on this good-faith dispute, I release and waive any and all further claims regarding any alleged unpaid wages and any corresponding penalties, interest, or attorneys' fees, in exchange for the consideration provided in this Supplemental Release.

I agree that I am voluntarily executing this Supplemental Release. I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA and that the consideration given for the waiver and release is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing, as required by the ADEA, that: (a) my waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date I sign this Supplemental Release; (b) I have been advised to consult with an attorney prior to signing this Supplemental Release; (c) I have at least twenty-one (21) days from the date that I receive this Supplemental Release to consider this Supplemental Release (although I may choose to sign it any time on or after my Separation Date); (d) I have seven (7) days after I sign this Supplemental Release to revoke it ("**Revocation Period**"); and (e) this Supplemental Release will not be effective until I have returned it to Yahoo!'s Human Resources Department and the Revocation Period has expired (the "**Effective Date**").

I UNDERSTAND THAT THIS SUPPLEMENTAL RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. In giving this release, which includes claims which may be unknown to me at present, I acknowledge that I have read and understand Section 1542 of the California Civil Code, which states: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to my release of any unknown or unsuspected claims I may have against the Released Party.

Yahoo! will withhold required federal, state and local taxes from any and all payments contemplated by the Agreement and this Supplemental Release. Other than Yahoo!'s obligation and right to withhold federal, state and local taxes, I will be responsible for any and all taxes, interest, and penalties that may be imposed with respect to the payments contemplated by the Agreement and this Supplemental Release (including, but not limited to, those imposed under Internal Revenue Code Section 409A). To the extent that the Agreement and/or this Supplemental Release is subject to Code Section 409A, Yahoo! and I agree that the terms and conditions of the Agreement and this Supplemental Release shall be construed and interpreted to the maximum extent reasonably possible, without altering their fundamental intent, to comply

with and avoid the imputation of any tax, penalty or interest under Code Section 409A.

Certification Regarding Search and Return of Yahoo! Property. I hereby certify that: (1) prior to the date that I signed this Supplemental Release, I conducted a good faith and diligent search for any Yahoo! business data, whether or not such data would be considered confidential or proprietary and/or whether such data constitutes a legally protectable trade secret, including hard copy and all electronically stored data (“**Yahoo! Business Data**”) that may be in my possession. This search included reviewing the contents of any personal email accounts and Instant Messenger archives that I maintain, home computers, and other electronic computer media (CDs, USB thumb drives, disks, back-up drives, etc.) which I may have used during my employment to send, receive or store Yahoo! Business Data (“**Personal Computer Media**”); (2) to the extent I located any Yahoo! Business Data pursuant to my search described above, I have returned all originals and copies of such data to Yahoo!, and made arrangements for Yahoo!, at its option, to retrieve, destroy and/or permanently delete such data from my Personal Computer Media such that I cannot recover the data or access it in any manner; (3) I have not copied, saved, downloaded, retained, disclosed, photographed, or transmitted in any form whatsoever, any Yahoo! Business Data to any source except in the course of performing my duties for Yahoo! and for Yahoo!’s benefit; (4) I have not copied, saved, downloaded, retained, disclosed, photographed, or transmitted in any form whatsoever, any Yahoo! Business Data to any source for the purpose of retaining such data after my Separation Date or taking such data with me to my next employer or using it in connection with any subsequent employment; (5) as of the date that I sign this Supplemental Release, it is my good faith belief that I do not possess any Yahoo! Business Data in tangible or electronic form, except employment-related documents such as wage, benefit, and related information specific to the terms and conditions of my employment with Yahoo!; (6) to the extent I had any question about whether a Yahoo! document contains Yahoo! Business Data, I have inquired of Yahoo! in writing at [private]@yahoo-inc.com concerning the specific document and received clarification as to whether such document relates solely to my employment as defined in this paragraph or whether Yahoo! required me to return the document(s) (in which case, I certify that such document(s) have been returned); (7) I have returned all keys, access cards, credit cards, identification cards, phones, computers and related company-issued devices, including electronic mail devices, PDAs and/or electronic organizers, and other property and equipment belonging to Yahoo! (“**Company Property**”); (8) within the six (6) month period prior to my Separation Date, I have not intentionally or knowingly deleted Yahoo! Business Data, except in the normal course of performing my duties and responsibilities for Yahoo!; (9) other than in the normal course of performing my duties and/or responsibilities for Yahoo! and for Yahoo!’s benefit, I did not copy, back-up, or download Yahoo! Business Data that was contained on Company Property other than back-ups created on Yahoo! computer systems, media or other property accessible only by Yahoo! and for Yahoo!’s benefit; and (10) other than in the normal course of performing my duties and/or responsibilities for Yahoo! and for Yahoo!’s benefit, I did not delete or wipe or attempt to delete or wipe Yahoo! Business Data that was contained on Company Property.

The Agreement and this Supplemental Release constitute the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to this subject matter. Without limiting the generality of the preceding sentence, the Agreement and this Supplemental Release specifically supersede any rights that I may have otherwise had (or

may have otherwise become entitled to) under each of (1) my August 2006 employment letter agreement with the Company, (2) my November 20, 2008 letter regarding payments and equity vesting, and (3) the Company's Change in Control Severance Plans. The Agreement and this Supplemental Release are entered into without reliance on any promise or representation, written or oral, other than those expressly contained in them and together they supersede any other such promises, warranties or representations. If there is any conflict between the Agreement and the Supplemental Release, the Supplemental Release shall take precedence and control. This Supplemental Release may not be modified or amended except in a writing signed by both a duly authorized officer of Yahoo! and me. This Supplemental Release will bind the heirs, personal representatives, successors and assigns of both the Company and me, and inure to the benefit of both the Company and me, our heirs, successors and assigns. If any provision of this Supplemental Release is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Supplemental Release, and the provision in question will be modified by the court so as to be rendered enforceable. This Supplemental Release will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the state of California.

IF THIS SUPPLEMENTAL RELEASE IS ACCEPTABLE TO YOU, PLEASE SIGN BELOW ON OR AFTER THE SEPARATION DATE AND RETURN THE ORIGINAL TO DAVID WINDLEY AT YAHOO!, 701 FIRST AVENUE, SUNNYVALE, CALIFORNIA 94089 BY 5:00 P.M. ON THE 21ST DAY AFTER YOUR SEPARATION DATE.

DO NOT SIGN THIS SUPPLEMENTAL RELEASE
BEFORE YOUR SEPARATION DATE

By: _____

Hilary Schneider

Date: _____

cc: Personnel File

**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: November 8, 2010

By: /s/ CAROL BARTZ

Carol Bartz
Chief Executive Officer

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

I, Timothy R. Morse, certify that:

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

Dated: November 8, 2010

By: /s/ TIMOTHY R. MORSE
Timothy R. Morse
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the "Company") for the quarter ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Carol Bartz, as Chief Executive Officer of the Company, and Timothy R. Morse, 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: November 8, 2010

/s/ TIMOTHY R. MORSE

Name: Timothy R. Morse
Title: Chief Financial Officer
Dated: November 8, 2010

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.