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

Form 10-Q

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

For the quarterly period ended June 30, 2012

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 July 31, 2012
Common Stock, \$0.001 par value	1,184,617,827

[Table of Contents](#)

YAHOO! INC.

Table of Contents

PART I	FINANCIAL INFORMATION	3
Item 1.	Condensed Consolidated Financial Statements (unaudited)	3
	Condensed Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2012	3
	Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2011 and 2012	4
	Condensed Consolidated Balance Sheets as of December 31, 2011 and June 30, 2012	5
	Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2012	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	38
PART II	OTHER INFORMATION	39
Item 1.	Legal Proceedings	39
Item 1A.	Risk Factors	39
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3.	Defaults Upon Senior Securities	52
Item 4.	Mine Safety Disclosures	52
Item 5.	Other Information	52
Item 6.	Exhibits	52
	Signatures	53

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
	(Unaudited, in thousands except per share amounts)			
Revenue	\$1,229,024	\$1,217,794	\$2,443,381	\$2,439,027
Operating expenses:				
Cost of revenue — Traffic acquisition costs	152,896	137,025	302,927	281,116
Cost of revenue — Other	231,388	278,453	481,014	532,432
Sales and marketing	280,159	272,910	542,308	558,178
Product development	233,045	199,628	454,328	428,106
General and administrative	131,822	136,117	254,720	260,388
Amortization of intangibles	8,582	9,756	16,632	19,809
Restructuring charges, net	237	129,092	10,812	134,809
Total operating expenses	1,038,129	1,162,981	2,062,741	2,214,838
Income from operations	190,895	54,813	380,640	224,189
Other (expense) income, net	(5,666)	20,175	(639)	22,453
Income before income taxes and earnings in equity interests	185,229	74,988	380,001	246,642
Provision for income taxes	(55,629)	(26,523)	(107,749)	(82,942)
Earnings in equity interests	108,902	179,991	191,082	352,234
Net income	238,502	228,456	463,334	515,934
Less: net income attributable to noncontrolling interests	(1,530)	(1,825)	(3,370)	(2,960)
Net income attributable to Yahoo! Inc.	\$ 236,972	\$ 226,631	\$ 459,964	\$ 512,974
Net income attributable to Yahoo! Inc. common stockholders per share — basic	\$ 0.18	\$ 0.19	\$ 0.35	\$ 0.42
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	\$ 0.18	\$ 0.18	\$ 0.35	\$ 0.42
Shares used in per share calculation — basic	1,299,947	1,213,320	1,304,505	1,214,551
Shares used in per share calculation — diluted	1,308,359	1,221,719	1,314,272	1,224,102
Stock-based compensation expense by function:				
Cost of revenue — Other	\$ 875	\$ 2,614	\$ 1,523	\$ 5,508
Sales and marketing	\$ 19,373	\$ 18,981	\$ 26,070	\$ 40,078
Product development	\$ 25,531	\$ 17,808	\$ 43,203	\$ 37,279
General and administrative	\$ 13,269	\$ 10,168	\$ 23,368	\$ 22,672
Restructuring expense reversals	\$ (526)	\$ (3,429)	\$ (1,278)	\$ (3,429)

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

YAHOO! INC.
Condensed Consolidated Statements of Comprehensive Income

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>
	(Unaudited, in thousands)			
Net Income	\$238,502	\$ 228,456	\$463,334	\$ 515,934
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities, net of taxes of \$(1,002) and \$106 for the three months ended June 30, 2011 and 2012, respectively, and \$(803) and \$206 for the six months ended June 30, 2011 and 2012, respectively	(1,466)	6,143	2,772	5,680
Reclassification adjustment for realized (gains) losses included in net income, net of taxes of \$158 and \$(932) for the three months ended June 30, 2011 and 2012, respectively, and \$1,813 and \$(5,356) for the six months ended June 30, 2011 and 2012, respectively	(237)	1,630	(2,996)	9,358
Net change in unrealized gains (losses) on available-for-sale securities, net of taxes	(1,703)	7,773	(224)	15,038
Foreign currency translation adjustment	42,460	(231,371)	171,845	(221,137)
Total other comprehensive income, net of tax	40,757	(223,598)	171,621	(206,099)
Comprehensive income	279,259	4,858	634,955	309,835
Less: comprehensive income attributable to noncontrolling interests	(1,530)	(1,825)	(3,370)	(2,960)
Comprehensive income attributable to Yahoo! Inc.	<u>\$277,729</u>	<u>\$ 3,033</u>	<u>\$631,585</u>	<u>\$ 306,875</u>

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

YAHOO! INC.
Condensed Consolidated Balance Sheets

	December 31, 2011	June 30, 2012
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,562,390	\$ 1,539,269
Short-term marketable debt securities	493,189	371,204
Accounts receivable, net	1,037,474	1,040,893
Prepaid expenses and other current assets	359,483	318,932
Total current assets	3,452,536	3,270,298
Long-term marketable debt securities	474,338	490,570
Property and equipment, net	1,730,888	1,663,665
Goodwill	3,900,752	3,887,360
Intangible assets, net	254,600	196,729
Other long-term assets	220,628	209,669
Investments in equity interests	4,749,044	4,939,938
Total assets	<u>\$14,782,786</u>	<u>\$14,658,229</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 166,595	\$ 132,105
Accrued expenses and other current liabilities	846,044	768,080
Deferred revenue	194,722	176,960
Total current liabilities	1,207,361	1,077,145
Long-term deferred revenue	43,639	38,757
Capital lease and other long-term liabilities	134,905	130,149
Deferred and other long-term tax liabilities, net	815,534	895,941
Total liabilities	2,201,439	2,141,992
Commitments and contingencies (Note 11)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,244,956 shares issued and 1,217,481 shares outstanding as of December 31, 2011 and 1,255,870 shares issued and 1,194,147 shares outstanding as of June 30, 2012	1,242	1,253
Additional paid-in capital	9,825,899	9,976,949
Treasury stock at cost, 27,475 shares as of December 31, 2011 and 61,723 shares as of June 30, 2012	(416,237)	(942,244)
Retained earnings	2,432,294	2,945,269
Accumulated other comprehensive income	697,869	491,770
Total Yahoo! Inc. stockholders' equity	12,541,067	12,472,997
Noncontrolling interests	40,280	43,240
Total equity	<u>12,581,347</u>	<u>12,516,237</u>
Total liabilities and equity	<u>\$14,782,786</u>	<u>\$14,658,229</u>

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Six Months Ended	
	June 30, 2011	June 30, 2012
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 463,334	\$ 515,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	275,901	254,539
Amortization of intangible assets	58,993	60,209
Stock-based compensation expense, net	92,886	102,108
Noncash restructuring charges, net	—	38,638
Tax benefits from stock-based awards	12,483	(3,935)
Excess tax benefits from stock-based awards	(30,225)	(16,770)
Deferred income taxes	45,831	(18,474)
Earnings in equity interests	(191,082)	(352,234)
Dividends received from equity investee	75,391	83,648
Gain from sales of investments, assets, and other, net	22,792	(24,507)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	86,692	(9,908)
Prepaid expenses and other	53,293	16,563
Accounts payable	(10,821)	(35,714)
Accrued expenses and other liabilities	(386,044)	(15,755)
Deferred revenue	(33,118)	(22,329)
Net cash provided by operating activities	<u>536,306</u>	<u>572,013</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(339,064)	(215,922)
Purchases of marketable debt securities	(1,124,596)	(645,266)
Proceeds from sales of marketable debt securities	882,229	548,439
Proceeds from maturities of marketable debt securities	657,916	198,498
Proceeds from the sale of investments	—	26,132
Acquisitions, net of cash acquired	(68,812)	—
Purchases of intangible assets	(10,960)	(3,088)
Other investing activities, net	149	(9,421)
Net cash used in investing activities	<u>(3,138)</u>	<u>(100,628)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	98,547	77,871
Repurchases of common stock	(609,019)	(526,007)
Excess tax benefits from stock-based awards	30,225	16,770
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(33,669)	(38,494)
Other financing activities, net	(7,521)	(2,222)
Net cash used in financing activities	<u>(521,437)</u>	<u>(472,082)</u>
Effect of exchange rate changes on cash and cash equivalents	42,679	(22,424)
Net change in cash and cash equivalents	54,410	(23,121)
Cash and cash equivalents at beginning of period	1,526,427	1,562,390
Cash and cash equivalents at end of period	<u>\$ 1,580,837</u>	<u>\$ 1,539,269</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., together with its consolidated subsidiaries (“Yahoo!” or the “Company”), is focused on creating deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. Yahoo!’s unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses. The Company provides online properties and services (“Yahoo! Properties”) to users as well as a range of marketing services designed to reach and connect with those users on Yahoo! Properties and through a distribution network of third-party entities (“Affiliates”). These Affiliates integrate the Company’s advertising offerings into their Websites or other offerings (those Websites and other offerings, “Affiliate sites”).

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 date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation. To conform to the current period presentation, the Company corrected the classification of \$13 million and \$35 million of costs principally included in product development expenses to cost of revenue—other for the three and six months ended June 30, 2011, respectively.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2011 was derived from the Company’s audited financial statements for the year ended December 31, 2011, 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.

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 (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.

Potentially dilutive securities representing approximately 47 million and 48 million shares of common stock for the three and six months ended June 30, 2012, respectively, and 59 million shares of common stock for both the three and six months ended June 30, 2011 were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Basic:				
Numerator:				
Net income attributable to Yahoo! Inc.	\$ 236,972	\$ 226,631	\$ 459,964	\$ 512,974
Less: Net income allocated to participating securities	(3)	(3)	(8)	(12)
Net income attributable to Yahoo! Inc. common stockholders — basic	<u>\$ 236,969</u>	<u>\$ 226,628</u>	<u>\$ 459,956</u>	<u>\$ 512,962</u>
Denominator:				
Weighted average common shares	<u>1,299,947</u>	<u>1,213,320</u>	<u>1,304,505</u>	<u>1,214,551</u>
Net income attributable to Yahoo! Inc. common stockholders per share — basic	<u>\$ 0.18</u>	<u>\$ 0.19</u>	<u>\$ 0.35</u>	<u>\$ 0.42</u>
Diluted:				
Numerator:				
Net income attributable to Yahoo! Inc.	\$ 236,972	\$ 226,631	\$ 459,964	\$ 512,974
Less: Net income allocated to participating securities	(3)	(3)	(8)	(12)
Less: Effect of dilutive securities issued by equity investees	(654)	(1,246)	(1,302)	(2,512)
Net income attributable to Yahoo! Inc. common stockholders — diluted	<u>\$ 236,315</u>	<u>\$ 225,382</u>	<u>\$ 458,654</u>	<u>\$ 510,450</u>
Denominator:				
Denominator for basic calculation	1,299,947	1,213,320	1,304,505	1,214,551
Weighted average effect of Yahoo! Inc. dilutive securities:				
Restricted stock and restricted stock units	5,391	6,756	6,485	7,871
Stock options and employee stock purchase plan	3,021	1,643	3,282	1,680
Denominator for diluted calculation	<u>1,308,359</u>	<u>1,221,719</u>	<u>1,314,272</u>	<u>1,224,102</u>
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.35</u>	<u>\$ 0.42</u>

Note 3 ACQUISITIONS

During the six months ended June 30, 2011, the Company acquired three companies in transactions that were accounted for as business combinations. The total purchase price for these acquisitions was \$72 million. The total cash consideration of \$72 million less cash acquired of \$3 million resulted in a net cash outlay of \$69 million. Of the purchase price, \$52 million was allocated to goodwill, \$26 million to amortizable intangible assets, \$3 million to cash acquired, and \$9 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.

The Company's business combinations completed during the six months ended June 30, 2011 did not have a material impact on the Company's condensed consolidated financial statements, and therefore pro forma disclosures have not been presented.

The Company did not make any acquisitions during the six months ended June 30, 2012.

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2011	June 30, 2012	Percent Ownership of Common Stock as of June 30, 2012
Alibaba Group	\$2,521,825	\$2,754,578	42%
Yahoo Japan	2,219,946	2,175,135	35%
Other	7,273	10,225	26%
Total	<u>\$4,749,044</u>	<u>\$4,939,938</u>	

Table of Contents

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

As of June 30, 2012, the difference between the Company’s carrying value of its investment in Alibaba Group and its proportionate share of the net assets of Alibaba Group is summarized as follows (in thousands):

Carrying value of investment in Alibaba Group	\$2,754,578
Proportionate share of Alibaba Group stockholders’ equity	2,099,467
Excess of carrying value of investment over proportionate share of Alibaba Group’s stockholders’ equity ^(*)	\$ 655,111

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

The amortizable intangible assets included in the excess carrying value had original useful lives not exceeding seven years and an original weighted average useful life of approximately five years. Goodwill is not deductible for tax purposes.

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

	Three Months Ended		Six Months Ended	
	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012
Operating data:				
Revenue	\$490,933	\$805,900	\$ 1,035,447	\$1,828,707
Gross profit	\$324,342	\$530,537	\$ 687,309	\$1,227,376
Income from operations	\$ 47,159	\$213,262	\$ 73,251	\$ 489,921
Net income	\$ 51,629	\$235,208	\$ 96,634	\$ 488,773
Net income attributable to Alibaba Group	\$ 29,623	\$220,483	\$ 61,943	\$ 457,395
Balance sheet data:				
Current assets			\$ 3,491,753	\$4,491,012
Long-term assets			\$ 2,993,329	\$3,004,320
Current liabilities			\$ 1,562,840	\$1,861,959
Long-term liabilities			\$ 134,160	\$ 166,155
Non-voting participating redeemable securities			\$ 1,415	\$ 4,704
Noncontrolling interests			\$ 406,805	\$ 459,900

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three and six months ended June 30, 2011 and 2012, these transactions were not material.

Framework Agreement with Alibaba Group regarding Alipay. Alibaba Group restructured the ownership of Alipay.com Co., Ltd. (“Alipay”) and deconsolidated Alipay in the first quarter of 2011. The impact of the deconsolidation of Alipay was not material to the Company’s financial statements. On July 29, 2011, the Company entered into a Framework Agreement (the “Framework Agreement”), with Alibaba Group, Softbank Corp., a Japanese corporation, (“Softbank”), Alipay, APN Ltd., a company organized under the laws of the Cayman Islands (“IPCo”), Zhejiang Alibaba E-Commerce Co., Ltd., a limited liability company organized under the laws of the People’s Republic of China (“HoldCo”), Jack Ma Yun, Joseph C. Tsai and certain security holders of Alipay or HoldCo as joinder parties. The Framework Agreement establishes the ongoing financial and other arrangements between Alibaba Group and Alipay.

Alipay, formerly a subsidiary of Alibaba Group, is a subsidiary of HoldCo, which is majority owned by Mr. Ma. IPCo is a special purpose entity formed in connection with the Framework Agreement, which at the time of consummation of the transactions under the Framework Agreement was owned by Mr. Ma and Mr. Tsai. The transactions under the Framework Agreement closed on December 14, 2011 (“the closing”).

Pursuant to the terms of the Framework Agreement the parties have agreed, among other things, that:

(1) Upon a Liquidity Event (as defined below), HoldCo will pay to Alibaba Group 37.5 percent of the equity value of Alipay (the “Liquidity Event Payment”), less \$500 million (i.e., the principal amount of the IPCo Promissory Note as described below). The Liquidity Event Payment plus \$500 million must in the aggregate not be less than \$2 billion and may not exceed \$6 billion, subject to

Table of Contents

certain increases and additional payments if no Liquidity Event has occurred by the sixth anniversary of the closing. "Liquidity Event" means the earlier to occur of (a) a qualified initial public offering of Alipay, (b) a transfer of 37.5 percent or more of the securities of Alipay; or (c) a sale of all or substantially all of the assets of Alipay. If a Liquidity Event has not occurred by the tenth anniversary of the closing, Alibaba Group will have the right to cause HoldCo to effect a Liquidity Event, provided that the equity value or enterprise value of Alipay at such time exceeds \$1 billion, and in such case, the \$2 billion minimum amount described above will not apply to a Liquidity Event effected by means of a qualified initial public offering, a sale of all of the securities of Alipay, or a sale of all or substantially all of the assets of Alipay. Upon payment in full of the Liquidity Event Payment, Alibaba Group will transfer to Alipay certain assets used in the Alipay business that were retained by Alibaba Group.

(2) Alibaba Group and Alipay have entered into a long-term agreement pursuant to which Alibaba Group will receive payment processing services on preferential terms from Alipay and its subsidiaries. The fees to be paid by Alibaba Group and its subsidiaries to Alipay for the services provided under such agreement take into account Alibaba Group and its subsidiaries' status as large volume customers and will be approved on an annual basis by the directors of Alibaba Group designated by Yahoo! and Softbank.

(3) Alibaba Group has licensed to Alipay certain intellectual property and technology and performs certain software technology services for Alipay and in return Alipay pays to Alibaba Group a royalty and software technology services fee, which consists of an expense reimbursement and a 49.9 percent share of the consolidated pre-tax income of Alipay and its subsidiaries. This percentage will decrease upon certain dilutive equity issuances by Alipay and HoldCo; provided, however, such percentage will not be reduced below 30 percent. This agreement will terminate upon the earlier to occur of (a) such time as it may be required to be terminated by applicable regulatory authorities in connection with a qualified initial public offering by Alipay constituting a Liquidity Event and (b) the date the Liquidity Event Payment, the IPCo Promissory Note (as defined below) and certain related payments have been paid in full. Upon termination of this agreement, the intellectual property and technology licensed under the agreement will be transferred to Alipay.

(4) IPCo has issued to Alibaba Group a non-interest bearing promissory note in the principal amount of \$500 million with a seven year maturity (the "IPCo Promissory Note").

(5) The IPCo Promissory Note, the Liquidity Event Payment and certain other payments are secured by a pledge of 50,000,000 ordinary shares of Alibaba Group which have been contributed to IPCo by Mr. Ma and Mr. Tsai, as well as certain other collateral which may be pledged in the future.

(6) Yahoo!, Softbank, Alibaba Group, HoldCo, Mr. Ma and Mr. Tsai have entered into an agreement pursuant to which (a) the Alibaba Group board of directors ratified the actions taken by Alibaba Group in connection with the restructuring of the ownership of Alipay and the termination of certain control agreements which resulted in the deconsolidation of Alipay; and (b) the Company, Softbank and Alibaba Group released claims against Alibaba Group, Alipay, HoldCo, Mr. Ma, Mr. Tsai and certain of their related parties (including Alibaba Group's directors in their capacity as such) from any and all claims and liabilities, subject to certain limitations, arising out of or based upon such actions.

The royalty and software technology services fee and the payment processing services fees discussed above approximate the estimated fair values of such services and are recognized in Alibaba Group's financial statements as income or expense, as applicable, as the services are rendered. Yahoo! will record its share, if any, of the results of these transactions as they are recorded by Alibaba within Yahoo!'s earnings in equity interests in the consolidated statements of income.

Alibaba Group will recognize the Liquidity Event Payment, the payment of the IPCo Promissory Note, and any impact from the transfer of assets, described above, if and when such payments or transfers occur. Yahoo! will record its share, if any, of the results of these transactions as they are recorded by Alibaba Group within Yahoo!'s earnings in equity interests in the consolidated statements of income.

Share Repurchase and Preference Share Sale Agreement with Alibaba Group. On May 20, 2012, Yahoo! entered into a Share Repurchase and Preference Share Sale Agreement (the "Repurchase Agreement") with Alibaba Group and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo! Inc. ("YHK"). For the purposes of the discussion of the Repurchase Agreement in this Note 4, "Yahoo!" collectively refers to Yahoo! Inc. and YHK.

Pursuant to the terms of the Repurchase Agreement, the parties have agreed, among other things, that:

(1) Of the 1,046.6 million ordinary shares of Alibaba Group ("Shares") owned by Yahoo!, Alibaba Group will initially repurchase from Yahoo! between 261.5 million and 523 million Shares depending on the amount of financing raised by Alibaba Group to make the repurchase (the "Initial Repurchase"). Yahoo! will sell 261.5 million Shares to Alibaba Group if Alibaba Group completes a sale of Shares meeting certain requirements (a "Qualified Resale") with gross proceeds of at least \$1 billion and 523 million Shares if Alibaba Group completes a Qualified Resale with gross proceeds of at least \$2 billion, with any repurchase over 261.5 million Shares subject to Alibaba Group obtaining sufficient additional financing to complete the repurchase. Yahoo! will sell the repurchased Shares to Alibaba Group at a per share price equal to the greater of \$13.50 and the price per share at which Alibaba Group raises equity financing, subject to discounts depending on such price. If Alibaba Group does not complete a Qualified Resale

[Table of Contents](#)

with gross proceeds of at least \$1 billion, Yahoo! may require Alibaba Group to repurchase 261.5 million Shares for \$13.50 per Share. Alibaba Group may elect to deliver up to \$800 million of the consideration for the Initial Repurchase in the form of preference shares rather than cash. If issued to Yahoo!, the preference shares will yield semi-annual dividends at a rate per annum of up to 10 percent, with at least 3 percent payable in cash and the remainder accruing and resulting in an increase to the liquidation preference. The dividend rate is subject to certain adjustments. Until the preference shares have been redeemed, Alibaba Group will not pay dividends on its Shares.

(2) at the time Alibaba Group completes an initial public offering meeting certain specified criteria (a “Qualified IPO”), Yahoo! will sell, at Alibaba Group’s election, (either directly to Alibaba Group or in the Qualified IPO) up to 261.5 million Shares;

(3) upon the consummation of the Initial Repurchase or upon certain terminations of the Repurchase Agreement, the Company and Alibaba Group will enter into an amendment of the existing Technology and Intellectual Property License Agreement by and between Yahoo! and Alibaba Group (the “TIPLA”), pursuant to which Alibaba Group will make an initial payment to the Company of \$550 million in satisfaction of certain future royalty payments under the existing TIPLA and will thereafter continue making royalty payments until the earlier of the fourth anniversary of the effective date of the amendment and a Qualified IPO; and

(4) upon the consummation of the Initial Repurchase, the parties will terminate certain existing contractual limitations on Yahoo!’s ability to compete in the People’s Republic of China.

The closing of the Initial Repurchase is subject to customary closing conditions and is expected to occur within six months of May 20, 2012, the date of signing of the Repurchase Agreement.

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

Yahoo Japan’s financial statements are prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”). The Company makes adjustments to its earnings in equity interests line in the condensed consolidated statements of income for any differences between U.S. GAAP and Japanese GAAP.

During the three and six months ended June 30, 2011, the Company recorded \$7 million and \$33 million, respectively, in U.S. GAAP adjustments to Yahoo Japan’s net income to reflect the Company’s 35 percent share of non-cash losses related to impairments of assets held by Yahoo Japan. The \$7 million recorded during the three months ended June 30, 2011 relates to the Company’s share of a non-cash loss related to an impairment of assets held by Yahoo Japan. The \$33 million recorded during the six months ended June 30, 2011 includes a \$26 million, net of tax, U.S. GAAP adjustment to Yahoo Japan’s net income in the first quarter of 2011 to reflect the Company’s share of an other-than-temporary impairment of a cost method investment of Yahoo Japan that resulted primarily from reductions in the projected operating results of the Yahoo Japan investee.

The fair value of the Company’s ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately \$6.5 billion as of June 30, 2012.

During the three and six months ended June 30, 2011 and 2012, the Company received cash dividends from Yahoo Japan in the amount of \$75 million and \$84 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. 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.

	Three Months Ended		Six Months Ended	
	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012
	(in thousands)			
Operating data:				
Revenue	\$1,006,327	\$1,069,974	\$2,000,158	\$2,139,301
Gross profit	\$ 831,503	\$ 919,132	\$1,655,768	\$1,816,840
Income from operations	\$ 496,915	\$ 585,443	\$ 995,186	\$1,127,941
Net income	\$ 289,109	\$ 348,093	\$ 515,884	\$ 650,697
Net income attributable to Yahoo Japan	\$ 287,577	\$ 346,899	\$ 512,283	\$ 648,092

Table of Contents

	September 30, 2011	March 31, 2012
	(in thousands)	
Balance sheet data:		
Current assets	\$ 3,622,833	\$ 5,527,311
Long-term assets	\$ 2,907,062	\$ 1,242,815
Current liabilities	\$ 1,117,773	\$ 1,135,395
Long-term liabilities	\$ 36,009	\$ 45,027
Noncontrolling interests	\$ 31,102	\$ 28,244

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately \$68 million and \$66 million for the three months ended June 30, 2011 and 2012, respectively, and revenue of approximately of \$137 million and \$136 million for the six months ended June 30, 2011 and 2012, respectively. As of both December 31, 2011 and June 30, 2012, the Company had net receivable balances from Yahoo Japan of approximately \$42 million.

Note 5 GOODWILL

The Company's goodwill balance was \$3.9 billion as of December 31, 2011 and June 30, 2012, of which \$2.9 billion was recorded in the Americas segment, \$0.6 billion in the EMEA (Europe, Middle East, and Africa) segment, and \$0.4 billion in the Asia Pacific segment. The change in the carrying amount of goodwill of \$13 million reflected on the Company's condensed consolidated balance sheets during the six months ended June 30, 2012 was primarily due to foreign exchange losses of \$16 million.

Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2011	June 30, 2012		
	Net	Gross Carrying Amount	Accumulated Amortization ^(*)	Net
Customer and advertiser related relationships	\$ 93,683	\$ 166,589	\$ (89,577)	\$ 77,012
Developed technology and patents	137,668	298,089	(198,583)	99,506
Trade names, trademarks, and domain names	23,249	50,982	(30,771)	20,211
Total intangible assets, net	<u>\$ 254,600</u>	<u>\$ 515,660</u>	<u>\$ (318,931)</u>	<u>\$ 196,729</u>

(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately \$18 million as of June 30, 2012.

The Company recognized amortization expense for intangible assets of \$29 million for both the three months ended June 30, 2011 and 2012, including \$21 million and \$19 million, respectively, in cost of revenue - other. For the six months ended June 30, 2011 and 2012, the Company recognized amortization expense for intangible assets of \$59 million and \$60 million, respectively, including \$42 million and \$40 million in cost of revenue - other, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2012 and each of the succeeding years is as follows: six months ending December 31, 2012: \$45 million; 2013: \$62 million; 2014: \$43 million; 2015: \$22 million; 2016: \$5 million; and 2017: \$5 million.

Note 7 OTHER (EXPENSE) INCOME, NET

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Interest and investment income	\$ 5,084	\$ 3,584	\$ 10,444	\$ 9,280
Other	(10,750)	16,591	(11,083)	13,173
Total other (expense) income, net	<u>\$ (5,666)</u>	<u>\$ 20,175</u>	<u>\$ (639)</u>	<u>\$ 22,453</u>

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

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

[Table of Contents](#)

Note 8 ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	December 31, 2011	June 30, 2012
Unrealized (losses) gains on available-for-sale securities, net of tax	\$ (7,538)	\$ 7,500
Foreign currency translation, net of tax	705,407	484,270
Accumulated other comprehensive income	<u>\$ 697,869</u>	<u>\$ 491,770</u>

Note 9 INVESTMENTS

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

	December 31, 2011			Estimated Fair Value
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	
Government and agency securities	\$ 599,582	\$ 1,054	\$ (172)	\$ 600,464
Corporate debt securities, commercial paper, and bank certificates of deposit	366,264	1,025	(226)	367,063
Corporate equity securities	2,761	—	(1,978)	783
Total investments in available-for-sale securities	<u>\$ 968,607</u>	<u>\$ 2,079</u>	<u>\$ (2,376)</u>	<u>\$ 968,310</u>

	June 30, 2012			Estimated Fair Value
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	
Government and agency securities	\$ 402,791	\$ 586	\$ (54)	\$ 403,323
Corporate debt securities, commercial paper, and bank certificates of deposit	458,008	721	(278)	458,451
Corporate equity securities	230	9	—	239
Total investments in available-for-sale securities	<u>\$ 861,029</u>	<u>\$ 1,316</u>	<u>\$ (332)</u>	<u>\$ 862,013</u>

	December 31, 2011	June 30, 2012
Reported as:		
Short-term marketable debt securities	\$ 493,189	\$ 371,204
Long-term marketable debt securities	474,338	490,570
Other assets	783	239
Total	<u>\$ 968,310</u>	<u>\$ 862,013</u>

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 as of December 31, 2011 and June 30, 2012 as the carrying value approximates fair value because of the short maturity of those instruments. Realized gains and losses from sales of marketable securities were not material for the six months ended June 30, 2011 and 2012.

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

	December 31, 2011	June 30, 2012
Due within one year	\$ 493,189	\$ 371,204
Due after one year through five years	474,338	490,570
Total available-for-sale marketable debt securities	<u>\$ 967,527</u>	<u>\$ 861,774</u>

Table of Contents

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 individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2011					
	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	\$ 138,755	\$ (172)	\$ —	\$ —	\$ 138,755	\$ (172)
Corporate debt securities, commercial paper, and bank certificates of deposit	123,574	(226)	—	—	123,574	(226)
Corporate equity securities	—	—	783	(1,978)	783	(1,978)
Total investments in available-for-sale securities	<u>\$ 262,329</u>	<u>\$ (398)</u>	<u>\$ 783</u>	<u>\$ (1,978)</u>	<u>\$ 263,112</u>	<u>\$ (2,376)</u>

	June 30, 2012					
	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	\$ 145,069	\$ (54)	\$ —	\$ —	\$ 145,069	\$ (54)
Corporate debt securities, commercial paper, and bank certificates of deposit	193,133	(278)	—	—	193,133	(278)
Total investments in available-for-sale securities	<u>\$ 338,202</u>	<u>\$ (332)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 338,202</u>	<u>\$ (332)</u>

The Company's investment portfolio consists of liquid high-quality fixed income government, agency, 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 following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of December 31, 2011 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 418,338	\$ —	\$ 418,338
Available-for-sale securities:			
Government and agency securities ⁽¹⁾	—	617,316	617,316
Commercial paper and bank certificates of deposit ⁽¹⁾	—	47,904	47,904
Corporate debt securities ⁽¹⁾	—	318,805	318,805
Available-for-sale securities at fair value	\$ 418,338	\$ 984,025	\$ 1,402,363
Corporate equity securities ⁽²⁾	783	—	783
Liabilities			
Foreign currency derivative contract ⁽³⁾	—	(2,817)	(2,817)
Total assets and liabilities at fair value	<u>\$ 419,121</u>	<u>\$ 981,208</u>	<u>\$ 1,400,329</u>

⁽¹⁾ The money market funds, government and agency securities, 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.

⁽³⁾ Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the condensed consolidated balance sheets.

The amount of cash and cash equivalents as of December 31, 2011 includes \$1.1 billion in cash deposited with commercial banks, of which \$217 million are time deposits.

Table of Contents

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of June 30, 2012 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 498,749	\$ —	\$ 498,749
Available-for-sale securities:			
Government and agency securities ⁽¹⁾	—	450,043	450,043
Commercial paper and bank certificates of deposit ⁽¹⁾	—	58,192	58,192
Corporate debt securities ⁽¹⁾	—	400,260	400,260
Available-for-sale securities at fair value	\$ 498,749	\$ 908,495	\$ 1,407,244
Corporate equity securities ⁽²⁾	239	—	239
Liabilities			
Foreign currency derivative contract ⁽³⁾	—	(3,037)	(3,037)
Total assets and liabilities at fair value	\$ 498,988	\$ 905,458	\$ 1,404,446

⁽¹⁾ The money market funds, government and agency securities, 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.

⁽³⁾ Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the condensed consolidated balance sheets.

The amount of cash and cash equivalents as of June 30, 2012 includes \$1.0 billion in cash deposited with commercial banks, of which \$249 million are time deposits.

The fair values of the Company's Level 1 financial assets and liabilities are based on quoted market prices of the identical underlying security. The fair values of the Company's Level 2 financial assets and liabilities 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 six months ended June 30, 2012, the Company did not make any transfers between Level 1 and Level 2 assets or liabilities. As of December 31, 2011 and June 30, 2012, the Company did not have any significant Level 3 financial assets or liabilities.

Note 10 STOCKHOLDERS' EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of June 30, 2012, there was \$39 million of unamortized stock-based compensation expense related to the Company's Employee Stock Purchase Plan which will be recognized over a weighted average period of 1.4 years.

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 six months ended June 30, 2012 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2011	62,439	\$ 21.94
Options granted	8,291	\$ 14.86
Options exercised ^(*)	(2,767)	\$ 11.40
Options expired	(6,238)	\$ 29.23
Options cancelled/forfeited	(6,458)	\$ 14.84
Outstanding at June 30, 2012	55,267	\$ 21.41

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

As of June 30, 2012, there was \$58 million of unrecognized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.0 years.

Table of Contents

The Company determines the grant-date fair value of stock options, including the options granted under the Company's Employee Stock Purchase Plan, using a Black-Scholes model. 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	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.6%	0.8%	1.4%	1.1%
Expected volatility	34.8%	32.3%	36.1%	34.0%
Expected life (in years)	3.94	4.00	0.98	1.36

	Stock Options		Purchase Plan (*)	
	Six Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.6%	0.7%	1.4%	1.2%
Expected volatility	34.7%	32.3%	36.1%	34.1%
Expected life (in years)	4.09	4.04	1.03	1.25

(*) 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 six months ended June 30, 2012 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share
Awarded and unvested at December 31, 2011(*)	38,775	\$ 17.28
Granted(*)	13,314	\$ 14.97
Vested	(7,180)	\$ 16.03
Forfeited	(12,866)	\$ 15.35
Awarded and unvested at June 30, 2012(*)	<u>32,043</u>	<u>\$ 17.38</u>

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

As of June 30, 2012, there was \$291 million of unrecognized stock-based compensation expense 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 six months ended June 30, 2011 and June 30, 2012, 5.7 million shares and 7.2 million shares, respectively, that were subject to previously granted restricted stock awards and restricted stock units vested. These vested restricted stock awards and restricted stock units were net share settled. During the six months ended June 30, 2011 and June 30, 2012, the Company withheld 2.0 million shares and 2.5 million shares, respectively, 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 \$34 million and \$38 million for the six months ended June 30, 2011 and June 30, 2012, respectively, 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 and tax withholding related to the reacquisition of shares of restricted stock awards. 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.

Former CEO Inducement and Make-Up Equity. On January 27, 2012, Mr. Scott Thompson, former Chief Executive Officer, was granted an award of restricted stock units under the 1995 Stock Plan with an aggregate value of \$6.5 million on the date of grant (the "Thompson Make-Whole RSUs"). On February 10, 2012, Mr. Thompson received a make-whole cash bonus of \$1.5 million (the "Make-Whole Cash Bonus"). The Thompson Make-Whole RSUs and the Make-Whole Cash Bonus compensated Mr. Thompson for the forfeiture of the value of his cash bonus and equity awards from his previous employer. The Thompson Make-Whole RSUs vested as to a number of stock units with a grant date value of \$5.5 million on March 15, 2012 and the remaining stock units were forfeited upon Mr. Thompson's resignation as Yahoo!'s Chief Executive Officer and President effective May 12, 2012.

[Table of Contents](#)

The Company recorded total stock-based compensation expense reversals of less than \$1 million for the three months ended June 30, 2012 and total stock-based compensation expense of \$6 million for the six months ended June 30, 2012 in connection with the equity grants made to Mr. Thompson pursuant to the terms of his employment letter agreement with the Company.

Stock Repurchases. In June 2010, the Board authorized a stock repurchase program allowing the Company to repurchase up to \$3.0 billion of its outstanding shares of common stock from time to time. That repurchase program expires in June 2013. In May 2012, the Company announced authorization of a stock repurchase program allowing the Company to repurchase up to an additional \$5.0 billion of its outstanding shares of common stock from time to time. The aggregate amount available under the two repurchase programs was approximately \$5,079 million at June 30, 2012. Repurchases under the repurchase programs 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 six months ended June 30, 2012, the Company repurchased approximately 34 million shares of its common stock under the stock repurchase program announced in June 2010 at an average price of \$15.36 per share for a total of \$526 million.

Note 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating and capital lease agreements with original lease periods of up to 13 years, which expire between 2012 and 2022.

A summary of gross and net lease commitments as of June 30, 2012 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Six months ending December 31, 2012	\$ 77	\$ (6)	\$ 71
Years ending December 31,			
2013	136	(13)	123
2014	106	(11)	95
2015	81	(7)	74
2016	45	(1)	44
2017	31	—	31
Due after 5 years	38	—	38
Total gross and net lease commitments	<u>\$ 514</u>	<u>\$ (38)</u>	<u>\$ 476</u>
			Capital Lease Commitment
Six months ending December 31, 2012			\$ 4
Years ending December 31,			
2013			9
2014			8
2015			8
2016			8
2017			9
Due after 5 years			14
Gross lease commitment			<u>\$ 60</u>
Less: interest			<u>(21)</u>
Net lease commitment			<u>\$ 39</u>

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs (“TAC”), to its Affiliates. As of June 30, 2012, these commitments totaled \$113 million, of which \$40 million will be payable in the remainder of 2012, and \$73 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 \$32 million through 2023.

Other Commitments. In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint ventures and business partners, purchasers of assets or subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company’s breach of agreements or representations and warranties made by the Company, services to be provided by the Company, intellectual property infringement claims made by third parties or, with respect to the sale of assets or a subsidiary, matters related to the Company’s conduct of the business and tax matters prior to the sale. In addition, the Company has entered into indemnification agreements with its directors and certain of its

[Table of Contents](#)

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 the Company's condensed consolidated financial statements.

As of June 30, 2012, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

See Note 15 — “Search Agreement with Microsoft Corporation” for a description of the Company's Search and Advertising Services and Sales Agreement (the “Search Agreement”) and License Agreement with Microsoft Corporation (“Microsoft”).

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 June 14, 2007, a stockholder derivative action was filed in the United States 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 a former class action relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (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 substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a stockholder 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. On September 19, 2011, the Court sustained Yahoo!'s demurrer to plaintiff's third amended complaint without leave to amend. On December 21, 2011, plaintiff filed a notice of appeal.

Since May 31, 2011, several related stockholder derivative suits were filed in the Santa Clara County Superior Court (“California Derivative Litigation”) and the United States District Court for the Northern District of California (“Federal Derivative Litigation”) purportedly on behalf of the Company against certain officers and directors of the Company and third parties. The California Derivative Litigation was filed by plaintiffs Cinotto, Lassoff, Zucker, and Koo, and consolidated under the caption *In re Yahoo! Inc. Derivative Shareholder Litigation* on June 24, 2011 and September 12, 2011. The Federal Derivative Litigation was filed by plaintiffs Salzman, Tawila, and Iron Workers Mid-South Pension Fund and consolidated under the caption *In re Yahoo! Inc. Shareholder Derivative Litigation* on October 3, 2011. The plaintiffs allege breaches of fiduciary duties, corporate waste, mismanagement, abuse of control, unjust enrichment, misappropriation of corporate assets, or contribution and seek damages, equitable relief, disgorgement and corporate governance changes in connection with Alibaba Group's restructuring of its subsidiary Alipay and related disclosures. On June 7, 2012, the courts approved stipulations staying the California Derivative Litigation pending resolution of the Federal Derivative Litigation, and deferring the Federal Derivative Litigation pending a ruling on the motion to dismiss filed by the defendants in the related stockholder class actions, which are discussed below.

Since June 6, 2011, two purported stockholder class actions were filed in the United States District Court for the Northern District of California against the Company and certain officers and directors by plaintiffs Bonato and the Twin Cities Pipe Trades Pension Trust. In October 2011, the District Court consolidated the two actions under the caption *In re Yahoo! Inc. Securities Litigation* and appointed the Pension Trust Fund for Operating Engineers as lead plaintiff. In a consolidated amended complaint filed December 15, 2011, the lead plaintiff purports to represent a class of investors who purchased the Company's common stock between April 19, 2011 and July 29, 2011, and alleges that during that class period, defendants issued statements that were materially false or misleading because they did not disclose information relating to Alibaba Group's restructuring of Alipay. The complaint purports to assert claims for relief for violation of Section 10(b) and 20(a) of the Exchange Act and for violation of Rule 10b-5 thereunder, and seeks unspecified damages, injunctive and equitable relief, fees and costs. On June 22, 2012, the court held a hearing on defendants' motion to dismiss the consolidated amended complaint.

[Table of Contents](#)

On December 1, 2011 and December 7, 2011, purported class action complaints were filed in the Delaware Chancery Court by M & C Partners, III and Louisiana Municipal Police Employees' Retirement System, respectively, against the Company and the members of the Company's Board of Directors at that time. On December 14, 2011, the Delaware Chancery Court consolidated the two actions under the caption *In re Yahoo! Shareholders Litig.* and appointed lead plaintiffs. On December 29, 2011, the lead plaintiffs filed a consolidated amended class action complaint purportedly on behalf of all of the Company's stockholders alleging that the Board of Directors breached its fiduciary duties by failing to maximize the Company's value in connection with the strategic review process. Plaintiffs seek injunctive relief, rescission, fees and costs. The Company and the members of the Company's Board of Directors at that time answered the amended class action complaint on January 18, 2012. On July 6, 2012, the lead plaintiffs filed a motion for an award of attorneys' fees and expenses alleging that their claims had become moot as a result of events occurring after the filing of the amended class action complaint. On July 25, 2012, the Court dismissed the plaintiffs' claims while retaining jurisdiction to decide plaintiffs' motion for fees and expenses.

With respect to the legal proceedings and claims described above, the Company has determined, based on current knowledge, that the amount or range of reasonably possible losses, including reasonably possible losses in excess of amounts already accrued, is not reasonably estimable with respect to certain matters and that the aggregate amount or range of such losses that are estimable would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. Amounts accrued as of December 31, 2011 and June 30, 2012 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty. In the event of a determination adverse to Yahoo!, its subsidiaries, directors, or officers in these matters, however, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these events could have a material adverse effect on the Company's financial position, results of operations, or cash flows. The Company may also incur substantial legal fees, which are expensed as incurred, in defending against these claims.

Note 12 SEGMENTS

The Company continues to manage its business geographically. The primary areas of measurement and decision-making are currently Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC 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.

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Revenue by segment:				
Americas	\$ 808,038	\$ 821,751	\$1,626,969	\$1,657,784
EMEA	162,601	128,099	316,651	262,061
Asia Pacific	258,385	267,944	499,761	519,182
Total Revenue	\$1,229,024	\$1,217,794	\$2,443,381	\$2,439,027
TAC by segment:				
Americas	\$ 39,404	\$ 45,910	\$ 77,545	\$ 88,865
EMEA	57,648	34,187	115,160	79,849
Asia Pacific	55,844	56,928	110,222	112,402
Total TAC	\$ 152,896	\$ 137,025	\$ 302,927	\$ 281,116
Revenue ex-TAC by segment:				
Americas	\$ 768,634	\$ 775,841	\$1,549,424	\$1,568,919
EMEA	104,953	93,912	201,491	182,212
Asia Pacific	202,541	211,016	389,539	406,780
Total Revenue ex-TAC	\$1,076,128	\$1,080,769	\$2,140,454	\$2,157,911
Direct costs by segment⁽¹⁾:				
Americas	171,042	181,510	333,940	360,735
EMEA	42,768	41,277	81,374	81,498
Asia Pacific	57,728	56,248	109,050	107,739
Global operating costs ⁽²⁾⁽³⁾	393,037	410,519	808,663	832,417
Restructuring charges, net	237	129,092	10,812	134,809
Depreciation and amortization	161,373	157,739	321,811	310,987
Stock-based compensation expense	59,048	49,571	94,164	105,537
Income from operations	\$ 190,895	\$ 54,813	\$ 380,640	\$ 224,189

⁽¹⁾ Direct costs for each segment include cost of revenue—other as well as 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. Beginning in 2012, marketing and customer advocacy costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

⁽²⁾ Global operating costs include product development, service engineering and operations, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any segment. Prior to 2012, marketing and customer advocacy costs were managed on a global basis and included as global operating costs. Prior period amounts have been revised to conform to the current presentation.

⁽³⁾ The net cost reimbursements from Microsoft are primarily included in global operating costs.

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Capital expenditures, net:				
Americas	\$ 119,167	\$ 96,443	\$246,537	\$179,327
EMEA	13,962	4,078	27,221	13,361
Asia Pacific	38,386	5,610	65,306	23,234
Total capital expenditures, net	\$171,515	\$106,131	\$339,064	\$215,922

[Table of Contents](#)

	December 31, 2011	June 30, 2012
Property and equipment, net:		
Americas	\$1,489,096	\$1,455,477
EMEA	79,955	56,571
Asia Pacific	161,837	151,617
Total property and equipment, net	<u>\$1,730,888</u>	<u>\$1,663,665</u>

See Note 14 —“Restructuring Charges, Net” for additional information regarding segments.

Enterprise Wide Disclosures:

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Display	\$ 523,537	\$ 534,972	\$1,046,160	\$1,046,189
Search	466,674	460,969	921,795	931,366
Other	238,813	221,853	475,426	461,472
Total revenue	<u>\$1,229,024</u>	<u>\$1,217,794</u>	<u>\$2,443,381</u>	<u>\$2,439,027</u>
	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Revenue:				
U.S.	\$ 759,042	\$ 779,321	\$1,538,011	\$1,578,971
International	469,982	438,473	905,370	860,056
Total revenue	<u>\$1,229,024</u>	<u>\$1,217,794</u>	<u>\$2,443,381</u>	<u>\$2,439,027</u>
		December 31, 2011	June 30, 2012	
Property and equipment, net:				
U.S.		\$1,486,596	\$1,453,274	
International		244,292	210,391	
Total property and equipment, net		<u>\$1,730,888</u>	<u>\$1,663,665</u>	

Note 13 INCOME TAXES

The Company’s effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, the Company’s provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended June 30, 2012 was 35 percent compared to 30 percent for the same period in 2011. The effective tax rate for the three months ended June 30, 2012 was higher than in 2011 primarily due to the expiration of the U.S. federal research and development tax credit and to more earnings expected to be realized in countries that have higher statutory tax rates.

The effective tax rate reported for the six months ended June 30, 2012 was 34 percent compared to 28 percent for the same period in 2011. The rates in both periods were lower than the U.S. federal statutory rate primarily due to tax reserve reductions attributed to favorably settled tax audits and to a shift of the geographic mix of earnings. The effective tax rate for the six months ended June 30, 2012 was higher than in 2011 primarily due to the expiration of the U.S. federal research and development tax credit and to more earnings expected to be realized in countries that have higher statutory tax rates.

The Company is in various stages of examination and appeal in connection with all of its tax audits worldwide, which generally span tax years 2005 through 2011. The Company believes that it has adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

[Table of Contents](#)

The Company's gross amount of unrecognized tax benefits as of June 30, 2012 is \$521 million, of which \$410 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of June 30, 2012 decreased by \$12 million from the recorded balance as of December 31, 2011. While it is difficult to determine when these examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the unrecognized tax benefits could be reduced by up to approximately \$100 million in the next twelve months.

Note 14 RESTRUCTURING CHARGES, NET

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>
Employee severance pay and related costs	\$ (424)	\$ 91,736	\$ 8,911	\$ 94,727
Non-cancelable lease, contract termination, and other charges	1,187	2,147	3,179	4,873
Other non-cash charges	—	38,638	—	38,638
Sub-total before reversal of stock-based compensation expense	763	132,521	12,090	138,238
Reversal of stock-based compensation expense for forfeitures	(526)	(3,429)	(1,278)	(3,429)
Restructuring charges, net	<u>\$ 237</u>	<u>\$129,092</u>	<u>\$10,812</u>	<u>\$134,809</u>

Although the Company does not allocate restructuring charges to its segments, the amounts of the restructuring charges relating to each segment are presented below.

2011 and Prior Restructuring Plans. Prior to and into 2011, the Company implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers to reduce its cost structure, align resources with its product strategy, and improve efficiency. During the three and six months ended June 30, 2011, the Company incurred total pre-tax cash charges of \$1 million and \$12 million, respectively, in severance, facility, and other related costs. The pre-tax cash charges were offset by a \$1 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited for both the three and six months ended June 30, 2011. Of the \$11 million in restructuring charges, net recorded in the six months ended June 30, 2011, \$10 million related to the Americas segment and \$1 million related to the EMEA segment.

During the three and six months ended June 30, 2012, the Company incurred total pre-tax cash charges of \$2 million and \$8 million, respectively, in severance, facility, and other related costs, the majority of which related to the Americas segment.

Q2'12 Restructuring Plan. During the second quarter of 2012, the Company began implementing a plan to reduce its worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities (the "Q2'12 Restructuring Plan"). During the three months ended June 30, 2012, the Company incurred total pre-tax cash charges of \$91 million in severance related costs and \$39 million in non-cash facility and other asset impairment charges. The total pre-tax charges were offset by a \$3 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the \$127 million in restructuring charges, net, recorded in the three months ended June 30, 2012, \$86 million related to the Americas segment, \$35 million related to the EMEA segment, and \$6 million related to the Asia Pacific segment. See Management Changes in Note 16 — "Subsequent Events" for further information.

Restructuring Accruals. The \$103 million restructuring liability as of June 30, 2012 consists of \$71 million for employee severance pay expenses, which the Company expects to pay out by the fourth quarter of 2013, and \$32 million for non-cancelable lease costs that the Company expects to pay over the terms of the related obligations, which extend to the second quarter of 2017.

Table of Contents

The Company's restructuring accrual activity for the six months ended June 30, 2012 is summarized as follows (in thousands):

	2011 and Prior Restructuring Plans	Q2'12 Restructuring Plan	Total
Balance as of January 1, 2012	\$ 49,127	\$ —	\$ 49,127
Employee severance pay and related costs	5,208	91,066	96,274
Non-cash reversals of stock-based compensation expense	—	(3,429)	(3,429)
Non-cancelable lease, contract termination, and other charges	4,369	617	4,986
Other non-cash charges	—	38,638	38,638
Reversals of previous charges	(1,660)	—	(1,660)
Restructuring charges, net for the six months ended June 30, 2012	\$ 7,917	\$ 126,892	\$ 134,809
Cash paid	(20,761)	(21,292)	(42,053)
Non-cash reversals of stock-based compensation expense	—	3,429	3,429
Other non-cash charges	(232)	(38,440)	(38,672)
Foreign currency	(255)	(3,843)	(4,098)
Payments/reductions, net for the six months ended June 30, 2012	\$ (21,248)	\$ (60,146)	\$ (81,394)
Balance as of June 30, 2012	\$ 35,796	\$ 66,746	\$ 102,542

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

	December 31, 2011	June 30, 2012
Americas	\$ 41,199	\$ 80,100
EMEA	6,948	18,132
Asia Pacific	980	4,310
Total restructuring accruals	\$ 49,127	\$ 102,542

Note 15 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

On December 4, 2009, the Company entered into the Search Agreement with Microsoft, which provides for Microsoft to be the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites. 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 is entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties (the "Revenue Share Rate") and the Company is also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue. 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 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of 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. In the transitioned markets, the Company reports as revenue the 88 percent revenue share as the Company is not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft.

As of December 31, 2011 and June 30, 2012, the Company had collected a total amount of \$66 million and \$48 million, respectively, on behalf of Microsoft and Affiliates, which was included in cash and cash equivalents with a corresponding liability in accrued expenses and other current liabilities. The Company's uncollected 88 percent share in connection with the Search Agreement

[Table of Contents](#)

was \$203 million and \$215 million as of December 31, 2011 and June 30, 2012, respectively, which is included in accounts receivable, net.

The Company completed the transition of its algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, the Company completed the transition of algorithmic search in all other markets and the transition of paid search in India. In the second quarter of 2012, the Company completed the transition of paid search in certain EMEA markets including the United Kingdom, France, and Germany. The market-by-market transition of the Company's paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013.

Under the Search Agreement, for each market, Microsoft generally guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties only for 18 months after the transition of paid search services to Microsoft's platform in that market. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods. The Company records the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which would typically be the quarter in which the associated shortfall in revenue per search occurred.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results reflect search operating cost reimbursements from Microsoft under the Search Agreement of \$55 million and \$111 million for the three and six months ended June 30, 2011, and \$17 million and \$34 million for the three and six months ended June 30, 2012, respectively. Search operating cost reimbursements began during the quarter ended March 31, 2010 and will, subject to specified exclusions and limitations, continue until the Company has fully transitioned to Microsoft's platform.

The Company's results for the three and six months ended June 30, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement that were equal to the transition costs of \$12 million and \$23 million, respectively, incurred by Yahoo! related to the Search Agreement in the three and six months ended June 30, 2011. During the third quarter of 2011, the Company's cumulative transition costs exceeded Microsoft's \$150 million reimbursement cap under the Search Agreement. Transition costs the Company incurs in excess of the \$150 million reimbursement cap are not subject to reimbursement.

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 December 31, 2011, a total of \$238 million of reimbursable expenses related to 2011 had been incurred by the Company related to the Search Agreement. Of that amount, \$16 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of December 31, 2011. For the second quarter of 2012, a total of \$17 million of search operating cost reimbursements had been incurred by the Company related to the Search Agreement. Of that amount, \$6 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of June 30, 2012.

Note 16 SUBSEQUENT EVENTS

Management Changes. On July 16, 2012, the Company entered into an employment offer letter (the "Agreement") with respect to the appointment of Marissa A. Mayer as the Company's Chief Executive Officer and President, effective July 17, 2012. The Agreement has no specified term, and Ms. Mayer's employment with the Company will be on an at-will basis

This Agreement provides that Ms. Mayer will receive an annual base salary of \$1 million, subject to annual review. She is also eligible for an annual bonus under the Company's Executive Incentive Plan with a target amount of 200 percent of base salary. The actual amount of the annual bonus will be determined by the Compensation and Leadership Development Committee of the Board (the "Compensation Committee") based upon two criteria: (i) the Company's financial performance and, (ii) if applicable under the Company's bonus plan for that year, Ms. Mayer's performance. The 2012 bonus will be prorated based on her period of employment in 2012.

2012 Annual Equity Awards (Vesting Over Three Years). Ms. Mayer will receive an equity award for 2012 that will vest over three years. A total of \$6 million of this equity award was granted as restricted stock units on July 26, 2012 and will vest over three years. A total of \$6 million will be granted in the form of a performance-based stock option that is expected to be granted in November 2012. The stock option will be subject to both time-based and performance-based vesting requirements over the next two and a half years. The Compensation Committee will establish the performance vesting criteria after consulting Ms. Mayer.

After 2012, Ms. Mayer will be eligible to receive annual equity grants when such grants are made to senior executives. Subject to the Compensation Committee's discretion, the Company contemplates that the target value of such awards will not be less than the target value of her 2012 annual grant.

One-Time Retention Award (Vesting Over Five Years). Ms. Mayer will receive a one-time retention equity award that will vest over five years. A total of \$15 million of this equity award was granted as restricted stock units on July 26, 2012 and will vest over five years. A total of \$15 million of this equity award will be granted in the form of a performance-based stock option that is expected

[Table of Contents](#)

to be granted in November 2012. The stock option will be subject to both time-based and performance-based vesting requirements over the next four and a half years. The Compensation Committee will establish the performance vesting criteria after consulting Ms. Mayer.

Make-Whole Restricted Stock Units (Vesting Over 29 Months). To partially compensate Ms. Mayer for forfeiture of compensation from her previous employer, on July 26, 2012 she was granted restricted stock units with a grant-date value of \$14 million (the “Make-Whole RSUs”). The Make-Whole RSUs are scheduled to vest on the following schedule, based on grant date values: \$4 million in 2012, \$7 million in 2013, and \$3 million in 2014.

Ms. Mayer is engaging in a review of the Company’s business strategy to enhance long term shareholder value. As part of that review, Ms. Mayer intends to review with the Board of Directors, among other things, the Company’s growth and acquisition strategy, the restructuring plan the Company began implementing in the second quarter of 2012, and the Company’s cash position and planned capital allocation strategy. This review process may lead to a reevaluation of, or changes to, the Company’s current plans, including its restructuring plan, its share repurchase program, and its previously announced plans for returning to shareholders substantially all of the after tax cash proceeds of the initial share repurchase by Alibaba Group under the Repurchase Agreement described in Note 4 — “Investments in Equity Interests.”

Stock Repurchase Transactions. From July 1, 2012 through August 9, 2012, the Company repurchased approximately 12.2 million shares of its common stock at an average price of \$15.62 per share, for a total of \$190 million. Of such repurchases, \$79 million was under the June 2010 repurchase program and \$111 million was under the May 2012 repurchase program.

Forward Contract. On August 7, 2012, the Company entered into a new forward contract with a notional value equivalent of approximately \$400 million, which will mature on March 28, 2013.

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, including display, search, and other revenue;
- expectations about growth in users;
- expectations about 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;
- projections and estimates with respect to our restructuring activities and changes to our organizational structure; 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", or "us"), is focused on creating deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. Our unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses. We provide online properties and services ("Yahoo! Properties") to users as well as a range of marketing services designed to reach and connect with those users on Yahoo! Properties and through a distribution network of third-party entities ("Affiliates"). These Affiliates integrate our advertising offerings into their Websites or other offerings (those Websites and other offerings, "Affiliate sites").

New Chief Executive Officer and Review of Business Strategy

On July 17, 2012, Marissa A. Mayer became our Chief Executive Officer and a member of our Board of Directors. Ms. Mayer is engaging in a review of the Company's business strategy to enhance long term shareholder value. As part of that review, Ms. Mayer intends to review with the Board of Directors, among other things, the Company's growth and acquisition strategy, the restructuring plan we began implementing in the second quarter of 2012, and the Company's cash position and planned capital allocation strategy. This review process may lead to a reevaluation of, or changes to, our current plans, including our restructuring plan, our share repurchase program, and our previously announced plans for returning to shareholders substantially all of the after tax cash proceeds of the initial share repurchase by Alibaba Group under the Repurchase Agreement described below.

Agreement with Alibaba Group to Repurchase Yahoo! Stake

On May 20, 2012, we entered into a Share Repurchase and Preference Share Sale Agreement (the "Repurchase Agreement") with Alibaba Group Holding Limited ("Alibaba Group") and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo!, to sell to Alibaba Group up to one-half of our stake, or approximately 20 percent of Alibaba Group's fully-diluted ordinary shares ("Shares"), at a minimum price of \$13.50 per Share, payable in a combination of cash and up to \$800 million of Alibaba preference shares. We expect this initial repurchase will occur within six months of May 20, 2012, the date of signing of the Repurchase Agreement.

In addition to the initial repurchase described above, at the time of an initial public offering of Alibaba Group meeting certain specified criteria ("Qualified IPO"), we will sell, at Alibaba Group's election, (either directly to Alibaba Group or in the Qualified IPO) up to 261.5 million Shares.

See Note 4 — "Investments in Equity Interests" in the Notes to the condensed consolidated financial statements for additional information.

[Table of Contents](#)**Second Quarter Highlights**

<u>Operating Highlights</u>	Three Months Ended June 30,		Dollar Change	Six Months Ended June 30,		Dollar Change
	2011	2012		2011	2012	
	(In thousands)					
Revenue	\$1,229,024	\$1,217,794	\$ (11,230)	\$2,443,381	\$2,439,027	\$ (4,354)
Income from operations	\$ 190,895	\$ 54,813	\$(136,082)	\$ 380,640	\$ 224,189	\$(156,451)

<u>Cash Flow Results</u>	Six Months Ended June 30,		Dollar Change
	2011	2012	
	(In thousands)		
Net cash provided by operating activities	\$ 536,306	\$ 572,013	\$ 35,707
Net cash used in investing activities	\$ (3,138)	\$(100,628)	\$(97,490)
Net cash used in financing activities	\$(521,437)	\$(472,082)	\$ 49,355

Our revenue decreased 1 percent and was flat for the three and six months ended June 30, 2012, respectively, compared to the same periods in 2011. This can be attributed primarily to decrease in other revenue. The decrease in income from operations of \$136 million and \$156 million for the three and six months ended June 30, 2012, respectively, reflects a decrease in revenue and an increase in operating expenses compared to the same periods in 2011. The increase in operating expenses is primarily attributable to increases in restructuring charges of \$129 million and \$124 million for the three and six months ended June 30, 2012, respectively.

Cash generated by operating activities is a measure of the cash productivity of our business model. Our operating activities in the six months ended June 30, 2012 generated adequate cash to meet our operating needs. Cash used by investing activities in the six months ended June 30, 2012 included net proceeds from sales, maturities, and purchases of marketable debt securities of \$102 million offset by net capital expenditures of \$216 million. Cash used in financing activities included \$526 million used in the direct repurchase of common stock and \$38 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 \$78 million in proceeds from employee option exercises and employee stock purchases.

During the second quarter of 2012, we began implementing a plan to reduce our worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities (the "Q2'12 Restructuring Plan"). During the three months ended June 30, 2012, we incurred total pre-tax cash charges of \$91 million in severance related costs and \$39 million in non-cash facility and other asset impairment charges. The total pre-tax charges were offset by a \$3 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited.

Search Agreement with Microsoft Corporation

On December 4, 2009, we entered into a Search and Advertising Services and Sales Agreement (the "Search Agreement") with Microsoft Corporation ("Microsoft"), which provides for Microsoft to be the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites. We also entered into a License Agreement with Microsoft pursuant to which Microsoft acquired an exclusive 10-year license to our core search technology that it will be able to integrate into its existing Web search platforms.

During the first five years of the Search Agreement, in the transitioned markets, we are entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties. We are also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue. In the transitioned markets, for search revenue generated from Microsoft's services on Yahoo! Properties and Affiliate sites, we report as revenue the 88 percent revenue share, as we are not the primary obligor in the arrangement with the advertisers and publishers.

Under the Search Agreement, for each market, Microsoft generally guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties only for 18 months after the transition of paid search services to Microsoft's platform in that market. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods. We record the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred.

Under the Search Agreement, Microsoft agreed to reimburse us for certain transition costs up to an aggregate total of \$150 million during the first three years of the Search Agreement. Our results for the three and six months ended June 30, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement that were equal to transition costs of \$12 million and \$23 million, respectively, incurred by Yahoo! related to the Search Agreement in the those periods. During the third quarter of 2011, our

[Table of Contents](#)

cumulative transition costs exceeded Microsoft's \$150 million reimbursement cap under the Search Agreement. Transition costs we incur in excess of the \$150 million reimbursement cap are not subject to reimbursement.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results reflect search operating cost reimbursements from Microsoft under the Search Agreement of \$55 million and \$111 million for the three and six months ended June 30, 2011, and \$17 million and \$34 million for the three and six months ended June 30, 2012, respectively. The global transition of the algorithmic and paid search platforms to Microsoft's platform and the migration of the paid search advertisers and publishers to Microsoft's platform are being done on a market by market basis. Search operating cost reimbursements are expected to decline as we fully transition all markets and, in the long term, the underlying expenses are not expected to be incurred under our cost structure.

We completed the transition of our algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, we completed the transition of algorithmic search in all other markets and the transition of paid search in India. In the second quarter of 2012, we completed the transition of paid search in certain EMEA (Europe, Middle East, and Africa) markets including the United Kingdom, France, and Germany. The market-by-market transition of our paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013.

We record receivables for the reimbursements as costs are incurred and apply them against the operating expense categories in which the costs were incurred. Of the total amounts incurred during the year ended December 31, 2011, total reimbursements of \$16 million not yet received from Microsoft were classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets as of December 31, 2011. For the second quarter of 2012, a total of \$17 million of search operating cost reimbursements had been incurred by us related to the Search Agreement. Of that amount, \$6 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets as of June 30, 2012.

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 were as follows (dollars in thousands):

	Three Months Ended June 30,				Percent Change	Six Months Ended June 30,				Percent Change
	2011	(*)	2012	(*)		2011	(*)	2012	(*)	
Display	\$ 523,537	43%	\$ 534,972	44%	2%	\$1,046,160	43%	\$1,046,189	43%	0%
Search	466,674	38%	460,969	38%	(1)%	921,795	38%	931,366	38%	1%
Other	238,813	19%	221,853	18%	(7)%	475,426	19%	461,472	19%	(3)%
Total revenue	<u>\$1,229,024</u>	<u>100%</u>	<u>\$1,217,794</u>	<u>100%</u>	(1)%	<u>\$2,443,381</u>	<u>100%</u>	<u>\$2,439,027</u>	<u>100%</u>	0%

(*) Percent of total revenue.

We currently generate revenue principally from display advertising on Yahoo! Properties and from search advertising on Yahoo! Properties and Affiliate sites.

To assist us in evaluating display advertising and search advertising, beginning in the fourth quarter of 2010, we began reporting the number of Web pages viewed by users ("Page Views") separately for display and search. "Search Page Views" is defined as the number of Web pages viewed by users on Yahoo! Properties and Affiliate sites resulting from search queries, and "revenue per Search Page View" is defined as search revenue divided by our Search Page Views. "Display Page Views" is defined as the total number of Page Views on Yahoo! Properties less the number of Search Page Views on Yahoo! Properties, and "revenue per Display Page View" is defined as display revenue divided by our Display Page Views. While we also receive display revenue for content match links (advertising in the form of contextually relevant links to advertisers' Websites) on Yahoo! Properties and Affiliate sites and for display advertising on Affiliate sites, we do not include that revenue or those Page Views in our discussion or calculation of Display Page Views or revenue per Display Page View because the net revenue and related volume metrics associated with them are not currently material to display revenue.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views 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 Yahoo! Properties.

Display Revenue. Display revenue for the three months ended June 30, 2012 increased by 2 percent compared to the same period in 2011. Display revenue for the six months ended June 30, 2012 was flat compared to the same period in 2011. For the three months ended June 30, 2012, our year-over-year growth can be attributed to increased display revenue in the Asia Pacific region due

Table of Contents

to guaranteed display revenue growth in certain markets, offset by a decline in display revenue for the EMEA region due to continued weakness in the macroeconomic climate. For the three and six months ended June 30, 2012, Display Page Views decreased 4 percent and 5 percent, respectively, and revenue per Display Page View increased 6 percent and 5 percent, respectively, compared to the same periods in 2011 due to the increase in display revenue as discussed above.

Search Revenue. Search revenue for the three and six months ended June 30, 2012 decreased by 1 percent and increased by 1 percent, respectively, compared to the same periods in 2011. For the three months ended June 30, 2012, search revenue declined due to decreased Affiliate search revenue in the EMEA region as well as the required change in revenue presentation associated with the transition of paid search in certain markets to Microsoft's search platform. This decline was offset by increased search revenue in the Americas regions due to an increase in sponsored search on Yahoo! Properties. For the six months ended June 30, 2012, the increase in search revenue is primarily attributable to an increase in sponsored search on Yahoo! Properties offset by declines in search revenue in the EMEA region as discussed above. For the three and six months ended June 30, 2012, Search Page Views decreased 25 percent and 17 percent, respectively. For the three and six months ended June 30, 2012, revenue per Search Page View increased 31 percent and 22 percent, respectively, compared to the same periods in 2011, due to the factors discussed above.

Other Revenue. Other revenue includes listings-based services revenue, transaction revenue, and fees revenue. Other revenue for the three and six months ended June 30, 2012 decreased by 7 percent and 3 percent, respectively, compared to the same periods in 2011. The decreases, for the three and six months ended June 30, 2012, are primarily attributable to a decline in revenue from certain of our broadband access partnerships in the Americas region. This decline is partially offset by an increase in the Americas region due to a new partner as well as an increase in royalty revenue.

Costs and Expenses. Operating costs and expenses consist of cost of revenue — traffic acquisition costs ("TAC"), cost of revenue — other, sales and marketing, product development, general and administrative, amortization of intangible assets, and restructuring charges, net. Cost of revenue — other consists of 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 June 30,				Dollar Change	Percent Change
	2011	(1)	2012	(1)		
Cost of revenue — TAC	\$152,896	12%	\$137,025	11%	\$ (15,871)	(10)%
Cost of revenue — Other	\$231,388	19%	\$278,453	23%	\$ 47,065	20%
Sales and marketing	\$280,159	23%	\$272,910	22%	\$ (7,249)	(3)%
Product development	\$233,045	19%	\$199,628	16%	\$ (33,417)	(14)%
General and administrative	\$131,822	11%	\$136,117	11%	\$ 4,295	3%
Amortization of intangibles	\$ 8,582	1%	\$ 9,756	1%	\$ 1,174	14%
Restructuring charges, net	\$ 237	0%	\$129,092	11%	\$128,855	N/M (2)

	Six Months Ended June 30,				Dollar Change	Percent Change
	2011	(1)	2012	(1)		
Cost of revenue — TAC	\$302,927	12%	\$281,116	12%	\$ (21,811)	(7)%
Cost of revenue — Other	\$481,014	20%	\$532,432	22%	\$ 51,418	11%
Sales and marketing	\$542,308	22%	\$558,178	23%	\$ 15,870	3%
Product development	\$454,328	19%	\$428,106	18%	\$ (26,222)	(6)%
General and administrative	\$254,720	10%	\$260,388	11%	\$ 5,668	2%
Amortization of intangibles	\$ 16,632	1%	\$ 19,809	1%	\$ 3,177	19%
Restructuring charges, net	\$ 10,812	0%	\$134,809	6%	\$123,997	N/M (2)

(1) Percent of total revenue.

(2) N/M = not meaningful.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2012	2011	2012
Cost of revenue — Other	\$ 875	\$ 2,614	\$ 1,523	\$ 5,508
Sales and marketing	19,373	18,981	26,070	40,078
Product development	25,531	17,808	43,203	37,279
General and administrative	13,269	10,168	23,368	22,672
Restructuring expense reversals, net	(526)	(3,429)	(1,278)	(3,429)
Total stock-based compensation expense	<u>\$58,522</u>	<u>\$46,142</u>	<u>\$92,886</u>	<u>\$102,108</u>

For additional information about stock-based compensation, see Note 10 — "Stockholders' Equity and Employee Benefits" in the Notes to the condensed consolidated financial statements included elsewhere in this Report as well as "Critical Accounting

[Table of Contents](#)

Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Traffic Acquisition Costs for Non-transitioned Search Markets and All Markets for Display. TAC consist of payments made to third-party entities that have integrated our advertising offerings into their Websites or other offerings and payments made to companies that direct consumer and business traffic to Yahoo! Properties. We enter into agreements of varying duration that involve TAC. There are generally two 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, or variable payments based on a percentage of our revenue or based on a certain metric, such as number of searches or paid clicks. 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 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.

The changes in operating costs and expenses for the three months ended June 30, 2012 compared to the three months ended June 30, 2011 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	TAC	Facilities	Other	Total
Cost of revenue — TAC	\$ —	\$ —	\$ —	\$(15,871)	\$ —	\$ —	\$(15,871)
Cost of revenue — Other	6,846	25,392	4,950	—	312	9,565	47,065
Sales and marketing	14,937	64	(336)	—	665	(22,579)	(7,249)
Product development	(13,684)	(5,821)	(5,143)	—	(5,056)	(3,713)	(33,417)
General and administrative	(5,095)	533	(1,967)	—	2,594	8,230	4,295
Amortization of intangibles	—	—	1,174	—	—	—	1,174
Restructuring charges, net	—	—	—	—	—	128,855	128,855
Total	<u>\$ 3,004</u>	<u>\$ 20,168</u>	<u>\$ (1,322)</u>	<u>\$(15,871)</u>	<u>\$(1,485)</u>	<u>\$120,358</u>	<u>\$124,852</u>

The changes in operating costs and expenses for the six months ended June 30, 2012 compared to the six months ended June 30, 2011 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	TAC	Facilities	Other	Total
Cost of revenue — TAC	\$ —	\$ —	\$ —	\$(21,811)	\$ —	\$ —	\$(21,811)
Cost of revenue — Other	12,158	37,075	(287)	—	962	1,510	51,418
Sales and marketing	47,504	(150)	(839)	—	980	(31,625)	15,870
Product development	(5,401)	(5,302)	(5,267)	—	(6,624)	(3,628)	(26,222)
General and administrative	(9,174)	1,377	(5,297)	—	4,367	14,395	5,668
Amortization of intangibles	—	—	3,177	—	—	—	3,177
Restructuring charges, net	—	—	—	—	—	123,997	123,997
Total	<u>\$ 45,087</u>	<u>\$ 33,000</u>	<u>\$ (8,513)</u>	<u>\$(21,811)</u>	<u>\$(315)</u>	<u>\$104,649</u>	<u>\$152,097</u>

Compensation Expense. Total compensation expense increased \$3 million and \$45 million for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. For the three months ended June 30, 2012, the increase is primarily attributable to higher salaries and sales commissions in sales and marketing due to increased headcount in the sales function. This is offset by a decrease in stock based compensation expense due to cancellations related to the Q2’12 Restructuring Plan (defined below) and lower Employee Stock Purchase Plan expense due to lower estimated contributions. For the six months ended June 30, 2012, the increase is primarily attributable to higher stock based compensation expense and higher salaries and sales commissions in sales and marketing due to increased headcount in the sales function. The increase in stock-based compensation expense, which is driven by the impact of awards granted in the second half of 2011, is offset by lower Employee Stock Purchase Plan expense due to lower estimated contributions. Excluding the impact of Microsoft reimbursements, compensation expense for the three and six months ended June 30, 2012 decreased \$10 million and increased \$20 million, respectively, compared to the same periods of 2011. Microsoft reimbursements decreased \$13 million and \$25 million, respectively, during the three and six months ended June 30, 2012, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and six months ended June 30, 2012 was due to the transition of paid search to the Microsoft platform.

[Table of Contents](#)

Information Technology. Information technology expense increased \$20 million and \$33 million for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The increase in information technology expense for the three and six months ended June 30, 2012 was primarily attributable to decreased Microsoft reimbursements of \$17 million and \$34 million, respectively, compared to the same periods of 2011. Excluding the impact of Microsoft reimbursements, information technology expense for the three and six months ended June 30, 2012 increased \$3 million and decreased \$1 million, respectively, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and six months ended June 30, 2012 was due to the transition of paid search to the Microsoft platform.

Depreciation and Amortization. Depreciation and amortization expense decreased \$1 million and \$9 million for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. The decline for the three and six months ended June 30, 2012 is primarily attributable to a decrease in depreciation expense for fully depreciated assets acquired in prior years. This decline was partially offset by increased amortization of intangibles related to the acquisition of interclick in the fourth quarter of 2011. Excluding the impact of Microsoft reimbursements, depreciation and amortization expense for the three and six months ended June 30, 2012 decreased \$5 million and \$20 million, respectively, compared to the same periods of 2011. Microsoft reimbursements decreased \$4 million and \$11 million, respectively, during the three and six months ended June 30, 2012, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and six months ended June 30, 2012 was due to the transition of paid search to Microsoft platforms.

TAC. TAC decreased \$16 million and \$22 million for the three and six months ended June 30, 2012, respectively, as compared to the same periods in 2011. For the three and six months ended June 30, 2012, the decrease in TAC is primarily attributable to the loss of Affiliates in the EMEA region as well as the change in the recording of TAC associated with the transition of paid search in certain markets to Microsoft's search platform. This decline is offset by an increase in the Americas region due to the inclusion of interclick display TAC.

Facilities and Other Expenses. Facilities and other expenses increased \$119 million and \$104 million for the three and six months ended June 30, 2012, compared to the same periods in 2011. Excluding the impact of Microsoft reimbursements, facilities and other expenses for the three and six months ended June 30, 2012 increased \$115 million and \$98 million, respectively, primarily due to increases in restructuring charges of \$129 million and \$124 million for the three and six months ended June 30, 2012, respectively. These increases were offset by decreased marketing expenses of \$17 million and \$22 million for the three and six months ended June 30, 2012, respectively. The increase in facilities and other expenses was due to decreased Microsoft reimbursements of \$4 million and \$6 million during the three and six months ended June 30, 2012, respectively, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and six months ended June 30, 2012 was due to the transition of paid search to the Microsoft platform.

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Employee severance pay and related costs	\$ (424)	\$ 91,736	\$ 8,911	\$ 94,727
Non-cancelable lease, contract termination, and other charges	1,187	2,147	3,179	4,873
Other non-cash charges	—	38,638	—	38,638
Sub-total before reversal of stock-based compensation expense	763	132,521	12,090	138,238
Reversal of stock-based compensation expense for forfeitures	(526)	(3,429)	(1,278)	(3,429)
Restructuring charges, net	<u>\$ 237</u>	<u>\$129,092</u>	<u>\$10,812</u>	<u>\$134,809</u>

2011 and Prior Restructuring Plans. Prior to and into 2011, we implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers. The restructuring plans were to reduce our cost structure, align resources with our product strategy and improve efficiency. During the three and six months ended June 30, 2011, we incurred total pre-tax cash charges of \$1 million and \$12 million, respectively, in severance, facility, and other related costs. The pre-tax cash charges were offset by a \$1 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited for both the three and six months ended June 30, 2011. Of the \$11 million in restructuring charges, net recorded in the six months ended June 30, 2011, \$10 million related to the Americas segment and \$1 million related to the EMEA segment.

During the three and six months ended June 30, 2012, we incurred total pre-tax cash charges of \$2 million and \$8 million, respectively, in severance, facility, and other related costs, the majority of which related to the Americas segment.

[Table of Contents](#)

As of June 30, 2012, the aggregate outstanding restructuring liability related to the 2011 and prior restructuring plans was approximately \$36 million, most of which relate to non-cancelable lease costs that we expect to pay over the terms of the related obligations, which extend to second quarter of 2017.

Q2'12 Restructuring Plan. During the second quarter of 2012, we began implementing the Q2'12 Restructuring Plan. During the three months ended June 30, 2012, we incurred total pre-tax cash charges of \$91 million in severance related costs and \$39 million in non-cash facility and other asset impairment charges. The total pre-tax charges were offset by a \$3 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the \$127 million in restructuring charges, net recorded in the three months ended June 30, 2012, \$86 million related to the Americas segment, \$35 million related to the EMEA segment, and \$6 million related to the Asia Pacific segment. As of June 30, 2012, the aggregate outstanding restructuring liability related to the Q2'12 Restructuring Plan was \$67 million, most of which relate to severance and other related costs that we expect to be substantially paid by the fourth quarter of 2013.

See Note 14 — “Restructuring charges, net” in the Notes to the condensed consolidated financial statements for additional information.

Income Taxes. Our effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, our provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended June 30, 2012 was 35 percent compared to 30 percent for the same period in 2011. The effective tax rate for the three months ended June 30, 2012 was higher than in 2011 primarily due to the expiration of the U.S. federal research and development tax credit and to more earnings expected to be realized in countries that have higher statutory tax rates.

The effective tax rate reported for the six months ended June 30, 2012 was 34 percent compared to 28 percent for the same period in 2011. The rates in both periods were lower than the U.S. federal statutory rate primarily due to tax reserve reductions attributed to favorably settled tax audits and to a shift of the geographic mix of earnings. The effective tax rate for the six months ended June 30, 2012 was higher than in 2011 primarily due to the expiration of the U.S. federal research and development tax credit and to more earnings expected to be realized in countries that have higher statutory tax rates.

We are in various stages of examination and appeal in connection with all of our tax audits worldwide, which generally span tax years 2005 through 2011. We believe that we have adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material adverse effect on our consolidated financial position, results of operations, or cashflows.

Our gross amount of unrecognized tax benefits as of June 30, 2012 is \$521 million, of which \$410 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of June 30, 2012 decreased by \$12 million from the recorded balance as of December 31, 2011. While it is difficult to determine when these examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the unrecognized tax benefits could be reduced by up to approximately \$100 million in the next twelve months.

Earnings in Equity Interests. Earnings in equity interests for the three and six months ended June 30, 2012 was \$180 million and \$352 million, respectively, compared to \$109 million and \$191 million for the same periods in 2011. The increases for the three and six months ended June 30, 2012 were primarily due to improved financial performance for Alibaba Group. See Note 4 — “Investments in Equity Interests” in the Notes to the condensed consolidated financial statements for additional information.

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

Business Segment Results

We continue to manage our business geographically. The primary areas of measurement and decision-making are currently Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC 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.

Table of Contents

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

	Three Months Ended			Six Months Ended		
	June 30, 2011	June 30, 2012	Percent Change	June 30, 2011	June 30, 2012	Percent Change
Revenue by segment:						
Americas	\$ 808,038	\$ 821,751	2%	\$1,626,969	\$1,657,784	2%
EMEA	162,601	128,099	(21)%	316,651	262,061	(17)%
Asia Pacific	258,385	267,944	4%	499,761	519,182	4%
Total revenue	<u>\$1,229,024</u>	<u>\$1,217,794</u>	(1)%	<u>\$2,443,381</u>	<u>\$2,439,027</u>	0%
TAC by segment:						
Americas	\$ 39,404	\$ 45,910	17%	\$ 77,545	\$ 88,865	15%
EMEA	57,648	34,187	(41)%	115,160	79,849	(31)%
Asia Pacific	55,844	56,928	2%	110,222	112,402	2%
Total TAC	<u>\$ 152,896</u>	<u>\$ 137,025</u>	(10)%	<u>\$ 302,927</u>	<u>\$ 281,116</u>	(7)%
Revenue ex-TAC by segment:						
Americas	\$ 768,634	\$ 775,841	1%	\$1,549,424	\$1,568,919	1%
EMEA	104,953	93,912	(11)%	201,491	182,212	(10)%
Asia Pacific	202,541	211,016	4%	389,539	406,780	4%
Total revenue ex-TAC	<u>\$1,076,128</u>	<u>\$1,080,769</u>	0%	<u>\$2,140,454</u>	<u>\$2,157,911</u>	1%
Direct costs by segment⁽¹⁾:						
Americas	171,042	181,510	6%	333,940	360,735	8%
EMEA	42,768	41,277	(3)%	81,374	81,498	0%
Asia Pacific	57,728	56,248	(3)%	109,050	107,739	(1)%
Global operating costs ⁽²⁾⁽³⁾	393,037	410,519	4%	808,663	832,417	3%
Restructuring charges, net	237	129,092	N/M ⁽⁴⁾	10,812	134,809	N/M ⁽⁴⁾
Depreciation and amortization	161,373	157,739	(2)%	321,811	310,987	(3)%
Stock-based compensation expense	59,048	49,571	(16)%	94,164	105,537	12%
Income from operations	<u>\$ 190,895</u>	<u>\$ 54,813</u>	(71)%	<u>\$ 380,640</u>	<u>\$ 224,189</u>	(41)%

⁽¹⁾ Direct costs for each segment include cost of revenue—other as well as 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. Beginning in 2012, marketing and customer advocacy costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

⁽²⁾ Global operating costs include product development, service engineering and operations, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment. Prior to 2012, marketing and customer advocacy costs were managed on a global basis and included as global operating costs. Prior period amounts have been revised to conform to the current presentation.

⁽³⁾ The net cost reimbursements from Microsoft are primarily included in global operating costs.

⁽⁴⁾ N/M = not meaningful.

Americas. Americas revenue ex-TAC for the three and six months ended June 30, 2012 increased \$7 million, or 1 percent, and \$19 million, or 1 percent, respectively, as compared to the same periods in 2011. For the three and six months ended June 30, 2012, our year over year increase in Americas revenue ex-TAC was primarily attributable to increases in search revenue ex-TAC offset by decreases in other revenue ex-TAC. Search revenue ex-TAC increased due to increases in sponsored search on Yahoo! Properties. Other revenue ex-TAC decreased primarily due to a decline in revenue from certain of our broadband access partnerships. For the three and six months ended June 30, 2012 direct costs attributable to the Americas segment increased \$10 million, or 6 percent, and \$27 million, or 8 percent, respectively, compared to the same periods in 2011. For the three and six months ended June 30, 2012, the year-over-year increases in direct costs were primarily due to higher compensation costs and higher content costs offset by lower marketing expenses.

Revenue ex-TAC in the Americas accounted for approximately 72 percent and 73 percent of total revenue ex-TAC in the three and six months ended June 30, 2012, respectively, compared to 71 percent and 72 percent for the three and six months ended June 30, 2011, respectively.

[Table of Contents](#)

EMEA. EMEA revenue ex-TAC for the three and six months ended June 30, 2012 decreased \$11 million, or 11 percent, and \$19 million, or 10 percent, respectively, as compared to the same periods in 2011. For the three and six months end June 30, 2012, the year-over-year declines in EMEA revenue ex-TAC were primarily related to decreased search revenue ex-TAC. Search revenue ex-TAC declined due to loss of Affiliates in the region and traffic quality initiatives conducted by Yahoo! For the three months ended June 30, 2012, direct costs attributable to the EMEA segment decreased \$1 million, or 3 percent compared to the same period in 2011. For the three months ended June 30, 2012, the decline was primarily due to decreased marketing expenses in the region. For the six months ended June 30, 2012, direct costs attributable to the EMEA segment were flat compared to the same period in 2011.

Revenue ex-TAC in EMEA accounted for approximately 9 percent and 8 percent of total revenue ex-TAC for the three and six months ended June 30, 2012, respectively, compared to 10 percent and 9 percent for the three and six months ended June 30, 2011, respectively.

Asia Pacific. Asia Pacific revenue ex-TAC for the three and six months ended June 30, 2012 increased \$8 million, or 4 percent, and \$17 million, or 4 percent, respectively, as compared to the same periods in 2011. For the three and six months ended June 30, 2012, the increases in Asia Pacific revenue ex-TAC were driven by increased display and other revenue ex-TAC. Display revenue ex-TAC increased due to an increase in guaranteed display revenue in certain markets. Other revenue ex-TAC increased due to increased listings revenue. For the three and six months ended June 30, 2012, direct costs attributable to the Asia Pacific segment decreased \$1 million, or 3 percent, and \$1 million, or 1 percent, respectively, compared to the same periods in 2011. For the three and six months ended June 30, 2012, the year-over-year decreases were primarily due to decreased marketing expenses offset by higher compensation and bandwidth costs.

Revenue ex-TAC in Asia Pacific accounted for approximately 20 percent and 19 percent of total revenue ex-TAC for the three and six months ended June 30, 2012, respectively, compared to 19 percent and 18 percent for the three and six months ended June 30, 2011, respectively.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese yen, 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 consolidated revenue ex-TAC and operating expenses. Conversely, our consolidated revenue ex-TAC and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and six months ended June 30, 2011, revenue ex-TAC for the Americas segment for the three and six months ended June 30, 2012 would have been higher than we reported by \$3 million and \$4 million, respectively, revenue ex-TAC for the EMEA segment would have been higher than we reported by \$5 million and \$7 million, respectively, and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by \$3 million and \$1 million, respectively. Using the foreign currency exchange rates from the three and six months ended June 30, 2011, direct costs for the Americas segment for the three and six months ended June 30, 2012 would have been higher than we reported by \$1 million and \$2 million, respectively, direct costs for the EMEA segment would have been higher than we reported by \$2 million and \$3 million, respectively, and direct costs for the Asia Pacific segment would have been higher than we reported by \$1 million for both periods.

Critical Accounting Policies and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2011.

[Table of Contents](#)

Liquidity and Capital Resources

	December 31, 2011	June 30, 2012
	(Dollars in thousands)	
Cash and cash equivalents	\$1,562,390	\$1,539,269
Short-term marketable debt securities	493,189	371,204
Long-term marketable debt securities	474,338	490,570
Total cash, cash equivalents, and marketable debt securities	<u>\$2,529,917</u>	<u>\$2,401,043</u>
Percentage of total assets	<u>17%</u>	<u>16%</u>

	Six Months Ended June 30,	
	2011	2012
	(In thousands)	
Net cash provided by operating activities	\$ 536,306	\$ 572,013
Net cash used in investing activities	\$ (3,138)	\$(100,628)
Net cash used in financing activities	\$(521,437)	\$(472,082)

Our operating activities for the six months ended June 30, 2012 generated adequate cash to meet our operating needs. As of June 30, 2012, we had cash, cash equivalents, and marketable debt securities totaling \$2.4 billion, compared to \$2.5 billion at December 31, 2011. During the six months ended June 30, 2012, we repurchased approximately 34 million shares of our outstanding common stock for \$526 million.

During the six months ended June 30, 2012, we generated \$572 million of cash from operating activities, net proceeds from sales, maturities and purchases of marketable debt securities of \$102 million, and \$78 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 \$216 million in capital expenditures, \$38 million in tax withholding payments related to net share settlements of restricted stock units, and \$526 million used in the direct repurchase of common stock. During the six months ended June 30, 2011, we generated \$536 million of cash from operating activities, net proceeds from sales, maturities, and purchases of marketable debt securities of \$416 million, and \$99 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 \$339 million in capital expenditures, a net \$69 million for acquisitions, \$609 million used in the direct repurchase of common stock, and \$34 million in tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisitions of shares of restricted stock.

We have accrued U.S. federal income taxes on the earnings of our foreign subsidiaries except to the extent the earnings are considered indefinitely reinvested outside the U.S. As of June 30, 2012, approximately \$3.5 billion of earnings held by our foreign subsidiaries and a corporate joint venture are designated as indefinitely reinvested outside the U.S. Our foreign subsidiaries held \$1.2 billion of our total \$2.4 billion of cash, cash equivalents, and marketable debt securities as of June 30, 2012. If required for our operations in the U.S., most of the cash held abroad could be repatriated to the U.S. but, under current law, would be subject to U.S. federal income taxes (subject to an adjustment for foreign tax credits). Currently, we do not anticipate a need to repatriate these funds for use in our U.S. operations.

We expect to continue to generate positive cash flows from operations for the third quarter of 2012. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional debt securities or obtain credit facilities to further enhance our liquidity position.

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 higher than net income in the six months ended June 30, 2012 due to changes in working capital.

During the six months ended June 30, 2012, cash used in investing activities was primarily attributable to capital expenditures, offset by net proceeds from the sales and maturities of marketable debt securities and \$26 million of proceeds from the sale of investments. In the six months ended June 30, 2012, we received net proceeds from sales, maturities, and purchases of marketable

[Table of Contents](#)

debt securities of \$102 million, which was offset by the investment of \$216 million in net capital expenditures. During the six months ended June 30, 2011, cash used in investing activities was primarily attributable to cash used for net capital expenditures and net acquisitions, offset by net proceeds from the sales and maturities of marketable debt securities. In the six months ended June 30, 2011, we received net proceeds from sales, maturities, and purchases of marketable debt securities of \$416 million, which was offset by the investment of \$339 million in net capital expenditures, \$69 million for net acquisitions, and \$11 million to purchase intangible assets.

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 \$78 million for the six months ended June 30, 2012, compared to \$99 million for the same period of 2011. During the six months ended June 30, 2012, we used \$526 million in the direct repurchase of approximately 34 million shares of common stock at an average price of \$15.36 per share. We used \$38 million for tax withholding payments related to net share settlements of restricted stock units. During the six months ended June 30, 2011, we used \$609 million in the direct repurchase of approximately 39 million shares of common stock at an average price of \$15.79 per share. We used \$34 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding related reacquisitions of shares of restricted stock.

Capital expenditures

Capital expenditures have generally been comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$216 million for the six months ended June 30, 2012, compared to \$339 million in the same period of 2011.

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 2012 and 2022.

A summary of lease commitments as of June 30, 2012 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Six months ending December 31, 2012	\$ 77	\$ 4
Years ending December 31,		
2013	136	9
2014	106	8
2015	81	8
2016	45	8
2017	31	9
Due after 5 years	38	14
Total gross lease commitments	\$ 514	\$ 60
Less: interest	—	(21)
Net lease commitments	\$ 514	\$ 39

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 June 30, 2012, these commitments totaled \$113 million, of which \$40 million will be payable in the remainder of 2012 and \$73 million will be payable in 2013.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to \$32 million through 2023.

Income Taxes. As of June 30, 2012, unrecognized tax benefits of \$410 million, including interest and penalties, are recorded on our condensed consolidated balance sheets. As of June 30, 2012, the settlement period for our income tax liabilities cannot be determined.

Other Commitments and Off-Balance Sheet Arrangements. In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint 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

[Table of Contents](#)

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.

As of June 30, 2012, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, as of June 30, 2012, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates and changes in the market values of our investments.

Interest Rate Exposure

Our exposure to market risk for changes in interest rates relates primarily to our cash and marketable debt securities portfolio. We invest excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, U.S. municipalities, and high-credit corporate issuers which are classified as marketable debt securities and cash equivalents.

Investments in fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in a \$7 million and \$9 million decrease in the fair value of our available-for-sale debt securities as of December 31, 2011 and June 30, 2012, respectively.

Foreign Currency Exposure

Our foreign currency exposure continues to increase as we grow internationally. The objective of our foreign exchange risk management program is to identify material foreign currency exposures and identify methods to manage these exposures to minimize the potential effects of currency fluctuations on our reported condensed consolidated cash flows and results of operations. We categorize our foreign currency exposure by three categories: 1) economic, 2) transaction, and 3) translation.

Economic Exposure. We transact business in various foreign currencies and have significant international revenue, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates. Our objective is to identify material foreign currency exposures and to manage these exposures to minimize the potential effects of currency fluctuations on our reported consolidated cash flow and results of operations.

Transaction Exposure. Our exposure to foreign currency transaction gains and losses is the result of assets and liabilities (including intercompany transactions) that are denominated in currencies other than the relevant entity's functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported condensed consolidated financial position, cash flows and results of operations. We may enter into derivative instruments, such as foreign currency forward contracts or other instruments to minimize the impact of the short-term foreign currency fluctuations on such assets and liabilities. The gains and losses on the forward contracts may not offset any or more than a portion of the transaction gains and losses on certain foreign currency receivables, investments and payables recognized in earnings. Transaction gains and losses on these foreign exchange contracts are recognized each period in other income, net included on the condensed consolidated statements of income. Our net realized and unrealized foreign currency transaction gains were \$5 million and \$4 million for the three and six months ended June 30, 2012. Our net realized and unrealized foreign currency transaction gains were immaterial for both the three and six months ended June 30, 2011. As of June 30, 2012, we had an outstanding forward contract with a notional value equivalent of approximately \$100 million, which matured on July 31, 2012. On July 31, 2012, we entered into a new forward contract with a notional value equivalent of approximately \$75 million, which will mature on October 31, 2012. On August 7, 2012, we entered into a new forward contract with a notional value equivalent of approximately \$400 million, which will mature on March 28, 2013.

Translation Exposure. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders' equity.

Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese yen, Korean won, and Taiwan

[Table of Contents](#)

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 consolidated revenue and operating expenses. Conversely, our consolidated revenue and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and six months ended June 30, 2011, revenue ex-TAC for the Americas segment for the three and six months ended June 30, 2012 would have been higher than we reported by \$3 million and \$4 million, respectively, revenue ex-TAC for the EMEA segment would have been higher than we reported by \$5 million and \$7 million, respectively, and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by \$3 million and \$1 million, respectively. Using the foreign currency exchange rates from the three and six months ended June 30, 2011, direct costs for the Americas segment for the three and six months ended June 30, 2012 would have been higher than we reported by \$1 million and \$2 million, respectively, direct costs for the EMEA segment would have been higher than we reported by \$2 million and \$3 million, respectively, and direct costs for the Asia Pacific segment would have been higher than we reported by \$1 million for both periods.

Investment Exposure

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

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 June 30, 2011 and 2012, 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 and Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

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 the section captioned “Contingencies” included in 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, 2011, which was filed with the Securities and Exchange Commission on February 29, 2012, as set forth below. Other than the addition of risks and uncertainties pertaining to the Repurchase Agreement with Alibaba Group, we do not believe any of the changes constitute material changes from the risk factors previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

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

We face significant competition from integrated online media companies as well as from social networking sites, traditional print and broadcast media, general purpose and vertical search engines and various e-commerce sites. 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.

Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo!. We compete against these and other companies to attract and retain users, advertisers, developers, and third-party Website publishers as participants in our Affiliate network, and to obtain agreements with third parties to promote or distribute our services. We also compete with social media and networking sites which are attracting a substantial and increasing share of users and users’ online time, and may continue to attract an increasing share of online advertising dollars.

In addition, several competitors offer products and services that directly compete for users with our offerings, including consumer e-mail, local search, instant messaging, daily deals, photos, maps, video sharing, content channels, mobile applications, and shopping. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad networks, demand side platforms, ad serving technologies and sponsored search offerings. We also compete with traditional print and broadcast media companies to attract domestic and international advertising spending. Some of our existing competitors and possible entrants 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. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market. Some of our competitors in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

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

For the three months ended June 30, 2012, 82 percent of our total revenue came from display and search advertising. Our ability to continue to retain and grow display and search 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 on PCs and mobile devices;
- broadening our relationships with advertisers to small- and medium-sized businesses;
- successfully implementing changes and improvements to our advertising management platforms and obtaining the acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;
- successfully acquiring, investing in, and implementing new technologies and strategic partnerships;
- successfully implementing changes in our sales force, sales development teams, and sales strategy;
- continuing to innovate and improve the monetization capabilities of our display advertising products;

[Table of Contents](#)

- effectively monetizing search queries;
- continuing to innovate and improve users' search experiences;
- maintaining and expanding our Affiliate program for search and display advertising services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

In most cases, our agreements with advertisers have a term of one year or less, and may be terminated at any time by the advertiser or by us. Search marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast display and search 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 advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

Adverse general economic conditions have caused and could cause decreases or delays in spending by our advertisers and could harm our ability to generate revenue and our results of operations.

Advertising expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive most of our revenue from advertising, adverse economic conditions have caused, and a continuation of adverse economic conditions could cause, additional decreases or delays in advertising spending, a reduction in our advertising 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 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, build data centers or acquire real property, and acquire and integrate complementary businesses and technologies. Our operating costs might also increase if we do not effectively manage costs as we transition markets under the Search Agreement and reimbursements from Microsoft under the Search Agreement decline or cease. In addition, weak 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, implementation and execution risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. The parties commenced implementation of the Search Agreement on February 23, 2010. The transition process is complex and requires the expenditure of significant time and resources by us. We have completed the transition of our algorithmic search platform to the Microsoft platform in all markets, and have completed transition of paid search in several markets. The market-by-market transition of our paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013. 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.

If Microsoft fails to perform as required under the Search Agreement for any reason or suffers service level interruptions or other performance issues (including if Microsoft is unable to effectively monetize search queries in markets where paid search has transitioned under the Search Agreement), or if advertisers, Affiliates, or users are less satisfied than expected with the services provided or results obtained after transition or during the period prior to the transition of search to Microsoft in their respective markets, we may not realize the anticipated benefits of the Search Agreement, we may lose advertisers, publishers and Affiliates, we may lose exclusivity with certain publishers, and our search revenue or our profitability could decline. To the extent the RPS Guarantee payments we receive do not fully offset any shortfall relating to revenue per search in transitioned markets or if our revenue per search upon expiration of the RPS Guarantee payments is lower than the guarantee levels, our search revenue or our profitability could decline. Notwithstanding any RPS Guarantee payments that we may receive, our competitors may increase revenue, profitability and market share at a higher rate than us.

If we are unable to provide innovative search experiences and other products and 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.

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

We also generate revenue through other online products and services, such as Yahoo! Mail. If we are unable to provide innovative search and other products and services which generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

Changes to our management, organizational structure and strategic business plan may cause uncertainty regarding the future of our business, and may adversely impact employee hiring and retention, our stock price, and our revenue, operating results, and financial condition.

In April 2012, we announced changes to our management and organizational structure, as well as a related reduction in our workforce. The implementation of these changes to our management and organizational structure, as well as our recent appointment of a new Chief Executive Officer and the potential for additional changes to our management, organizational structure, and strategic business plan, may cause speculation and uncertainty regarding our future business strategy and direction. These changes may cause or result in:

- disruption of our business or distraction of our employees and management;
- difficulty in recruiting, hiring, motivating, and retaining talented and skilled personnel;
- stock price volatility; and
- difficulty in negotiating, maintaining, or consummating business or strategic relationships or transactions.

If we are unable to mitigate these or other potential risks, our revenue, operating results, and financial condition may be adversely impacted.

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 competitors are located; fluctuations in global economic and industry conditions; changes in our management, leadership or strategic business plan; the recent reduction in our workforce; 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 videos, 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 us, 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 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 certain portions of the Internet market. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we anticipate continuing to spend and devote 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 brands is maintained by our licensees, our licensees might take actions that could impair the value of our brands, our proprietary rights, or the reputation of our products and media properties. If we are unable to maintain or enhance 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. In particular, recent amendments to the U.S. patent law will become effective in 2012 and may affect our ability to protect our innovations and defend against claims of patent infringement. Further, given the costs of obtaining patent protection, we might choose not to protect (or not to protect in some jurisdictions) certain innovations that later turn out to be important. There is also a risk that the scope of protection under our patents may not be sufficient in some cases or that existing patents may be deemed invalid or unenforceable. 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.

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

[Table of Contents](#)

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement claims, including those that may arise under international laws. In the event that there is a determination that we have infringed third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights, or other third-party rights such as publicity and privacy rights, we could incur substantial monetary liability, or be required to enter into costly royalty or licensing agreements or be prevented from using such rights, which could require us to change our business practices in the future, hinder us from offering certain features, functionalities, products or services, require us to develop non-infringing products or technologies, and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party claims regardless of the merit of such claims. In addition, many of our agreements with our customers or Affiliates require us to indemnify them for some types of third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. Furthermore, such customers and Affiliates may discontinue the use of our products, services, and technologies either as a result of injunctions or otherwise. The occurrence of any of these results could harm our brands or have an adverse effect on our business, financial position, operating results, and cash flows.

We are subject to a variety of new and existing U.S. and foreign government laws and regulations which could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.

We are subject to laws and regulations directly applicable to providers of Internet, mobile, and voice over Internet protocol, or VOIP, services both domestically and internationally. The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, security, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, law enforcement demands, telecommunications, mobile, television, and intellectual property ownership and infringement in many instances is unclear or unsettled. 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 us 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. We rely on the protections provided by both the DMCA and the CDA in conducting our business. If these or other laws or judicial interpretations are changed to narrow their protections, or if international jurisdictions refuse to apply similar provisions in foreign lawsuits, we will be subject to greater risk of liability, our costs of compliance with these regulations or to defend litigation may increase, or our ability to operate certain lines of business may be limited. 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, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business.

Changes in these or any other laws and regulations or the interpretation of them, or an extension of our business into new areas, could increase our future compliance costs, make our products and services less attractive to our users, or cause us to change or limit our business practices. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal 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.

The use of consumer data by online service providers and advertising networks is a topic of active interest among federal, state, and international regulatory bodies, and the regulatory environment is unsettled. Federal, state, and international laws and regulations govern the collection, use, retention, disclosure, sharing and security of data that we receive from and about our users. Our privacy policies and practices concerning the collection, use, and disclosure of user data are posted on our and many of our Affiliates’ Websites. Any failure, or perceived failure, by us to comply with our posted privacy policies, to make effective modifications to our privacy policies, or to comply 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

[Table of Contents](#)

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, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, making it difficult to make long-range business planning decisions regarding data use, notice, storage, access, or retention. 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.

If our security measures are breached, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of Yahoo!'s users' and customers' personal and proprietary information in our facilities and on our equipment, networks and corporate systems. Security breaches could expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability. Our user data and corporate systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. We must continuously examine and modify our security controls and business policies to adapt to the rise of social networking, the adoption of new devices and technologies enabling users to share data and communicate in new ways, and the increasing focus by our users and regulators on controlling and protecting user data.

Any breach or unauthorized access could result in significant legal and financial exposure, increased costs for security measures or to defend litigation or damage to our reputation, and a loss of confidence in the security of our products and services and networks that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose users and customers, and we could suffer financial exposure due to such events or in connection with remediation efforts, investigation costs, changed security, and system protection measures.

We may be subject to legal liability associated with providing online services or content.

We host and provide a wide variety of services and technology products that enable and encourage individuals and businesses to exchange information, upload or otherwise generate photos, videos, text, and other content; advertise products and services; conduct business; and engage in various online activities both domestically and internationally. As a publisher of original content, we may be subject to claims such as libel, defamation or improper use of publicity rights, as well as infringement claims such as plagiarism. The law relating to the liability of providers of online services and products for activities of their users is currently unsettled both within the U.S. and internationally. Claims have been threatened and brought against us for defamation, negligence, breaches of contract, plagiarism, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information which we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, we have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates laws in domestic and international jurisdictions. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

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 may be disputed, could result in substantial costs to enforce or defend, and depends on the financial resources of the other party to the agreement, and any amounts received might not be adequate to cover our liabilities or the costs associated with defense of such proceedings.

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, by our users and third parties, resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, alleged violations of policies, property interests, or privacy

[Table of Contents](#)

protections, including civil or criminal laws, or interruptions or delays in e-mail service. We may also face purported consumer class actions or state actions relating to our online services, including our fee-based services (particularly in connection with any decision to discontinue a fee-based service). In addition, our customers, third parties, or government entities may assert claims or actions against us if our online services or technologies are used to spread or facilitate malicious or harmful code or applications. Investigating and defending these types of claims are expensive, even if the claims are without merit or do not ultimately result in liability, and could subject us to significant monetary liability or cause a change in business practices that could negatively impact our ability to compete.

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 ongoing 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 and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

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. As a result of acquisitions, and international expansion in recent years, more than 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, acquisitions of new businesses with different systems, and increased regulation over controls and procedures. To manage our business in a cost-effective manner, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures, and controls. In some cases, we are outsourcing administrative functions to lower-cost providers. These upgrades, improvements and outsourcing changes will require a dedication of resources and in some cases are likely to be complex. If we are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In particular, sustained failures of our billing systems to

[Table of Contents](#)

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 us are expected to continue to expand and change significantly and rapidly in the future to accommodate new technologies and Internet advertising solutions, and new means of content delivery.

In addition, 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 security features or support in the future, as usage increases and products and services expand, change, and become more complex. In the future, we may make additional changes to our, or move to completely new, architectures, platforms and systems, or our users may increasingly access our sites through devices that compel us to invest in 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 changes, delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising platform participants to become dissatisfied with our service or to move to competing providers or seek remedial actions or compensation. Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store, and integrate data that will enable us to track each user's preferences. Any difficulties experienced in adapting our architectures, platforms and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

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

We offer fee-based enhancements for many of our free services. The development cycles for these technologies are long and generally require significant investment by us. We have invested and will continue to invest in premium products and services. Some of these premium 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. General economic conditions as well as the rapidly evolving competitive landscape may affect users' willingness to pay for such premium services. If we cannot generate revenue from our premium services that are greater than the cost of providing such services, our operating results could be harmed.

We rely on third parties to provide the technologies necessary to deliver content, advertising, and services to our users, and any change in the licensing terms, costs, availability, or acceptance of these formats and technologies could adversely affect our business.

We rely on third parties to provide the technologies that we use to deliver content, advertising, and services to our users. There can be no assurance that these providers will continue to license their technologies or intellectual property to us on reasonable terms, or at all. Providers may change the fees they charge users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. In order for our services to be successful, there must be a large base of users of the technologies necessary to deliver our content, advertising, and services. We have limited or no control over the availability or acceptance of those technologies, and any change in the licensing terms, costs, availability, or user acceptance of these technologies could adversely affect our business.

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, Internet service providers 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.
- We enter into agreements with mobile, tablet, netbook, television, and other device manufacturers, electronics companies and carriers to promote our software and services on their devices.

[Table of Contents](#)

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. In some cases, device manufacturers may be unwilling to pay Yahoo! fees in order to distribute Yahoo! services.

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 devices other than a PC 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, handheld 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 PCs. The different hardware and software, memory, operating systems, resolution, and other functionality associated with alternative devices currently available may make our PC services unusable or difficult to use on such devices. Similarly, the licenses we have negotiated to present third-party content to 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 successfully innovate new forms of Internet advertising for alternative devices, 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, develop, or acquire control of alternative connected devices or their 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.

Our international operations are subject to additional 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 additional risks inherent in doing business internationally (including through our international joint ventures), including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;

[Table of Contents](#)

- 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 bribery and corrupt payments to government officials;
- antitrust and competition regulations;
- seasonal volatility in business activity and local economic conditions;
- laws, regulations, licensing requirements, and business practices that favor local competitors or prohibit foreign ownership or investments;
- different or more stringent user protection, content, data protection, privacy and other laws; and
- risks related to other government regulation or required compliance with local laws.

We are subject to numerous and sometimes conflicting U.S. and foreign laws and regulations. Violations of these complex laws and regulations that apply to our international operations could result in damage awards, fines, criminal actions, sanctions, or penalties against us, our officers or our employees, prohibitions on the conduct of our business, and 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.

The benefits of the Alibaba Repurchase Agreement or the Alipay Framework Agreement may not be realized.

On May 20, 2012, we entered into the Repurchase Agreement with Alibaba Group and YHK. See Note 4—“Investments in Equity Interests” in the Notes to the condensed consolidated financial statements. The closing of the initial share repurchase transaction contemplated by the Repurchase Agreement (the “Initial Repurchase”) is subject to certain conditions, including Alibaba Group’s ability to obtain financing necessary to make the Initial Repurchase. Potential risks and uncertainties include, among others, the failure to consummate or delays in consummating the Initial Repurchase; uncertainty regarding the future valuation of Alibaba Group; uncertainty regarding the financing of the Initial Repurchase; uncertainty regarding if and when there will be an initial public offering of Alibaba Group’s ordinary shares; general economic and market conditions; and the possibility that some or all of the expected benefits of the Repurchase Agreement and related agreements may not be realized.

On July 29, 2011, we entered into a Framework Agreement with Alibaba Group, Softbank Corp., a Japanese corporation, Alipay.com Co., Ltd. (“Alipay”), APN Ltd., a company organized under the laws of the Cayman Islands (“IPCo”), Zhejiang Alibaba E-Commerce Co., Ltd., a limited liability company organized under the laws of the People’s Republic of China (“Holdco”), Jack Ma Yun, Joseph C. Tsai and certain security holders of Alipay or HoldCo as joinder parties. See Note 4—“Investments in Equity Interests” in the Notes to the condensed consolidated financial statements. Pursuant to the terms of the Framework Agreement, the parties agreed upon the consideration to be received by Alibaba Group for the restructuring of Alipay and the ongoing relationship between Alipay and Alibaba Group and its subsidiaries. The closing contemplated by the Framework Agreement occurred in December 2011. Alibaba Group may not realize the anticipated benefits of the Framework Agreement due to risks and uncertainties, including: the failure of Alipay to generate significant royalty and software technology services fees payable to Alibaba Group; the possibility that a liquidity event of Alipay does not occur; the failure or inability of IPCo to pay its promissory note in accordance with its terms; and uncertainties concerning the laws and regulations of the People’s Republic of China (the “PRC”) and the PRC regulatory environment.

Technologies and tools could block our advertisements, impair our ability to deliver interest-based advertising, or shift the location in which advertising appears, which could harm our operating results.

Technologies and tools have been developed and are likely to continue to be developed that can block display, search, and interest-based advertising and content, delete or block the cookies used to deliver such advertising, or shift the location in which advertising appears on pages so that our advertisements do not show up in the most monetizable places on our pages or are obscured. Most of our revenue is derived from fees paid by advertisers in connection with the display of graphical advertisements or clicks on search advertisements on Web pages. As a result, the adoption of such technologies and tools could reduce the number of display and search advertisements that we are able to deliver and/or our ability to deliver interest-based advertising and this, in turn, could reduce our advertising revenue and operating results.

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

A large amount of information on the Internet is provided in proprietary document formats. These proprietary document formats may limit the effectiveness of search technology by preventing the technology from accessing the content of such documents. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with the process of indexing the document contents with search technology. This would mean that the document contents would not be included in search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If the search platform technology we employ is unable to index proprietary format Web documents as effectively as our competitors' technology, usage of our search services might decline, which could cause our revenue to fall.

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, tsunami, other natural disasters, power loss, equipment or telecommunications failures, cyber attacks, terrorist attacks, political or social unrest, and other events over which we have little or no control.
- 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, hacking, physical and electronic break-ins, router disruption, sabotage or espionage, and other disruptions from unauthorized access and tampering, as well as coordinated denial-of-service attacks. We may not be in a position to promptly address attacks or to implement adequate preventative measures if we are unable to immediately detect such attacks. Such events could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, including changes to security measures, to deploy additional personnel, to defend litigation or to protect against similar future events, and may cause damage to our reputation or loss of revenue. We distribute servers among 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. As not all of our systems are fully redundant, some data or systems may not be fully recoverable after such events.
- 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 to our brands, legal costs or liability, and harm to our operating results.

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 display and search revenue comes 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 or our third-party service provider may be 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 brands 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 against us or our third-party provider 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.

We are involved in legal proceedings that may result in adverse outcomes.

We are regularly involved in claims, suits, government investigations, and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, privacy, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, as well as actions involving content generated by our users, stockholder derivative actions, purported class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results, and financial condition. See Note 11 —“Commitments and Contingencies” in the Notes to the condensed consolidated financial statements.

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

A portion of our revenue comes from international operations. Revenue generated and expenses incurred by our international subsidiaries and equity method investees are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries and equity method investees 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 use derivative instruments, such as foreign currency forward contracts, to partially offset certain exposures to fluctuations in foreign currency exchange rates. The use of such instruments may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign currency exchange rates over the limited time the instruments are in place.

We may be required to record a significant charge to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity method investees, or other investments 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, including investments held by our equity method investees, 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 companies in which we invested or the investments held by those companies. Factors that could lead to an impairment of U.S. government securities, which constitute a significant portion of our assets, include any downgrade of U.S. government debt or concern about the creditworthiness of the U.S. government. We have recorded and may be required in the future to record additional charges to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity investees, or other investments become 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. We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for us. In the past there have been proposals to change U.S. tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax expense and cash flow. 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 June 30, 2012, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from \$14.79 to \$15.83 per share and the closing sale price on July 31, 2012 was \$15.84 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

[Table of Contents](#)

operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; the current and anticipated future operating performance of companies in which we have an equity investment, including Yahoo Japan Corporation (“Yahoo Japan”) and Alibaba Group; and news reports or rumors relating to us, companies in which we have an equity investment, 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 to our long-lived assets.

Delaware statutes and certain provisions in our charter documents could make it more difficult for a third-party to acquire us.

Our Board of Directors has the authority to issue up to 10 million shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of Yahoo! without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Some provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or changes in our management, which could have an adverse effect on the market price of our stock. 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 us.

[Table of Contents](#)

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

Share repurchase activity during the three months ended June 30, 2012 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased (*)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) (*)</u>
April 1 — April 30, 2012	—	\$ —	—	\$ 534,847
May 1 — May 31, 2012	5,360,300	\$ 15.32	5,360,300	\$ 5,452,711
June 1 — June 30, 2012	<u>24,332,280</u>	\$ 15.34	<u>24,332,280</u>	\$ 5,079,340
Total	<u>29,692,580</u>	\$ 15.34	<u>29,692,580</u>	

(*) The shares repurchased in the three months ended June 30, 2012 were under our stock repurchase program that was announced in June 2010 with an authorized level of \$3.0 billion. The June 2010 program, according to its terms, will expire in June 2013. In May 2012, our Board of Directors authorized an additional stock repurchase program with an authorized level of \$5.0 billion. The May 2012 program, according to its terms, will expire in June 2015 unless revoked earlier by the Board of Directors. No purchases were made under the May 2012 program during the three months ended June 30, 2012. Repurchases under the programs 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. See Note 16 – “Subsequent Events” in the Notes to the condensed consolidated financial statements in this quarterly report for share repurchase activity subsequent to June 30, 2012.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2.6	Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of May 20, 2012 (previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 24, 2012 and incorporated herein by reference).
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, 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)).
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/A filed December 20, 2010 and incorporated herein by reference).
10.2(A)+	Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 13, 2012 and incorporated herein by reference).
10.4(A)+	Yahoo! Inc. 1996 Directors' Stock Plan (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 13, 2012 and incorporated herein by reference).
10.16(K)+*	Seventh Amendment to Search and Advertising Services and Sales Agreement, dated as of January 1, 2012, by and between the Registrant and Microsoft Corporation.
10.16(L)+*	Eighth Amendment to Search and Advertising Services and Sales Agreement, dated as of June 6, 2012, by and between the Registrant and Microsoft Corporation.
10.18(B)+*	Notice of Stock Option Grant and Stock Option Award Agreement, dated July 26, 2012, between the Registrant and Ross B. Levinsohn.
10.18(C)+*	Restricted Stock Unit Award Agreement, dated July 26, 2012, between the Registrant and Ross B. Levinsohn.
10.18(D)+	Separation Agreement, dated July 30, 2012, between the Registrant and Ross B. Levinsohn (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 30, 2012 and incorporated herein by reference).
10.20(E)+	Separation Agreement, dated May 12, 2012, between the Registrant and Scott Thompson (previously filed as Exhibit 99.02 to the Registrant's Current Report on Form 8-K filed May 14, 2012 and incorporated herein by reference).
10.21	Settlement Agreement, dated May 13, 2012, among the Registrant, Third Point LLC and each of the other persons set forth on the signature pages thereto (previously filed as Exhibit 99.01 to the Registrant's Current Report on Form 8-K filed May 14, 2012 and incorporated herein by reference).
10.22(A)+	Employment Offer Letter, dated July 16, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 19, 2012 and incorporated herein by reference).
10.22(B)+*	Restricted Stock Unit Award Agreement (CEO Make-Whole Grant), dated July 26, 2012, between the Registrant and Marissa A. Mayer.
10.22(C)+*	Form of Restricted Stock Unit Award Agreement (CEO Retention and Annual Grants), between the Registrant and Marissa A. Mayer.

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2012.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 9, 2012.
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 August 9, 2012.
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.

† Portions of this exhibit have been omitted and filed separately with the U.S. Securities and Exchange Commission pursuant to a request for confidential treatment.

SEVENTH AMENDMENT

TO SEARCH AND ADVERTISING SERVICES AND SALES AGREEMENT

This Seventh Amendment to Search and Advertising Services and Sales Agreement (this "Seventh Amendment") is entered into to be effective as of January 1, 2012 ("Seventh Amendment Effective Date") by and between Yahoo! Inc., a Delaware corporation ("Yahoo!"), and Microsoft Corporation, a Washington corporation ("Microsoft").

WHEREAS, Yahoo! and Microsoft are parties to that certain Search and Advertising Services and Sales Agreement, entered into as of December 4, 2009, as amended (collectively, the "Agreement"); and

WHEREAS, Yahoo! and Microsoft desire to further amend the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Definitions. Capitalized terms used but not defined herein have the same meanings given in the Agreement.

2. Site Targeted Content Ads. The following new Section 2.5 and new Exhibit M (attached hereto) are added to the Agreement as follows:

"2.5 Site Targeted Content Ads

2.5.1 "Site Targeted Content Ads" means textual Paid Listings from Microsoft's Content Ads product that are both (i) sold on the basis of selected website URL(s) and (ii) targeted for delivery on a specific publisher site or groups of sites, and not displayed in response to a keyword or keywords mapped to, derived from or associated with the content and/or context of the Web Page on which the Paid Listing appear or as the result of a Query or Non-Internet Search Query.

2.5.2 Except as provided in this Section 2.5, Microsoft and Yahoo! shall treat Site Targeted Content Ads as Paid Listings from Contextual Advertising Services under the Agreement.

2.5.3 Notwithstanding anything to the contrary in the Agreement,

- (a) Yahoo! may include Site Targeted Content Ads only on (i) Yahoo! Properties, [*] or (ii) current and future Syndication Properties that comply with the then-current Site Targeted Content Ads policy, the initial version which is attached as Exhibit M;
- (b) Site Targeted Content Ads are not subject to any of the [*] provisions or [*] provisions under the Agreement, including without limitation Sections [*];
- (c) Site Targeted Content Ads on Yahoo! Properties and Syndication Properties must compete for placement with other Paid Listings from Microsoft's Contextual Advertising Services. For example, a given placement cannot be configured to accept only Site Targeted Content Ads and not other Paid Listings from Microsoft's Contextual Advertising Services; and

Confidential

-1-

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

- (d) At Microsoft’s request, Yahoo! will sell to Premium Direct Advertisers Site Targeted Content Ads for placements on Microsoft O&O Properties and Microsoft syndication properties provided that such Microsoft O&O Properties and Microsoft syndication properties comply with the then-current Site Targeted Content Ads policy. With respect to the sale of Site Targeted Content Ads, Yahoo! will represent to Premium Direct Advertisers such Microsoft O&O Properties no worse than it represents Yahoo! Properties, and Microsoft will represent to non-Premium Direct Advertisers such Yahoo! Properties no worse than it represents Microsoft O&O Properties.”

3. Use of Covered Data. Section 13.2.2 of the Agreement is amended by deleting the fifth sentence in its entirety and replacing it with the following:

“In addition, and subject to the restrictions of this Section 13 (including, e.g., the prohibition on Microsoft’s use of Yahoo! Search Data in connection with [*]), Microsoft may use Covered Data in connection with Paid Search Services, Contextual Advertising Services and Mobile Paid Search Services implemented in the following countries for the limited purposes stated in the designated sections of Exhibit K (and then only in the manner described therein):

Country/Region	Section of Exhibit K
United States, Canada, Mexico, India, Taiwan, Hong Kong, Korea, Russia, Singapore, Malaysia, Thailand, Indonesia, Philippines, Vietnam, Australia, New Zealand, Brazil, Latin America, Africa and countries not covered elsewhere in this chart	[*]
United Kingdom, Ireland, France, Sweden, Norway, Finland, Netherlands, Denmark, Belgium, Portugal, Austria, Switzerland, Greece, Poland, Romania	[*]
Germany, Italy, Spain	[*]

4. Notices. The contact information in Section 20.5 is replaced with the following:

Notice to Microsoft	Notices to Yahoo!
Microsoft Corporation One Microsoft Way Redmond, WA 98052 Attention: General Manager, OSD Strategic Alliances Team Telephone: (425) 882-8080 Telecopy: (425) 936-7329	Yahoo! Inc. 3333 W. Empire Avenue Burbank, CA 91504 Attention: Mark Morrissey Senior Vice President, Search Alliance Telephone: (818) 524-3000 Telecopy: (818) 524-3001

Confidential

-2-

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

<p>with a copy to:</p> <p>Microsoft Corporation One Microsoft Way Redmond, WA 98052 Attention: Deputy General Counsel, Online Services Division (OSD) Telephone: (425) 882-8080 Telecopy: (425) 936-7329</p>	<p>with a copy to:</p> <p>Yahoo! Inc. 3333 W. Empire Avenue Burbank, CA 91504 Attention: Julie Hsu, Vice President & Associate General Counsel Telephone: (818) 524-3000 Telecopy: (818) 524-3001</p>
--	---

5. Additional Special Provisions for [*].

(a) The parties agree that [*] image and video search results provided to Yahoo! directly by Yahoo! calling [*] APIs, as provided for under Microsoft’s existing contract with [*] , will be integrated by Yahoo! only on pages served within the [*] domain; provided, however, that it is understood and agreed that these pages may be viewed by end users anywhere in the world. For clarity, any [*] content that is provided to Yahoo! through Microsoft’s systems or APIs is not subject to such restrictions. Further, any [*] content that is provided to Yahoo! under a separate, direct contractual relationship with [*] will not be affected by any terms, conditions and restrictions contained in this Agreement.

(b) The parties agree that the [*] implementation (as set forth in Section 5 of the Fifth Amendment to the Agreement) for [*] Algorithmic Search Services for [*] via [*] APIs is limited to [*]. If Yahoo! desires to extend the Services to [*], Microsoft will use commercially reasonable efforts to contract with [*], or provide an equivalent solution, to extend [*] Algorithmic Search Services to [*].

(c) Yahoo! will display [*] attribution on pages within which [*] search results are displayed. Yahoo! solely determines the look and feel, and the implementation details, of such attribution on its web pages. Yahoo! will discuss in good faith any requests [*] may have regarding the look and feel or implementation details of such attribution, and will consider the possible inclusion of such changes, but Yahoo! is under no obligation to incorporate such changes should Yahoo! determine, in Yahoo!’s sole discretion, that such changes are not in Yahoo!’s best interest.

6. Country Specific Agreements.

(a) The parties may work together to execute country-specific agreements between the Affiliates in situations where the parties deem them necessary or as may be required by local law. For any such agreements, the parties agree that: (a) the intent is that terms are the same as those in the Agreement; (b) the parties will cause their Affiliates to operate under such country-specific agreements in a manner consistent with this Agreement, unless the parties to this Agreement expressly agree otherwise that a different treatment is appropriate in a particular country. Further, the parties agree that the intent of such country-specific agreements shall be to ensure that: (a) conflicts between country-specific Agreements and this Agreement are resolved in favor of this Agreement; and (b) obligations performed under country-specific agreements exhaust corresponding obligations under the Agreement, such that there is no duplication of obligations (for example, payments of amounts by an Affiliate under a country-specific Agreement relative to Paid Search Services in that country satisfy the comparable obligation for such amounts under this Agreement).

7. Miscellaneous. This Seventh Amendment will be governed and construed, to the extent applicable, in accordance with the laws of the State of New York, without regard to its conflict of law principles. This Seventh Amendment may be executed in multiple counterparts, each of which shall be

deemed an original and all of which shall constitute one and the same instrument. This Seventh Amendment may be amended or modified only by a written agreement that (a) refers to this Seventh Amendment; and (b) is executed by an authorized representative of each party. This Seventh Amendment shall be binding on the parties hereto and their respective personal and legal representatives, successors, and permitted assigns. Except as expressly set forth herein, the Agreement remains in full force and effect and this Seventh Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the Agreement. To the extent of any conflict between this Seventh Amendment and any provisions of the Agreement, this Seventh Amendment shall control with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this Seventh Amendment as of the Seventh Amendment Effective Date.

YAHOO! INC.

MICROSOFT CORPORATION

By: /s/ Lawrence Mann
Name: Lawrence Mann
Title:

By: /s/ Greg Nelson
Name: Greg Nelson
Title: General Manager, Search Alliance

Confidential

EXHIBIT M

SITE TARGETING POLICY

POLICY VERSION APPLICABLE TO: US AND CANADA (JULY 2011 VERSION)

“**Site Targeting**” means advertisers have the ability to opt in to target their ads from Microsoft’s Content Ads product to specific properties.

Policy Intent: To maintain a healthy marketplace, avoid micro-marketplaces, and protect traffic quality. Provide advertisers with high quality, highly visible placements.

A. Eligible Inventory. The following inventory is exempt from all pre-approval requirements set forth in Section B below.

[*]

In addition, the following is eligible inventory if approved as provided below:

[*]

B. Inventory Subject to Approval

[*]

- Approval of [*] for Site Targeting is subject to the following conditions:

[*]

- [*] receiving Site Targeting ads who are new to the Yahoo! network and therefore have no historical [*] will be approved but remain subject to min. [*] on an ongoing basis.

Microsoft reserves the right at any time (i) to review [*] in Site Targeting, or (ii) with good cause to revoke [*] in Site Targeting; and working in collaboration with the Yahoo! Marketplace team, to update thresholds based on changes in market conditions. Where the issue relates to a resolvable concern, Microsoft may grant partners a [*]-day period to resolve.

C. General Policy

- Site targeting is available for text ads only.
- To maintain a healthy marketplace, all placements must accept both site targeted ads and standard contextual ads. Site targeting must be used in conjunction with other keyword sources.

D. Exceptions

[*]

- Exceptions are subject to both of the following eligibility requirements:

[*]

**This threshold applies for US and Canada, and will be set for each new migrating market.*

E. Exception process: Escalation and Approval

- a) [*]
- b) The exception request will be assessed by the Policy team/Marketplace for approval.
- c) Policy/Marketplace approval handled on a [*] day SLA.

Confidential
[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

EIGHTH AMENDMENT

TO SEARCH AND ADVERTISING SERVICES AND SALES AGREEMENT

This Eighth Amendment to Search and Advertising Services and Sales Agreement (this "Eighth Amendment") is entered into to be effective as of June 6, 2012 ("Eighth Amendment Effective Date") by and between Yahoo! Inc., a Delaware corporation ("Yahoo!"), and Microsoft Corporation, a Washington corporation ("Microsoft").

WHEREAS, Yahoo! and Microsoft are parties to that certain Search and Advertising Services and Sales Agreement, entered into as of December 4, 2009, as amended (collectively, the "Agreement"); and

WHEREAS, Yahoo! and Microsoft desire to further amend the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Definitions. Capitalized terms used but not defined herein have the same meanings given in the Agreement.

2. Payments. Sections 9.1.2 and 9.1.3 of the Agreement are revised in their entirety to read as follows:

"9.1.2 Services and Additional Services Sold by Yahoo!.

(a) In connection with Paid Listings from Services and Additional Services sold by Yahoo! that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Microsoft O&O Properties and Microsoft syndication properties, Yahoo! shall pay to Microsoft [*]% of the associated Adjusted Net Revenues.

(b) In connection with Paid Listings from Services and Additional Services sold by Yahoo! that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Yahoo! Properties, Yahoo! shall pay to Microsoft (i) the product of (x) the associated Net Revenues and (y) (100%—Rev Share Rate) minus (ii) an amount equal to the product of Net Revenues and Bad Debt Rate in excess of 1%. [*]

(c) In connection with Paid Listings from Services and Additional Services sold by Yahoo! that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Syndication Properties, Yahoo! shall pay to Microsoft (i) the product of (x) the associated Net Revenues, (y) (100%—Rev Share Rate) (e.g., initially 100%-88%=12%), and (z) (100%—Average Yahoo! TAC Rate) minus (ii) an amount equal to the product of Net Revenues and Bad Debt Rate in excess of [*]%. [*] In connection with the [*] referenced in the second to last sentence of Section 9.1.1(a) of the Agreement, Microsoft will refund to Yahoo! the amount of any overpayment or Yahoo! will pay to Microsoft the amount of any underpayment.

Confidential

-1-

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

9.1.3 Services and Additional Services Sold by Microsoft.

(a) In connection with Paid Listings from Services and Additional Services sold by Microsoft that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Microsoft O&O Properties and Microsoft syndication properties, Microsoft shall retain all revenues.

(b) In connection with Paid Listings from Services and Additional Services sold by Microsoft that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Yahoo! Properties, Microsoft shall pay to Yahoo! the product of (x) the associated Net Revenues, and (y) Rev Share Rate. By way of example, if there was \$100 in Net Revenues sold by Microsoft for Services displayed on the Yahoo! Properties and an 88% Rev Share Rate, then Microsoft would pay to Yahoo! \$88 (= \$100 x 88%). For clarity, any [*] related to such Services and Additional Services sold by Microsoft shall not reduce the payment made to Yahoo!.

(c) In connection with Paid Listings from Services and Additional Services sold by Microsoft that with respect to Paid Search Services are displayed in response to Queries and Non-Internet Search Queries entered on, or with respect to Contextual Advertising Services appear on, Syndication Properties, Microsoft shall pay to Yahoo! the product of (x) the associated Net Revenues and (y) $100\% - ((100\% - \text{Rev Share Rate}) \times (100\% - \text{Average Yahoo! TAC Rate}))$. By way of example, if there was \$100 in Net Revenues sold by Microsoft for Services displayed on all of the Yahoo! Syndication Properties, an 88% Rev Share Rate and [*]% Average Yahoo! TAC Rate, then Microsoft would pay to Yahoo! $\$[*] = (\$100 \times (100\% - ((100\% - 88\%) \times (100\% - [*]\%)))$ (of which the \$[*] is an estimate of the amount due to the Syndication Partner. In connection with the [*] referenced in the second to last sentence of Section 9.1.1(a) of the Agreement, Yahoo! will refund to Microsoft the amount of any overpayment or Microsoft will pay to Yahoo! the amount of any underpayment. For clarity, any [*] related to such Services and Additional Services sold by Microsoft shall not reduce the payment made to Yahoo!."

3. Traffic Classification.

(a) The following shall be added to the Agreement as a new Section 9.5 of the Agreement:

"9.5 Traffic Classification for [*].

9.5.1 Categorization. With respect to the treatment of "[*]" (as defined below), the parties intend to characterize such traffic sources as Yahoo! Properties or Syndication Properties on a consistent basis for both revenue sharing and RPS Guarantee purposes [*] such that (i) [*]% of the revenues associated with [*] are treated as Syndication Properties for purposes of revenue sharing and RPS Guarantee purposes ("[*]") and (ii) [*]% of the revenues associated with such [*] are treated as Yahoo! Properties for purposes of revenue sharing and RPS Guarantee purposes ("[*]").

9.5.2 RPS Guarantee Impact.

(a) The [*] will be included in the calculation of Core Revenues for purposes of Exhibit E of the Agreement (to the extent such revenues would be included in Core Revenues if associated with other Yahoo! Properties). [*] will not be included in the calculation of Core Revenues.

Confidential

-2-

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

(b) In calculating the Guarantee Adjustor for dates in True-Up Periods prior to [*], all of the traffic from [*] will be included in Eligible Traffic with respect to both the True-Up Period and associated Reference Period. As an agreed proxy for the recalculation of the Guarantee Adjustor [*] contemplated by this Eighth Amendment, in calculating the Guarantee Adjustor for dates in True-Up Periods between [*] and [*], all of the traffic from [*] will be included as Eligible Traffic with respect to both the True-Up Period and associated Reference Period, except [*]% of all [*] will be excluded with respect to both the True-Up Period and associated Reference Period [*]. In calculating the Guarantee Adjustor for dates in True-Up Periods on or after [*], [*]% of [*] traffic (representing the O&O portion) will be included in Eligible Traffic (with respect to both the True-Up Period and associated Reference Period). The [*]% of traffic referenced in the previous sentence will be based on a representative and unbiased sample of all such applicable traffic.

9.5.3 [u]. Except as provided above, [*] will be included as Yahoo! Properties for all other purposes of the Agreement.

9.5.4 [u]. All [*] other than [*] are Syndication Properties and not Yahoo! Properties for all purposes under the Agreement; provided, however that notwithstanding the foregoing, [*] which resolve to [*] will be treated as Yahoo! Properties for purposes of advertiser distribution controls as provided in Section 2.2.3(c) of the Agreement.

9.5.5 Additional Definitions.

(a) [u]

(b) [u]

(c) “**Guarantee Adjustor**” has the meaning ascribed to it in Exhibit E of the Agreement.”

4. Average Yahoo! TAC Rate. The first sentence of Section 9.1.1(a) of the Agreement is deleted and replaced with the following: “ “Average Yahoo! TAC Rate” means total Syndication Partner Payments (under Syndication Partner Agreements) divided by total Adjusted Net Revenues, each (i.e., payments and revenues) with respect to Services, and if applicable, Additional Services, provided to Syndication Partners on Syndication Properties and on [*] which are not Syndication Properties, provided, however, each Syndication Partner Payment in such calculation shall be limited to (i.e., may not exceed) the amount of its associated Adjusted Net Revenues.”

5. Notwithstanding the Eighth Amendment Effective Date, the parties intend that the provisions of the newly added Section 9.5 of the Agreement would apply retroactively, and promptly after the Eighth Amendment Effective Date, the parties will calculate and settle any retroactive adjustments due to or from either party as a result of the Eighth Amendment.

6. Unless mutually modified by representatives of each party in writing (including by email), the parties will use the implementation procedures described in Attachment 1 to this Eighth Amendment to effectuate the modifications created by this Eighth Amendment.

7. Within [*] days of the Eighth Amendment Effective Date, Microsoft will pay to Yahoo! \$[*] to share the risk of [*].

8. Miscellaneous. This Eighth Amendment will be governed and construed, to the extent applicable, in accordance with the laws of the State of New York, without regard to its conflict of law principles.

Confidential -3-
[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

This Eighth Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. This Eighth Amendment may be amended or modified only by a written agreement that (a) refers to this Eighth Amendment; and (b) is executed by an authorized representative of each party. This Eighth Amendment shall be binding on the parties hereto and their respective personal and legal representatives, successors, and permitted assigns. Except as expressly set forth herein, the Agreement remains in full force and effect and this Eighth Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the Agreement. To the extent of any conflict between this Eighth Amendment and any provisions of the Agreement, this Eighth Amendment shall control with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this Eighth Amendment as of the Eighth Amendment Effective Date.

YAHOO! INC.

By: /s/ Lawrence Mann
Name: Lawrence Mann
Title:

Confidential

MICROSOFT CORPORATION

By: /s/ Greg Nelson
Name: Greg Nelson
Title: General Manager, Search Alliance

-4-

ATTACHMENT 1 TO EIGHTH AMENDMENT

IMPLEMENTATION PROCEDURES FOR [*]

- Historical True-Up. Within [*] days of the Eighth Amendment Effective Date, the parties will reconcile historical revenue sharing amounts and Guarantee Amounts to reflect treatment of [*] consistent with amended Section 9.5 of the Agreement. Based on the timing of such reconciliation, the parties may need a second true-up within [*] days of July 1, 2012 (when automated reporting begins) covering a stub period (i.e., likely April/May/June 2012). For avoidance of doubt, any difference in the average [*] of the Agreement resulting from the [*] for True-Up Periods prior to [*] will be ignored. However, any difference in the average [*] value resulting from the reclassification of [*] for True-Up Periods on or after [*] will be included.
- System Treatment. Yahoo! will configure all [*] in adCenter as type = [*]. Within [*] days, any Ad Units not already set up in this manner will be updated accordingly.

Confidential
[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to omitted portions.

**YAHOO! INC.
1995 STOCK PLAN**

**NOTICE OF STOCK OPTION GRANT
TO EXECUTIVE**

Ross Levinsohn

You have been granted an option to purchase Common Stock of Yahoo! Inc., a Delaware corporation (the "Company"), as follows:

Date of Grant:	July 26, 2012
Vesting Commencement Date:	July 26, 2012
Exercise Price Per Share:	\$15.80
Total Number of Shares Granted:	250,000
Total Price of Shares Granted:	\$3,950,000
Type of Option:	Nonstatutory Stock Option
Term/Expiration Date:	July 26, 2019
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule: One-third of the Shares subject to the Option shall vest and become exercisable on each of the first, second and third anniversaries of the Vesting Commencement Date.
Post Termination Exercise Period:	This Option may be exercised for a period of ninety (90) days after termination of your employment relationship except as set out in Sections 7 and 8 of the Stock Option Agreement for Executives (but in no event later than the Expiration Date). You understand and agree that termination of your employment relationship for purposes of this Option shall occur on the Termination Date (as defined in Section 6 of the Stock Option Agreement for Executives).

By your signature and the signature of the Company's representative below, or by indicating your acceptance of this award through the Company's online acceptance procedure, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1995 Stock Plan and the Stock Option Agreement for Executives, which are hereby incorporated by reference and made a part of this document.

OPTIONEE:

/s/ Ross Levinsohn
ROSS LEVINSOHN

YAHOO! INC.

By: _____
/s/ Marissa A. Mayer
Chief Executive Officer

YAHOO! INC.
1995 STOCK PLAN
STOCK OPTION AGREEMENT

1. *Grant of Option.* Yahoo! Inc., a Delaware corporation (the “Company”), hereby grants to the optionee (the “Optionee”) named in the Notice of Stock Option Grant to Executive (the “Notice of Grant”), an option (the “Option”) to purchase the total number of shares of Common Stock (the “Shares”) set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the “Exercise Price”) subject to the terms, definitions and provisions of the 1995 Stock Plan, as amended (the “Plan”), adopted by the Company, which is incorporated in this Stock Option Agreement for Executives (this “Agreement”) by reference. In the event of a conflict between the terms of the Plan and the terms of this Agreement, the terms of the Plan shall govern. Unless otherwise defined in this Agreement, capitalized terms used in this Agreement shall have the definitions set forth in the Plan.
If designated as an Incentive Stock Option in the Notice of Grant, this Option is intended to qualify as an “incentive stock option” as such term is defined in Section 422 of the Code.
2. *Exercise of Option.* This Option shall be exercisable during its term in accordance with the vesting schedule set forth in the Notice of Grant (the “Vesting Schedule”) and with the provisions of Sections 9 and 10 of the Plan as follows:
 - (i) *Right to Exercise.*
 - (a) This Option may not be exercised for a fraction of a share.
 - (b) In the event of the Optionee’s death, disability or other termination of employment, the exercisability of this Option is governed by Sections 6 through 9 below, subject to the limitations contained in Sections 2(i)(c) and (d).
 - (c) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.
 - (d) If designated as an Incentive Stock Option in the Notice of Grant, in the event that this Option becomes exercisable at a time or times which, when this Option is aggregated with all other incentive stock options granted to the Optionee by the Company or any Parent or Subsidiary, would result in Shares having an aggregate fair market value (determined for each Share as of the Date of Grant of the option covering such Share) in excess of \$100,000 becoming first available for purchase upon exercise of one or more incentive stock options during any calendar year, the amount in excess of \$100,000 shall be treated as a Nonstatutory Stock Option, pursuant to Section 5(b) of the Plan.

(ii) *Method of Exercise.*

- (a) This Option shall be exercisable by delivering notice to the Company or a broker designated by the Company in such form and through such delivery method as shall be acceptable to the Company or the designated broker, as appropriate (the "Exercise Notice"). The Exercise Notice shall specify the election to exercise this Option and the number of Shares in respect of which this Option is being exercised, shall include such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan and applicable law, and shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company or the designated broker of such notice accompanied by the Exercise Price.
- (b) As a condition to the exercise of this Option, the Optionee agrees to make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the exercise of this Option or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.
- (c) No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any Stock Exchange. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which this Option is exercised with respect to such Shares.

3. *Continuance of Employment/Service Required.* The Vesting Schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of this Option and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Optionee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Sections 6, 7 and 8 below or under the Plan.

4. *Method of Payment.* Payment of the Exercise Price shall be by any of, or a combination of, the following methods at the election of the Optionee: (i) cash; (ii) check; (iii) surrender of other shares of Common Stock of the Company which (a) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Optionee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (b) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised; or (iv) delivery of a properly executed Exercise Notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price; provided that the Administrator may from time to time limit the availability of any non-cash payment alternative.

5. *Restrictions on Exercise.* This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations (“Regulation G”) as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require the Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.
6. *Termination of Relationship.*
 - (i) In the event of termination of the Optionee’s Continuous Status as an Employee or Consultant, the Optionee may, to the extent otherwise so entitled at the date of such termination (the “Termination Date”) and after giving effect to any accelerated vesting that may be required in the circumstances pursuant to Section 6(ii) or Section 9, exercise this Option during the Post Termination Exercise Period set out in the Notice of Grant. To the extent that the Optionee was not entitled to exercise this Option at the Termination Date, or if the Optionee does not exercise this Option within the time specified in the Notice of Grant, this Option shall terminate. Further, to the extent allowed by applicable law, if the Optionee is indebted to the Company on the Termination Date, the Optionee’s right to exercise this Option shall be suspended until such time as the Optionee satisfies in full any such indebtedness.
 - (ii) If the Optionee’s Continuous Status as an Employee or Consultant is terminated by the Company, Parent or any Subsidiary without Cause (as such term is defined below and without regard to whether a Change in Control has occurred), this Option, to the extent then outstanding and not vested, shall become fully vested and exercisable as of the Termination Date.
7. *Disability of Optionee.* Notwithstanding the provisions of Section 6 above, in the event of termination of the Optionee’s Continuous Status as an Employee or Consultant as a result of Total Disability, the Optionee may, but only within twelve (12) months from the Termination Date (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), exercise this Option to the extent otherwise so entitled at the Termination Date. To the extent that the Optionee was not entitled to exercise this Option at the Termination Date, or if the Optionee does not exercise such Option (to the extent otherwise so entitled) within the time specified in this Agreement, this Option shall terminate.
8. *Death of Optionee.* Notwithstanding the provisions of Section 6 above, in the event of the death of the Optionee during the period of the Optionee’s Continuous Status as an Employee or Consultant, or within thirty (30) days following the termination of the Optionee’s Continuous Status as an Employee or Consultant, this Option may be exercised, at any time within twelve (12) months following the date of the Optionee’s death (but in no event later than the date of expiration of the term of this Option as set forth in Section 11 below), by the Optionee’s estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent the Optionee was

entitled to exercise this Option at the date of death or, if earlier, the date of termination of the Optionee's Continuous Status as an Employee or Consultant. To the extent that the Optionee was not entitled to exercise this Option at the date of death or termination, as the case may be, or if the Optionee's estate or the person who acquired the right to exercise this Option by bequest or inheritance does not exercise such Option (to the extent otherwise so entitled) within the time specified in this Agreement, this Option shall terminate.

9. *Change in Control.* The following provisions shall apply in the event of a Change in Control (as such term is defined below):

(i) In the event that, during the period of twelve (12) months following the Change in Control (as such term is defined below), the Optionee's employment is terminated by the Optionee for Good Reason (as such term is defined below), this Option, to the extent then outstanding and not vested, shall become fully vested and exercisable as of the Termination Date in accordance with Section 6.

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

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

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

(C) the stockholders of the Company approve a plan of complete liquidation or winding-up of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, provided, however, that a sale of the Company's search business shall not constitute a Change in Control, regardless of whether stockholders approve the transaction.

(iii) For purposes of this Agreement, "Cause" shall mean termination of the Optionee's employment with the Company based upon the occurrence of one or more of the following which, with respect to clauses (1), (2) and (3) below, if curable, the Optionee has not cured within fourteen (14) days after the Optionee receives written notice from the Company specifying with reasonable particularity such occurrence: (1) the Optionee's refusal or material failure to perform the Optionee's job duties and responsibilities (other than by reason of the Optionee's serious physical or mental illness, injury or medical condition); (2) the Optionee's failure or refusal to comply in any material respect with material Company policies or lawful directives; (3) the Optionee's material breach of any contract or agreement between the Optionee and the Company (including but not limited to any Employee Confidentiality and Assignment of Inventions Agreement or similar agreement between Optionee and the Company), or the Optionee's material breach of any statutory duty, fiduciary duty or any other obligation that the Optionee owes to the Company; (4) the Optionee's commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or the Optionee's 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; or (5) the Optionee's indictment or conviction or *nolo contendere* or guilty plea with respect to any felony or crime of moral turpitude. Following notice and cure as provided in the preceding sentence, upon any additional one-time occurrence of one or more of the events enumerated in that sentence, the Company may terminate the Optionee's employment for Cause without notice and opportunity to cure. However, should the Company choose to offer the Optionee another opportunity to cure, it shall not be deemed a waiver of its rights under this provision. For purposes of this definition, the term "Company" shall include a Parent or any Subsidiary of the Company.

(iv) For purposes of this Agreement, "Good Reason" shall be deemed to exist only if the Company shall fail to correct within 30 days after receipt of written notice from the Optionee specifying in reasonable detail the reasons the Optionee believes one of the following events or conditions has occurred (provided such notice is delivered by the Optionee no later than 30 days after the initial existence of the occurrence): (1) a material diminution of the Optionee's then current aggregate base salary and target bonus amount (other than reductions that also affect other similarly situated employees) without the Optionee's prior written agreement; (2) the material diminution of the Optionee's authority, duties or responsibilities as an employee of the Company without the Optionee's prior written agreement (except that change in title or assignment to a new supervisor by itself shall not constitute Good Reason); or (3) the relocation of the Optionee's position with the Company to a location that is greater than 50 miles from the Optionee's current principal place of employment with the Company, and that is also further from the Optionee's principal place of residence, without the Optionee's prior written agreement, provided that in all events the termination of the Optionee's service with the Company shall not be treated as a termination for "Good Reason" unless such termination occurs not more than six (6) months following the initial existence of the occurrence of the event or condition claimed to constitute "Good Reason." For purposes of this definition, the term "Company" shall include a Parent or any Subsidiary of the Company.

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

This Option shall not be subject to the acceleration of vesting provisions of Section 2.5 of the Amended and Restated Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees.

10. *Non-Transferability of Option.* This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution. The designation of a beneficiary does not constitute a transfer. This Option may be exercised during the lifetime of the Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.
11. *Term of Option.* This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.
12. *No Additional Employment Rights.* The Optionee understands and agrees that the vesting of Shares pursuant to the Vesting Schedule is earned only by continuing as an Employee or Consultant at the will of the Company (not through the act of being hired, being granted this Option or acquiring Shares under this Agreement). The Optionee further acknowledges and agrees that nothing in this Agreement, nor in the Plan which is incorporated in this Agreement by reference, shall confer upon the Optionee any right with respect to continuation as an Employee or Consultant with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.
13. *Notice of Disqualifying Disposition of Incentive Stock Option Shares.* If this Option is an Incentive Stock Option, and if the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the Incentive Stock Option on or before the later of (a) the date two years after the Date of Grant, or (b) the date one year after transfer of such Shares to the Optionee upon exercise of the Incentive Stock Option, the Optionee shall notify the Company in writing within thirty (30) days after the date of any such disposition. The Optionee agrees that the Optionee may be subject to the tax withholding provisions of Section 14 below in connection with such sale or disposition of such Shares.
14. *Tax Withholding.* The Optionee shall pay to the Company promptly upon request, and in any event at the time the Optionee recognizes taxable income in respect of the Option, an amount equal to the taxes the Company determines it is required to withhold under applicable tax laws with respect to the Option. Such payment may be made by any of, or a combination of, the following methods: (i) cash or check; (ii) out of the Optionee's current compensation; (iii) surrender of other shares of Common Stock of the Company which (a) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Optionee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (b) have a Fair Market

Value on the date of surrender equal to the amount required to be withheld; (iv) by electing to have the Company withhold from the Shares to be issued upon exercise of this Option that number of Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld or (v) delivery of a properly executed Exercise Notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the amount required to be withheld; provided that the Administrator may from time to time limit the availability of any non-cash payment alternative. For these purposes, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

All elections by the Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

- (i) the election must be made on or prior to the applicable Tax Date;
- (ii) once made, the election shall be irrevocable as to the particular Shares of this Option as to which the election is made;
- (iii) all elections shall be subject to the consent or disapproval of the Administrator;
- (iv) if the Optionee is subject to Section 16 of the Exchange Act, the election must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act and shall be subject to such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

15. *Notices.* Any and all notices, designations, consents, offers, acceptances and any other communications provided for herein shall be given in writing and shall be delivered either personally or by registered or certified mail, postage prepaid, which shall be addressed, in the case of the Company to both the Chief Financial Officer and the General Counsel of the Company at the principal office of the Company and, in the case of the Optionee, to the Optionee's address appearing on the books of the Company or to the Optionee's residence or to such other address as may be designated in writing by the Optionee. Notices may also be delivered to the Optionee, during his or her employment, through the Company's inter-office or electronic mail systems.
16. *Bound by Plan.* By signing this Agreement, the Optionee acknowledges that he/she has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.
17. *Imposition of Other Requirements.* If the Optionee relocates to another country after the Date of Grant, the Company reserves the right to impose other requirements on the Optionee's participation in the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Optionee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

18. *Successors.* The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and of the Optionee and the beneficiaries, executors, administrators, heirs and successors of the Optionee.
19. *Invalid Provision.* The invalidity or unenforceability of any particular provision thereof shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision had been omitted.
20. *Entire Agreement.* This Agreement, the Notice of Grant and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.
21. *Governing Law.* This Agreement and the rights of the Optionee hereunder shall be construed and determined in accordance with the laws of the State of Delaware.
22. *Headings.* The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.
23. *Recoupment.* Notwithstanding any other provision herein, the recoupment or “clawback” policies adopted by the Administrator and applicable to equity awards, as such policies are in effect from time to time, shall apply to the Option and any Shares that may be issued in respect of the Option.
24. *Signature.* This Agreement shall be deemed executed by the Company and the Optionee upon execution by such parties (or upon the Optionee’s online acceptance) of the Notice of Grant.

YAHOO! INC.
1995 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of July 26, 2012 (the "Date of Grant"), is made by and between Yahoo! Inc., a Delaware corporation (the "Company"), and Ross Levinsohn (the "Grantee").

WHEREAS, the Company has adopted the Yahoo! Inc. 1995 Stock Plan, as amended (the "Plan"), pursuant to which the Company may grant Restricted Stock Units ("RSUs");

WHEREAS, the Company desires to grant to the Grantee the number of RSUs provided for herein;

NOW, THEREFORE, in consideration of the recitals and the mutual agreements herein contained, the parties hereto agree as follows:

Section 1. Grant of Restricted Stock Unit Award

(a) *Grant of RSUs.* The Company hereby grants to the Grantee 67,000 RSUs (the "Award") on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan.

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

Section 2. Terms and Conditions of Award

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

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

(b) *Restrictions.* The RSUs and any interest therein, may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, except by will or the laws of

descent and distribution. Any attempt to dispose of any RSUs in contravention of the above restriction shall be null and void and without effect.

(c) *Lapse of Restrictions.* Subject to Sections 2(e) through 2(g) below, one-third (1/3) of the RSUs shall vest and become non-forfeitable upon each of the first, second and third anniversaries of the Date of Grant.

(d) *Timing and Manner of Payment of RSUs.* As soon as practicable after (and in no case more than seventy-four days after) the date any RSUs subject to the Award become non-forfeitable (the "Payment Date"), such RSUs shall be paid by the Company delivering to the Grantee a number of Shares equal to the number of RSUs that become non-forfeitable upon that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Grantee. Delivery of any certificates will be made to the Grantee's last address reflected on the books of the Company and its Subsidiaries unless the Company is otherwise instructed in writing. The Grantee shall not be required to pay any cash consideration for the RSUs or for any Shares received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

(e) *Termination of Employment.*

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

(ii) If the Grantee's employment or service with the Company, Parent or any Subsidiary is terminated by the Company, Parent or any Subsidiary without Cause (as such term is defined below and without regard to whether a Change in Control has occurred), the RSUs subject to the Award, to the extent then outstanding and not vested, shall become fully vested and non-forfeitable as of the Termination Date.

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

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

(ii) In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Award shall be assumed or substituted with an equivalent award by such successor corporation, parent or subsidiary of such successor corporation; provided that the Administrator may determine, in the exercise of its sole discretion in connection with a transaction that constitutes a permissible distribution event under Section 409A(a)(2)(A)(v) of the Code, that in lieu of such assumption or substitution, the Award shall be vested and non-forfeitable and any conditions or restrictions on the Award shall lapse, as to all or any part of the Award, including RSUs as to which the Award would not otherwise be non-forfeitable.

(g) *Change in Control*. The following provisions shall apply in the event of a Change in Control (as such term is defined below) prior to the date the RSUs have either become vested and non-forfeitable or have been forfeited pursuant to this Agreement:

(i) In the event that, during the period of twelve (12) months following the Change in Control (as such term is defined below), the Grantee's employment is terminated by the Grantee for Good Reason (as such term is defined below), the RSUs subject to the Award, to the extent then outstanding and not vested, shall become fully vested and non-forfeitable as of the Termination Date.

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

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

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

(C) the stockholders of the Company approve a plan of complete liquidation or winding-up of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, provided, however, that a sale of the Company's search business shall not constitute a Change in Control, regardless of whether stockholders approve the transaction.

(iii) For purposes of this Agreement, "Cause" shall mean termination of the Grantee's employment with the Company based upon the occurrence of one or more of the following which, with respect to clauses (1), (2) and (3) below, if curable, the Grantee has not cured within fourteen (14) days after the Grantee receives written notice from the Company specifying with reasonable particularity such occurrence: (1) the Grantee's refusal or material failure to perform the Grantee's job duties and responsibilities (other than by reason of the Grantee's serious physical or mental illness, injury or medical condition); (2) the Grantee's failure or refusal to comply in any material respect with material Company policies or lawful directives; (3) the Grantee's material breach of any contract or agreement between the Grantee and the Company (including but not limited to any Employee Confidentiality and Assignment of Inventions Agreement or similar agreement between the Grantee and the Company), or the Grantee's material breach of any statutory duty, fiduciary duty or any other obligation that the Grantee owes to the Company; (4) the Grantee's commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or the Grantee's 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; or (5) the Grantee's indictment or conviction or *nolo contendere* or guilty plea with respect to any felony or crime of moral turpitude. Following notice and cure as provided in the preceding sentence, upon any additional one-time occurrence of one or more of the events enumerated in that sentence, the Company may terminate the Grantee's employment for Cause without notice and opportunity to cure. However, should the Company choose to offer the Grantee another opportunity to cure, it shall not be deemed a waiver of its rights under this provision. For purposes of this definition, the term "Company" shall include a Parent or any Subsidiary of the Company.

(iv) For purposes of this Agreement, "Good Reason" shall be deemed to exist only if the Company shall fail to correct within 30 days after receipt of written notice from the Grantee specifying in reasonable detail the reasons the Grantee believes one of the following events or conditions has occurred (provided such notice is delivered by the Grantee no later than 30 days after the initial existence of the occurrence): (1) a material diminution of the Grantee's then current aggregate base salary and target bonus amount (other than reductions that also affect other similarly situated employees) without the Grantee's prior written agreement; (2) the material diminution of the Grantee's authority, duties or responsibilities as an employee of the Company without the Grantee's prior written agreement (except that change in title or assignment to a new supervisor by itself shall not constitute Good Reason); or (3) the relocation of the Grantee's position with the Company to a location that is greater than 50 miles from the Grantee's current principal place of employment with the Company, and that is also further from the Grantee's principal place of residence, without the Grantee's prior written agreement, provided that

in all events the termination of the Grantee's service with the Company shall not be treated as a termination for "Good Reason" unless such termination occurs not more than six (6) months following the initial existence of the occurrence of the event or condition claimed to constitute "Good Reason." For purposes of this definition, the term "Company" shall include a Parent or any Subsidiary of the Company.

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

This grant of RSUs shall not be subject to the acceleration of vesting provisions of Section 2.5 of the Amended and Restated Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees.

(h) *Income Taxes.* Except as provided in the next sentence, the Company shall withhold and/or reacquire a number of Shares issued in payment of (or otherwise issuable in payment of, as the case may be) the RSUs having a Fair Market Value equal to the taxes that the Company determines it or the Employer is required to withhold under applicable tax laws with respect to the RSUs (with such withholding obligation determined based on any applicable minimum statutory withholding rates). In the event the Company cannot (under applicable legal, regulatory, listing or other requirements, or otherwise) satisfy such tax withholding obligation in such method, the Company may satisfy such withholding by any one or combination of the following methods: (i) by requiring the Grantee to pay such amount in cash or check; (ii) by deducting such amount out of any other compensation otherwise payable to the Grantee; and/or (iii) by allowing the Grantee to surrender shares of Common Stock of the Company which (a) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Grantee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (b) have a Fair Market Value on the date of surrender equal to the amount required to be withheld. For these purposes, the Fair Market Value of the Shares to be withheld or repurchased, as applicable, shall be determined on the date that the amount of tax to be withheld is to be determined.

Section 3. Miscellaneous

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

(b) *No Right to Continued Employment.* Nothing in the Plan or in this Agreement shall confer upon the Grantee any right to continue in the employ of the Company, a Parent or

any Subsidiary or shall interfere with or restrict in any way the right of the Company, Parent or any Subsidiary, which is hereby expressly reserved, to remove, terminate or discharge the Grantee at any time for any reason whatsoever, with or without Cause and with or without advance notice.

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

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

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

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

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

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

(i) *Governing Law.* This Agreement and the rights of the Grantee hereunder shall be construed and determined in accordance with the laws of the State of Delaware.

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

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

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

YAHOO! INC.
1995 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
CEO MAKE-WHOLE GRANT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of July 26, 2012 (the "Date of Grant"), is made by and between Yahoo! Inc., a Delaware corporation (the "Company"), and Marissa A. Mayer (the "Grantee").

WHEREAS, the Company has adopted the Yahoo! Inc. 1995 Stock Plan, as amended (the "Plan"), pursuant to which the Company may grant Restricted Stock Units ("RSUs");

WHEREAS, the Company desires to grant to the Grantee the number of RSUs provided for herein;

NOW, THEREFORE, in consideration of the recitals and the mutual agreements herein contained, the parties hereto agree as follows:

Section 1. Grant of Restricted Stock Unit Award

(a) *Grant of RSUs.* The Company hereby grants to the Grantee 886,076 RSUs (the "Award") on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. The Award represents the grant of "Make-Whole RSUs" referred to in the Grantee's offer letter from the Company dated July 16, 2012 (the "Offer Letter").

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

Section 2. Terms and Conditions of Award

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

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

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

(c) *Lapse of Restrictions.* Subject to Section 2(e) below, the RSUs shall vest and become non-forfeitable in twenty-nine (29) monthly installments as follows:

(i) four-fourteenths (4/14) of the RSUs shall vest and become non-forfeitable in five (5) substantially equal installments upon the seventeenth (17th) day of each month commencing August 2012 and ending December 2012;

(ii) seven-fourteenths (7/14) of the RSUs shall vest and become non-forfeitable in twelve (12) substantially equal installments upon the seventeenth (17th) day of each month commencing January 2013 and ending December 2013; and

(iii) three-fourteenths (3/14) of the RSUs shall vest and become non-forfeitable in twelve (12) substantially equal installments upon the seventeenth (17th) day of each month commencing January 2014 and ending December 2014.

(d) *Timing and Manner of Payment of RSUs.* As soon as practicable after (and in no case more than seventy-four days after) the date any RSUs subject to the Award become non-forfeitable (the "Payment Date"), such RSUs shall be paid by the Company delivering to the Grantee a number of Shares equal to the number of RSUs that become non-forfeitable upon that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Grantee. Delivery of any certificates will be made to the Grantee's last address reflected on the books of the Company and its Subsidiaries unless the Company is otherwise instructed in writing. The Grantee shall not be required to pay any cash consideration for the RSUs or for any Shares received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

(e) *Termination of Employment.*

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

(ii) If the Grantee's employment or service with the Company, Parent or any Subsidiary is terminated (A) by the Company, Parent or any Subsidiary without Cause (as such term is defined in the Offer Letter), (B) by the Grantee for Good Reason (as such term is defined in the Offer Letter), or (C) as a result of the Grantee's death or disability (as such term is defined under the Company's long-term disability plan), the RSUs subject to the Award, to the extent then outstanding and unvested, shall become fully vested and non-forfeitable as of the Termination Date.

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

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

(ii) In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Award shall be assumed or substituted with an equivalent award by such successor corporation, parent or subsidiary of such successor corporation; provided that the Administrator may determine, in the exercise of its sole discretion in connection with a transaction that constitutes a permissible distribution event under Section 409A(a)(2)(A)(v) of the Code, that in lieu of such assumption or substitution, the Award shall be vested and non-forfeitable and any conditions or restrictions on the Award shall lapse, as to all or any part of the Award, including RSUs as to which the Award would not otherwise be non-forfeitable.

This grant of RSUs shall not be subject to the acceleration of vesting provisions of Section 2.5 of the Amended and Restated Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees.

(g) *Income Taxes.* Except as provided in the next sentence, the Company shall withhold and/or reacquire a number of Shares issued in payment of (or otherwise issuable in payment of, as the case may be) the RSUs having a Fair Market Value equal to the taxes that the Company determines it or the Employer is required to withhold under applicable tax laws with respect to the RSUs (with such withholding obligation determined based on any applicable minimum statutory withholding rates). In the event the Company cannot (under applicable legal, regulatory, listing or other requirements, or otherwise) satisfy such tax withholding obligation in such method, the Company may satisfy such withholding by any one or combination of the following methods: (i) by requiring the Grantee to pay such amount in cash or check; (ii) by deducting such amount out of any other compensation otherwise payable to the Grantee; and/or (iii) by allowing the Grantee to surrender shares of Common Stock of the Company which (a) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Grantee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (b) have a Fair Market Value on the date of surrender equal to the amount required to be withheld. For these purposes, the Fair Market Value of the Shares to be withheld or repurchased, as applicable, shall be determined on the date that the amount of tax to be withheld is to be determined.

Section 3. Miscellaneous

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

(b) *No Right to Continued Employment.* Nothing in the Plan or in this Agreement shall confer upon the Grantee any right to continue in the employ of the Company, a Parent or any Subsidiary or shall interfere with or restrict in any way the right of the Company, Parent or any Subsidiary, which is hereby expressly reserved, to remove, terminate or discharge the Grantee at any time for any reason whatsoever, with or without Cause and with or without advance notice.

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

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

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

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

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

(h) *Entire Agreement.* This Agreement and the Plan (together with the Offer Letter to the extent referred to herein) contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.

YAHOO! INC.
1995 STOCK PLAN
RESTRICTED STOCK UNIT AWARD AGREEMENT
CEO GRANT

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated as of July 26, 2012 (the "Date of Grant"), is made by and between Yahoo! Inc., a Delaware corporation (the "Company"), and Marissa A. Mayer (the "Grantee").

WHEREAS, the Company has adopted the Yahoo! Inc. 1995 Stock Plan, as amended (the "Plan"), pursuant to which the Company may grant Restricted Stock Units ("RSUs");

WHEREAS, the Company desires to grant to the Grantee the number of RSUs provided for herein;

NOW, THEREFORE, in consideration of the recitals and the mutual agreements herein contained, the parties hereto agree as follows:

Section 1. Grant of Restricted Stock Unit Award

(a) *Grant of RSUs.* The Company hereby grants to the Grantee [] RSUs (the "Award") on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. [The Award represents the portion of the equity award referred to in the section titled [] of the Grantee's offer letter from the Company dated July 16, 2012 (the "Offer Letter") that is granted in the form of time-based RSUs.]

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

Section 2. Terms and Conditions of Award

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

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

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

(c) *Lapse of Restrictions.* Subject to Sections 2(e) through 2(g) below, [()] of the RSUs shall vest and become non-forfeitable upon each of the first [()] anniversaries of the Date of Grant.

(d) *Timing and Manner of Payment of RSUs.* As soon as practicable after (and in no case more than seventy-four days after) the date any RSUs subject to the Award become non-forfeitable (the "Payment Date"), such RSUs shall be paid by the Company delivering to the Grantee a number of Shares equal to the number of RSUs that become non-forfeitable upon that Payment Date (rounded down to the nearest whole share). The Company shall issue the Shares either (i) in certificate form or (ii) in book entry form, registered in the name of the Grantee. Delivery of any certificates will be made to the Grantee's last address reflected on the books of the Company and its Subsidiaries unless the Company is otherwise instructed in writing. The Grantee shall not be required to pay any cash consideration for the RSUs or for any Shares received pursuant to the Award. Neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any further rights or interests in any RSUs that are so paid. Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue Shares in payment of the RSUs unless such issuance and such payment shall comply with all relevant provisions of law and the requirements of any Stock Exchange.

(e) *Termination of Employment.*

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

(ii) If the Grantee's employment or service with the Company, Parent or any Subsidiary is terminated (A) by the Company, Parent or any Subsidiary without Cause (as such term is defined in the Offer Letter) and other than in the period of twelve (12) months following a Change in Control (as such term is defined in Section 2(g)), (B) by the Grantee for Good Reason (as such term is defined in the Offer Letter) and other than in the period of twelve (12) months following a Change in Control, or (C) as a result of the Grantee's death or disability (as such term is defined under the Company's long-term

disability plan), any installment of the then-outstanding and unvested portion of the Award that is scheduled to vest within six (6) months following the Termination Date will immediately vest upon the Termination Date. Any portion of the Award that is not vested after giving effect to the preceding sentence shall be automatically forfeited by the Grantee as of the Termination Date, and neither the Grantee nor any of the Grantee's successors, heirs, assigns or personal representatives shall have any rights or interests in any RSUs that are so forfeited.

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

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

(ii) In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Award shall be assumed or substituted with an equivalent award by such successor corporation, parent or subsidiary of such successor corporation; provided that the Administrator may determine, in the exercise of its sole discretion in connection with a transaction that constitutes a permissible distribution event under Section 409A(a)(2)(A)(v) of the Code, that in lieu of such assumption or substitution, the Award shall be vested and non-forfeitable and any conditions or restrictions on the Award shall lapse, as to all or any part of the Award, including RSUs as to which the Award would not otherwise be non-forfeitable.

(g) *Change in Control.* The following provisions shall apply in the event of a Change in Control (as such term is defined below) prior to the date the RSUs have either become vested and non-forfeitable or have been forfeited pursuant to this Agreement:

(i) In the event that, during the period of twelve (12) months following the Change in Control, the Grantee's employment is terminated by the Company, Parent or any Subsidiary without Cause or by the Grantee for Good Reason, the RSUs subject to the Award, to the extent then outstanding and not vested, shall become fully vested and non-forfeitable as of the Termination Date.

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

(A) any person or group of persons (as defined in Section 13(d) and 14(d) of the Exchange Act) together with its Affiliates (as defined below), but excluding (i) the Company or any of its subsidiaries, (ii) any employee benefit plans of the Company or (iii) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company (individually a "Person" and collectively, "Persons"), is or becomes, directly or indirectly, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of securities of the Company

representing 40% or more of the combined voting power of the Company's then outstanding securities (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates);

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

(C) the stockholders of the Company approve a plan of complete liquidation or winding-up of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, provided, however, that a sale of the Company's search business shall not constitute a Change in Control, regardless of whether stockholders approve the transaction.

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

This grant of RSUs shall not be subject to the acceleration of vesting provisions of Section 2.5 of the Amended and Restated Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees.

(h) *Income Taxes.* Except as provided in the next sentence, the Company shall withhold and/or reacquire a number of Shares issued in payment of (or otherwise issuable in payment of, as the case may be) the RSUs having a Fair Market Value equal to the taxes that the Company determines it or the Employer is required to withhold under applicable tax laws with respect to the RSUs (with such withholding obligation determined based on any applicable minimum statutory withholding rates). In the event the Company cannot (under applicable legal, regulatory, listing or other requirements, or otherwise) satisfy such tax withholding obligation in such method, the Company may satisfy such withholding by any one or combination of the following methods: (i) by requiring the Grantee to pay such amount in cash or check; (ii) by deducting such amount out of any other compensation otherwise payable to the Grantee; and/or (iii) by allowing the Grantee to surrender shares of Common Stock of the Company which (a) in the case of shares initially acquired from the Company (upon exercise of a stock option or otherwise), have been owned by the Grantee for such period (if any) as may be required to avoid a charge to the Company's earnings, and (b) have a Fair Market Value on the date of surrender equal to the amount required to be withheld. For these purposes, the Fair Market Value of the Shares to be withheld or repurchased, as applicable, shall be determined on the date that the amount of tax to be withheld is to be determined.

Section 3. Miscellaneous

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

(b) *No Right to Continued Employment.* Nothing in the Plan or in this Agreement shall confer upon the Grantee any right to continue in the employ of the Company, a Parent or any Subsidiary or shall interfere with or restrict in any way the right of the Company, Parent or any Subsidiary, which is hereby expressly reserved, to remove, terminate or discharge the Grantee at any time for any reason whatsoever, with or without Cause and with or without advance notice.

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

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

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

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

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

(h) *Entire Agreement.* This Agreement and the Plan (together with the Offer Letter to the extent referred to herein) contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and therein and supersede all prior communications, representations and negotiations in respect thereto.

(i) *Governing Law.* This Agreement and the rights of the Grantee hereunder shall be construed and determined in accordance with the laws of the State of Delaware.

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

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

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

By Grantee’s signature and the signature of the Company’s representative below, or by Grantee’s acceptance of this Award through the Company’s online acceptance procedure, this Agreement shall be deemed to have been executed and delivered by the parties hereto as of the Date of Grant.

YAHOO! INC.

By: _____
Its: _____

MARISSA A. MAYER

Signature: _____

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

I, Marissa A. Mayer, certify that:

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

Dated: August 9, 2012

By: /s/ MARISSA A. MAYER
Marissa A. Mayer
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: August 9, 2012

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 June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marissa A. Mayer, as Chief Executive Officer of the Company, and 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/ MARISSA A. MAYER

Name: Marissa A. Mayer
Title: Chief Executive Officer
Dated: August 9, 2012

/s/ TIMOTHY R. MORSE

Name: Timothy R. Morse
Title: Chief Financial Officer
Dated: August 9, 2012

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.