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

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from to

Commission File Number 0-28018

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

Delaware (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)

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o 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 November 1, 2005
Common stock, $0.001 par value	1,418,736,194

YAHOO! INC.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.

Condensed Consolidated Statements of Operations
(unaudited, in thousands except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Revenues	$906,715	$1,329,929	$2,496,800	$3,756,668
Cost of revenues	332,333	520,238	911,421	1,459,433
Gross profit	574,382	809,691	1,585,379	2,297,235
Operating expenses:				
Sales and marketing	192,950	265,714	551,120	742,639
Product development	97,033	141,616	261,162	386,509
General and administrative	69,215	77,733	189,930	232,708
Stock compensation expense*	6,111	13,524	25,823	33,938
Amortization of intangibles	36,968	41,047	103,588	122,664
Total operating expenses	402,277	539,634	1,131,623	1,518,458
Income from operations	172,105	270,057	453,756	778,777
Other income, net	123,281	65,995	150,838	1,095,725
Income before income taxes, earnings in equity interests and minority interests	295,386	336,052	604,594	1,874,502
Provision for income taxes	(67,117)	(113,797)	(204,343)	(750,087)
Earnings in equity interests	25,696	32,164	69,672	94,647
Minority interests in operations of consolidated subsidiaries	(660)	(646)	(2,894)	(6,040)
Net income	$253,305	$253,773	$467,029	$1,213,022
Net income per share—basic	$0.19	$0.18	$0.35	$0.87
Net income per share—diluted	$0.17	$0.17	$0.32	$0.82
Shares used in per share calculation—basic	1,361,136	1,405,012	1,345,583	1,395,188
Shares used in per share calculation—diluted	1,458,610	1,486,876	1,444,955	1,482,739
*Stock compensation expense by function:				
Sales and marketing	$1,731	$2,278	$7,712	$5,277
Product development	2,371	6,817	9,642	13,820
General and administrative	2,009	4,429	8,469	14,841
Total stock compensation expense	$6,111	$13,524	$25,823	$33,938

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

YAHOO! INC.

Condensed Consolidated Balance Sheets
(unaudited, in thousands, except par values)

	December 31, 2004	September 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$823,723	$2,027,003
Marketable debt securities	1,875,964	1,156,688
Marketable equity securities	812,288	—
Accounts receivable, net	479,993	599,129
Prepaid expenses and other current assets	98,507	179,875
Total current assets	4,090,475	3,962,695
Long-term marketable debt securities	1,042,575	1,579,930
Property and equipment, net	531,696	623,050
Goodwill	2,550,957	2,564,073
Intangible assets, net	480,666	451,018
Other assets	481,832	362,856
Total assets	$9,178,201	$9,543,622
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$48,205	$38,879
Accrued expenses and other current liabilities	853,115	739,813
Deferred revenue	279,387	324,039
Total current liabilities	1,180,707	1,102,731
Long-term deferred revenue	65,875	63,811
Long-term debt	750,000	749,995
Other long-term liabilities	35,907	87,694
Minority interests in consolidated subsidiaries	44,266	51,961
Stockholders' equity:		
Common Stock, $0.001 par value; 5,000,000 shares authorized; 1,383,584 and 1,407,691 issued and outstanding, respectively	1,416	1,447
Additional paid-in capital	5,682,884	5,891,433
Deferred stock-based compensation	(28,541)	(142,999)
Treasury stock	(159,988)	(533,340)
Retained earnings	1,069,939	2,282,961
Accumulated other comprehensive income (loss)	535,736	(12,072)
Total stockholders' equity	7,101,446	7,487,430
Total liabilities and stockholders' equity	$9,178,201	$9,543,622

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Nine Months Ended	
	September 30, 2004	September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$467,029	$1,213,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	225,108	285,909
Tax benefits from stock options	177,266	723,748
Earnings in equity interests	(69,672)	(94,647)
Dividends received	—	10,670
Minority interests in operations of consolidated subsidiaries	2,894	6,040
Stock compensation expense	25,823	33,938
Gains from sales of investments, assets, and other, net	(91,067)	(976,738)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(83,288)	(128,921)
Prepaid expenses and other assets	(6,434)	7,736
Accounts payable	(899)	(5,354)
Accrued expenses and other liabilities	83,561	111,396
Deferred revenue	22,780	43,242
Net cash provided by operating activities	753,101	1,230,041
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(160,132)	(257,294)
Purchases of marketable debt securities	(2,157,888)	(6,632,419)
Proceeds from sales and maturities of marketable debt securities	1,865,276	6,789,521

Acquisitions, net of cash acquired	(608,525)	(127,463)
Proceeds from sales of marketable equity securities	192,780	1,006,142
Other investing activities, net	14,986	(39,030)
Net cash provided by (used in) investing activities	(853,503)	739,457
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	423,591	377,751
Repurchases of common stock	—	(373,352)
Structured stock repurchases, net	(95,907)	(752,717)
Other financing activities, net	—	1,749
Net cash provided by (used in) financing activities	327,684	(746,569)
Effect of exchange rate changes on cash and cash equivalents	6,764	(19,649)
Net change in cash and cash equivalents	234,046	1,203,280
Cash and cash equivalents at beginning of period	415,892	823,723
Cash and cash equivalents at end of period	$649,938	$2,027,003

YAHOO! INC.

Supplemental schedule:

Acquisition-related activities (in thousands):

	Nine Months Ended	
	September 30, 2004	September 30, 2005
Cash paid for acquisitions	$656,014	$128,592
Cash acquired in acquisitions	(47,489)	(1,129)
	$608,525	$127,463
Common stock, restricted stock and stock options issued in connection with acquisitions	$3,384	$44,381

See Note 3—“Acquisitions” for additional information.

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

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

Note 1—The Company and Summary of Significant Accounting Policies

The Company. Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo!” or the “Company”) is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo! seeks to provide Internet services that are essential and relevant to users and businesses through the provision of online properties (collectively referred to as the “Yahoo! Network”) to Internet users and a range of tools and marketing solutions for businesses to market to that community of users.

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

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but are less than majority owned and not otherwise controlled by the Company, are accounted for under the equity method and are included in other assets on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing dates of the acquisitions.

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 period.

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, the useful lives of long-lived assets including property and equipment, investment fair values, goodwill and other intangible assets, income taxes and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to estimate the fair value of stock options granted for pro forma disclosure purposes. 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.

Certain prior period balances have been reclassified to conform to the current year presentation. A new subtotal is being presented in the consolidated statement of operations: Income before income taxes, earnings in equity interests, and minority interests. Earnings in equity interests and minority interests in operations of consolidated subsidiaries are now presented below the provision for income taxes. In accordance with generally accepted accounting principles, these items have consistently been presented net of income taxes. In addition, beginning in the fourth quarter of 2004, the Company made reclassifications in the consolidated balance sheets and consolidated cash flow statements related to the classification of auction rate securities. Certain of these securities were included in the cash and cash equivalents lines in prior periods. These amounts have been reclassified to short term marketable debt securities. The reclassification resulted in an increase of $16 million in previously reported net cash used in investing activities and a decrease of $16 million in the previously reported net change in cash and cash equivalents for the nine months ended September 30, 2004. The increase of $16 million in cash used in investing activities is the result of an increase of $979 million in purchases of marketable debt securities and an increase of $963 million in proceeds from sales and maturities of marketable debt securities.

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, 2004.

Stock-Based Compensation. The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. The Company recorded compensation expense of $6 million and $14 million in the three months ended September 30, 2004 and 2005, respectively. The Company recorded compensation expense of $26 million and $34 million in the nine months ended September 30, 2004 and 2005 respectively. If the fair value based method had been applied in measuring stock compensation expense, the pro forma effect on net income and net income per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Net income:				
As reported	$253,305	$253,773	$467,029	$1,213,022
Add: Stock compensation expense included in reported net income, net of related tax effects	3,667	8,114	15,494	20,363
Less: Stock compensation expense determined under fair value based method for all awards, net of related tax effects*	(53,252)	(58,570)	(175,750)	(172,764)
Pro forma net income	$203,720	$203,317	$306,773	$1,060,621
Net income per share:				
As reported - basic	$0.19	$0.18	$0.35	$0.87
As reported - diluted	$0.17	$0.17	$0.32	$0.82
Pro forma - basic	$0.15	$0.14	$0.23	$0.76
Pro forma - diluted	$0.14	$0.14	$0.21	$0.71

* For the three and nine months ended September 30, 2004, the stock compensation expense amount has been adjusted to reflect lower calculated fair values for employee stock options which resulted in an increase of $7 million ($0.01 per share – basic and diluted) and $17 million ($0.01 per share – basic and diluted), respectively, in pro forma net income. The adjustment was required as the Company's estimate of the fair value of employee stock options was incorrectly based on a five-and-one-half year expected life rather than the three-and-one-half year expected life intended by management.

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

See "Recent Accounting Pronouncements" below regarding the impact of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS 123R").

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123R, which requires companies to recognize in the statement of operations all share-based payments to employees, including grants of employee stock options, based on their fair values. Accounting for share-based compensation transactions using the intrinsic method supplemented by pro forma disclosures will no longer be permissible. The new statement will be effective for public entities no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt the new statement on January 1, 2006. The Company has not yet completed its analysis of the impact of adopting SFAS 123R and is therefore currently unable to quantify the effect on its financial statements. However, the adoption of this new statement will have a significant impact on the results of operations and net income per share of the Company as the Company will be required to expense the fair value of all share-based payments.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. The Company does not believe adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

Note 2—Basic and Diluted Net Income Per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period, excluding any unvested restricted stock that is subject to repurchase. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of unvested restricted stock (using the treasury stock method), the incremental common shares issuable upon the exercise of stock options (using the treasury stock method) and the conversion of the Company's zero coupon senior convertible notes (using the if-converted method). For the three months ended September 30, 2004 and 2005, approximately 45 million and 67 million options to purchase common stock, respectively, were excluded from the calculation, as their exercise prices were greater than the average market price of the common stock during the periods. For the nine months ended September 30, 2004 and 2005, approximately 62 million options to purchase common stock were excluded from the calculations, as their exercise prices were greater than the average market price of the common stock during the periods. See Note 8—"Long-Term Debt" for additional information related to the Company's zero coupon senior convertible notes.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Numerator:				
Net income	$253,305	$253,773	$467,029	$1,213,022
Denominator:				
Weighted average common shares	1,361,652	1,409,065	1,346,047	1,398,276
Weighted average unvested restricted stock subject to repurchase	(516)	(4,053)	(464)	(3,088)
Denominator for basic calculation	1,361,136	1,405,012	1,345,583	1,395,188
Weighted average effect of dilutive securities:				
Employee stock options	60,611	44,643	62,621	50,189
Convertible notes	36,585	36,585	36,585	36,585
Restricted stock	278	636	166	777
Denominator for diluted calculation	1,458,610	1,486,876	1,444,955	1,482,739
Net income per share - basic	$0.19	$0.18	$0.35	$0.87
Net income per share - diluted	$0.17	$0.17	$0.32	$0.82

Note 3—Acquisitions

Acquisitions completed in 2004

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

The total purchase price of approximately $95 million consisted of $92 million in cash consideration, including $41 million related to a contingent earnout, which was finalized and paid in the three months ended June 30, 2005, $2 million related to stock options exchanged, and direct transaction costs of $1 million. The total cash consideration of approximately $92 million less cash acquired of $7 million resulted in a net cash outlay of $85 million.

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

Cash acquired	$6,917
Other tangible assets acquired	4,498
Amortizable intangible assets:	
Trade name, trademark, and domain name	1,000
Customer, affiliate, and advertiser related relationships	7,600
Developed technology and patents	3,800
Goodwill	80,957
Total assets acquired	104,772
Liabilities assumed	(11,186)
Deferred stock-based compensation	1,757
Total	$95,343

The amortizable intangible assets have useful lives not exceeding five years. No amount has been allocated to in-process research and development, and $81 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes.

Kelkoo. On April 5, 2004, the Company completed the acquisition of a majority interest in Kelkoo S.A. ("Kelkoo"), a leading European online comparison shopping service. In July 2004, the Company completed the acquisition of additional interests in Kelkoo, increasing the Company's total ownership interest in Kelkoo to 100 percent. The acquisition expanded the Company's global commerce presence and together with the Company's current services is expected to increase the Company's competitive position in Europe. These factors contributed to a purchase price in excess of the fair value of Kelkoo's net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with this transaction.

The total purchase price of approximately $571 million consisted of $562 million in cash consideration, $6 million in incurred liabilities and direct transaction costs of $3 million. The total cash consideration of approximately $562 million less cash acquired of $39 million resulted in a net cash outlay of $523 million.

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

Cash acquired	$38,817
Other tangible assets acquired	24,068
Amortizable intangible assets:	
Trade name, trademark, and domain name	61,300
Customer, affiliate, and advertiser related relationships	36,100
Developed technology and patents	9,100
Goodwill	453,555
Total assets acquired	622,940
Liabilities assumed	(51,832)
Total	$571,108

The amortizable intangible assets have useful lives not exceeding five years. No amount has been allocated to in-process research and development, and $454 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes.

Musicmatch. On October 18, 2004, the Company completed the acquisition of Musicmatch, Inc. ("Musicmatch"), a leading provider of personalized music software and services. The acquisition significantly increased the Company's presence in the digital music business and together with the Company's current music services, Yahoo! Music, is expected to provide one of the most comprehensive suites of music services available for users, marketers, artists and record labels. These factors contributed to a purchase price in excess of the fair value of Musicmatch's net tangible and intangible assets acquired, and as a result, the Company has recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $158 million consisted of $156 million in cash consideration, and direct transaction costs of $2 million. The approximate $156 million of total cash consideration less cash acquired of $3 million resulted in a net cash outlay of $153 million.

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

Cash acquired	$2,516
Other tangible assets acquired	8,591
Amortizable intangible assets:	
Developed technology and patents	18,100
Customer contracts and related relationships	1,700
Trade name, trademark and domain name	1,100
Goodwill	170,984
Total assets acquired	202,991
Liabilities assumed	(45,317)
Total	$157,674

The amortizable intangible assets have useful lives not exceeding 3 years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $171 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired, and is not deductible for tax purposes. The preliminary purchase price allocation for Musicmatch is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities becomes available. Any changes in the fair value of the net assets of Musicmatch will change the amount of the purchase price allocable to goodwill.

Other Acquisitions. During the year ended December 31, 2004 the Company acquired three other companies which were each accounted for as business combinations. The total purchase price for these three acquisitions was approximately $49 million and consisted of $46 million in cash consideration, $2 million related to stock options exchanged and $1 million of direct transaction costs. The total cash consideration of $46 million less cash acquired of $2 million resulted in a net cash outlay of $44 million. Of the purchase price, approximately $41 million was allocated to goodwill, $14 million to amortizable intangible assets and $6 million to net assumed liabilities. No amounts have been allocated to in-process research and development. 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.

Acquisitions completed in 2005

During the three months ended March 31, 2005 the Company acquired Verdisoft Corporation ("Verdisoft"), a software development company. The acquisition of Verdisoft enhanced the Company's platform for delivering content and services to mobile phones and other handheld devices as part of the Company's strategy to provide users with seamless access to its network. The transaction was treated as an asset acquisition for accounting purposes and therefore no goodwill was recorded. The estimated purchase price was approximately $58 million and consisted of $54 million in cash consideration, $3 million related to stock options exchanged and $1 million of direct transaction costs. In connection with the acquisition, the Company also issued approximately 1 million shares of restricted stock valued at $35 million that will be recognized as expense over three years. For accounting purposes, approximately $93 million was allocated to amortizable intangible assets, with lives not exceeding three years, $37 million to liabilities, primarily deferred income tax liabilities, and $2 million to deferred stock-based compensation.

During the three months ended June 30, 2005 the Company acquired three companies which were each accounted for as business combinations. The total estimated purchase price for the three acquisitions was approximately $37 million and consisted of $32 million in cash consideration, $3 million related to stock options exchanged, and $2 million of incurred liabilities and direct transaction costs. The total cash consideration of approximately $32 million less cash acquired of $1 million resulted in a net cash outlay of $31 million. Of the total estimated purchase price, approximately $32 million was allocated to goodwill, $6 million to amortizable intangible assets and $1 million to net assumed liabilities. Less than $1 million has been allocated to in-process research and development and recorded in product development expenses. 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 purchase price allocations for these acquisitions are preliminary and subject to revision as more detailed analyses are completed and additional information on the fair value of assets and liabilities becomes available. Any change in the fair value of the net assets of the acquired companies will change the amount of the purchase price allocable to goodwill.

Pro forma results of operations have not been presented for the acquisitions completed during the nine months ended September 30, 2004 or September 30, 2005 as the results of the acquired companies either individually or in the aggregate were not material to the Company.

Note 4—Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2005 are as follows (in thousands):

	United States	International	Total
Balance as of January 1, 2005	$1,673,419	$877,538	$2,550,957
Acquisitions and other*	30,864	21,283	52,147
Foreign currency translation adjustments	—	(39,031)	(39,031)
Balance as of September 30, 2005	$1,704,283	$859,790	$2,564,073

* Other primarily includes certain purchase price adjustments that affect existing goodwill.

Note 5—Intangible Assets, Net

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

	December 31, 2004	September 30, 2005		
	Net	Gross carrying amount	Accumulated amortization*	Net
Trademark, trade name and domain name	$103,796	$134,000	$(51,732)	$82,268
Customer, affiliate, and advertiser related relationships	205,032	323,062	(166,363)	156,699
Developed technology and patents	171,838	311,146	(99,095)	212,051
Total intangible assets, net	$480,666	$768,208	$(317,190)	$451,018

* Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately $2 million as of September 30, 2005.

The Company recognized amortization expense for intangible assets of approximately $37 million and $41 million for the three months ended September 30, 2004 and 2005, respectively. The Company recognized amortization expense for intangible assets of approximately $104 million and $123 million for the nine months ended September 30, 2004 and 2005, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows: three months ending December 31, 2005: $41 million; 2006: $171 million; 2007: $126 million; 2008: $76 million, and 2009: $24 million and 2010: $13 million.

Note 6—Other Income, Net

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Interest and investment income	$14,962	$37,676	$40,978	$88,548
Investment gains (losses), net	110,268	26,948	107,780	995,231
Other	(1,949)	1,371	2,080	11,946
Total other income, net	$123,281	$65,995	$150,838	$1,095,725

Investment gains (losses), net include realized investment gains, realized investment losses, realized gains on derivatives, and impairment charges related to declines in values of privately held companies judged to be other than temporary. Investment gains (losses) include gains in the amounts of $105 million in the three and nine months ended September 30, 2004 and $27 million and $987 million in the three and nine months ended September 30, 2005, respectively, related to the sale of non-strategic marketable equity security investments.

Note 7—Comprehensive Income

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Net income	$253,305	$253,773	$467,029	$1,213,022
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on available-for-sale securities before tax, net of reclassification adjustments	760,488	(52,641)	740,958	(824,790)
Tax impact of change in net unrealized gains (losses)	(304,205)	21,057	(296,387)	329,915
Change in net unrealized gains (losses) on available-for-sale securities, net of tax and reclassification adjustments	456,283	(31,584)	444,571	(494,875)
Foreign currency translation adjustment	9,893	(3,942)	(2,366)	(52,933)
Other comprehensive income (loss)	466,176	(35,526)	442,205	(547,808)
Comprehensive income	$719,481	$218,247	$909,234	$665,214

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

	December 31, 2004	September 30, 2005
Unrealized gains (losses) on available-for-sale securities, net of tax	$475,314	$(19,561)
Cumulative foreign currency translation adjustment	60,422	7,489
Accumulated other comprehensive income (loss)	$535,736	$(12,072)

Note 8—Long-Term Debt

In April 2003, the Company issued $750 million of zero coupon senior convertible notes (the "Notes") due April 2008, which resulted in net proceeds to the Company of approximately $733 million after transaction fees of $17 million, which have been deferred and are included on the condensed consolidated balance sheets in other assets. As of September 30, 2005, $9 million of the transaction fees remain to be amortized. The Notes were issued at par and bear no interest. The Notes are convertible into Yahoo! common stock at a conversion price of $20.50 per share, which would result in the issuance of an aggregate of approximately 37 million shares, subject to adjustment upon the occurrence of specified events. Each $1,000 principal amount of the Notes will initially be convertible into 48.78 shares of Yahoo! common stock.

The Notes are convertible prior to the final maturity date (1) during any fiscal quarter if the closing sale price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the immediately preceding fiscal quarter exceeded 110 percent of the conversion price on that 30th trading day, (2) during the period beginning January 1, 2008 through the maturity date, if the closing sale price of the Company's common stock on the previous trading day was 110 percent or more of the then current conversion price, and (3) upon specified corporate transactions. Upon conversion, the Company has the right to deliver cash in lieu of common stock. The Company may be required to repurchase all of the Notes following a fundamental change of the Company, such as a change of control, prior to maturity at face value. The Company may not redeem the Notes prior to their maturity.

As of September 30, 2005, the market price condition for convertibility of the Notes was satisfied with respect to the fiscal quarter beginning October 1, 2005 and ending on December 31, 2005. During this period holders of the Notes will be able to convert their Notes into shares of Yahoo! common stock at the rate of 48.78 shares of Yahoo! common stock for each Note. The Notes will also be convertible into shares of Yahoo! common stock in subsequent fiscal quarters, if any, with respect to which the market price condition for convertibility is met.

As of September 30, 2005, the fair value of the Notes was approximately $1.2 billion based on quoted market prices. The shares issuable upon conversion of the Notes have been included in the computation of diluted net income per share since the Notes were issued.

Note 9—Stock Repurchase Programs

In March 2001, the Company's Board of Directors authorized the Company to repurchase up to $500 million of its outstanding shares of common stock from time to time over the next two years, depending on market conditions, share price and other factors. In March 2003, the Company's Board of Directors authorized a two-year extension of the stock repurchase program until March 2005. Under this program, from March 2001 through December 31, 2004, the Company repurchased 32.9 million shares of common stock at an average price of $4.86 per share for a total amount of approximately $160 million. During this period, of the shares repurchased, 32.1 million shares were purchased from SOFTBANK Corp. ("SOFTBANK") at an average price of $4.84 per share. During the three months ended March 31, 2005, the Company repurchased an additional 4.9 million shares in the open market, at an average price of $33.60 per share, for total consideration of $165 million. This stock repurchase program has expired.

In March 2005, the Company's Board of Directors authorized a new stock repurchase program for the Company to repurchase up to $3 billion of its outstanding shares of common stock from time to time over the next five years, depending on market conditions, share price and other factors. Under this program in the three months ended September 30, 2005 the Company repurchased 6.3 million shares of common stock at an average price of $32.89 per share, for total consideration of $208 million. For the nine months ended September 30, 2005 under the expired and current stock repurchase programs, the

Company repurchased 11.2 million shares of common stock at an average price of $33.20 per share for a total amount of $373 million. Treasury stock is accounted for under the cost method.

In August 2004, the Company entered into a $100 million structured stock repurchase transaction which matured in four separate tranches through March 31, 2005. One of the four $25 million tranches matured and settled in December 2004. During the six months ended June 30, 2005, each of the three remaining $25 million tranches settled resulting in the Company receiving $82 million in cash.

In February 2005, the Company entered into $150 million in structured stock repurchase transactions which matured in three separate tranches through August 2005. One of the three $50 million tranches matured and settled in the three months ended June 30, 2005 resulting in the Company receiving $53 million in cash. Both of the remaining $50 million tranches matured and settled in the three months ended September 30, 2005 resulting in the Company receiving $107 million in cash.

In April 2005, the Company entered into $500 million in structured stock repurchase transactions which mature in three separate tranches through October 2005. A $150 million tranche matured and settled in the three months ended June 30, 2005 resulting in the Company receiving $156 million in cash. The remaining two tranches will mature in October 2005. On each of the remaining maturity dates, if the market price of Yahoo! common stock is at or above $35.11 for both the $150 million and $200 million tranches, the Company will have its investments returned with a premium. If the market price is below $35.11, the Company will repurchase up to an aggregate of 11.0 million shares of its common stock.

In July 2005, the Company entered into $500 million in structured stock repurchase transactions which will mature in two separate tranches in January 2006 and April 2006. On each of the maturity dates, if the market price of Yahoo! common stock is at or above $33.98 for the $250 million tranche maturing in January 2006 and $33.99 for the $250 million tranche maturing in April 2006, the Company will have its investment returned with a premium. If the market price of the Company's common stock is below such pre-determined prices, the Company will repurchase up to an aggregate of 16.3 million shares of its common stock.

The outstanding structured stock repurchase transactions as of the balance sheet dates are recorded in stockholders' equity on the consolidated balance sheets.

Note 10—Commitments and Contingencies

Operating Leases. The Company has entered into various non-cancelable operating lease agreements for offices and facilities globally, for original lease periods up to 23 years and expiring between 2005 and 2027.

Net lease commitments as of September 30, 2005 can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Three months ending December 31, 2005	$17	$(2)	$15
Years ending December 31,			
2006	70	(4)	66
2007	76	—	76
2008	81	—	81
2009	78	(1)	77
2010	68	(1)	67
Due after 5 years	389	(1)	388
Total net lease commitments	$779	$(9)	$770

Affiliate Commitments. In connection with contracts to provide sponsored search services to affiliates, the Company is obligated to make payments, which represent traffic acquisition costs, to its affiliates. As of September 30, 2005, the commitments total $293 million of which $64 million will be payable in the remainder of 2005, $214 million will be payable in 2006 and $15 million will be payable in 2007.

Other Commitments. In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company has also agreed to indemnify certain former officers, directors and employees of acquired companies in connection with the acquisition of such companies. The Company maintains 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 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 may not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its condensed consolidated financial statements.

On April 21, 2003, Overture Services Inc. ("Overture") completed its purchase of the Web Search unit of Fast Search and Transfer ASA, a Norway based developer of search and real-time filtering technologies, for $70 million in cash, plus a contingent earn-out payment of up to $30 million over three years based on specified operating criteria.

As of September 30, 2005, 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.

Contingencies. From time to time, third parties assert patent infringement claims against the Company. Currently, the Company is engaged in several lawsuits regarding patent issues and has been notified of a number of other potential patent disputes.

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

In October 2000, 800-JR-Cigar, Inc. filed a complaint in the United States District Court for the District of New Jersey against Overture, a wholly-owned subsidiary of the Company acquired in October 2003. The plaintiff in this case, and in certain other cases which have been brought against Overture in the past, claims, among other things, that it has trademark rights in certain search terms and that Overture violates these rights by allowing its advertisers to bid on these search terms. The complaints seek injunctive relief and damages. The Company and Overture believe that Overture has meritorious defenses to liability and damages and are contesting the lawsuit vigorously. In August 2003, Accor filed a similar complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture's wholly-owned subsidiary in France. On January 17, 2005, the Nanterre District Court ruled in favor of Accor and found Overture and Overture S.A.R.L. liable for trademark infringement. Overture S.A.R.L. and Overture have appealed this decision.

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

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court for the Southern District of New York against certain underwriters involved in Overture's initial public offering, Overture, and certain of Overture's current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint, alleging Rule 10b-5 claims of fraud. On July 15, 2002, the issuers filed a motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the Rule 10b-5 claims against certain defendants, including Overture. On August 31 2005, the Court entered an

order confirming its preliminary approval of a settlement proposal made by plaintiffs, which includes settlement of, and release of claims against, the issuer defendants, including Overture. A hearing on the fairness of the settlement to the shareholder class is currently set for April 24, 2006. If the settlement does not occur, and litigation against Overture continues, the Company and Overture believe that Overture has meritorious defenses to liability and damages and will continue to defend the case vigorously.

On or about February 4, 2004, a shareholder derivative action was filed in the Court of Chancery of the State of Delaware in and for New Castle County, against the Company (as nominal defendant) and certain of the Company's current and former officers and directors (the "Derivative Defendants"). Two similar shareholder derivative actions were filed in the California Superior Court for the County of San Mateo on February 13, 2004. The complaints generally alleged breaches of fiduciary duties by the Derivative Defendants related to the alleged purchase of shares in initial public offerings or the alleged acquiescence in such conduct and sought unspecified monetary damages and other relief purportedly on behalf of the Company from the Derivative Defendants. The action in Delaware was dismissed by the Delaware Court of Chancery, and the dismissal has been affirmed by the Delaware Supreme Court. The actions in California were dismissed by the California Superior Court on September 13, 2005.

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

Note 11—Segments

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Revenues by segment:				
United States	$654,985	$922,860	$1,878,417	$2,611,103
International	251,730	407,069	618,383	1,145,565
Total revenues	$906,715	$1,329,929	$2,496,800	$3,756,668
Segment operating income before depreciation and amortization:				
United States	$223,260	$306,031	$612,879	$867,690
International	36,444	79,091	91,808	230,934
Total segment operating income before depreciation and amortization	259,704	385,122	704,687	1,098,624
Depreciation and amortization	(81,488)	(101,541)	(225,108)	(285,909)
Stock compensation expense	(6,111)	(13,524)	(25,823)	(33,938)
Income from operations	$172,105	$270,057	$453,756	$778,777
Capital expenditures, net:				
United States	$47,757	$73,275	$126,039	$210,209
International	17,987	22,219	34,093	47,085
Total capital expenditures, net	$65,744	$95,494	$160,132	$257,294

	December 31, 2004	September 30, 2005
Property and equipment, net:		
United States	$461,623	$537,296
International	70,073	85,754
Total property and equipment, net	$531,696	$623,050

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues in the three and nine months ended September 30, 2004 and 2005.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005
Marketing services	$796,568	$1,159,572	$2,184,319	$3,278,669
Fees	110,147	170,357	312,481	477,999
Total revenues	$906,715	$1,329,929	$2,496,800	$3,756,668

* In the three and nine months ended September 30, 2004, Fees revenue includes certain revenue previously classified as Marketing services revenues of $6 million and $16 million, respectively. This reclassification was done to refine the alignment of revenue sources within these classifications of revenue.

Note 12—Related Party Transactions

The Company and other third parties are limited partners in Softbank Capital Partners LP ("Softbank Capital"), a venture capital fund which is an affiliate of SOFTBANK. A Managing Partner of Softbank Capital is also a member of the Company's Board of Directors. The total investment by the Company in Softbank Capital is approximately $36 million and represents less than a 5% holding in Softbank Capital. A significant portion of this investment has been impaired by the Company, with the remaining value included on the condensed consolidated balance sheets in other assets. Pursuant to the Partnership Agreement, the Company invested on the same terms and on the same basis as all other limited partners.

The Company has a joint venture with SOFTBANK in Japan ("Yahoo! Japan"). The Company has a 34 percent ownership in Yahoo! Japan and accordingly this investment is being accounted for using the equity method. The Company records its share of the results of Yahoo! Japan one quarter in arrears within earnings in equity interests. During the three months ended June 30, 2005, the Company received a cash dividend in the amount of $11 million from Yahoo! Japan which was recorded as a reduction in the Company's investment in Yahoo! Japan.

The Company has commercial arrangements with Yahoo! Japan including algorithmic search services, sponsored search services and the related traffic acquisition costs, and license fees. The net cost of these arrangements was approximately $22 million and $49 million for the three months ended September 30, 2004 and 2005, respectively. The net cost of these arrangements was approximately $42 million and $121 million for the nine months ended September 30, 2004 and 2005, respectively.

Note 13—Subsequent Events

Alibaba Investment. On October 23, 2005, the Company acquired an approximate 46 percent interest in the outstanding common stock of Alibaba.com Corporation, ("Alibaba") which represents an approximate 40 percent interest on a fully diluted basis, in exchange for $1 billion in cash, the contribution of the Company's China based businesses ("Yahoo! China") and direct transaction costs of $8 million. Pursuant to the terms of a shareholders agreement, the Company has an approximate 35 percent voting interest in Alibaba, with the remainder of its voting rights subject to a voting agreement with Alibaba management.

The Company will account for this investment using the equity method of accounting and the total investment, including identifiable intangible assets, deferred tax liabilities and goodwill will be classified as a long-term investment on the Company's consolidated balance sheets. Following the acquisition date, the Company's consolidated financial results will include its share of the results of Alibaba, together with amortization expense relating to any acquired intangible assets identified. The Company will record its share of the results of Alibaba, and any related amortization expense, one quarter in arrears within earnings in equity interests. Following the acquisition date, Yahoo! China will no longer be consolidated in the Company's results but included within earnings in equity interests to the extent of the Company's continued ownership interest in Alibaba. The revenues and operating income of Yahoo! China were not material to the consolidated results of the Company for the year ended December 31, 2004 and the nine months ended September 30, 2005. In connection with the transaction, the Company also expects to record a non-cash gain based on the difference between Yahoo! China's fair value and its carrying value, adjusted for the Company's continued ownership interest in the newly combined entity. The Company currently estimates a non-cash pre-tax gain of $300 - $350 million in the fourth quarter of 2005.

Structured Stock Repurchase. In October and November 2005, the Company received $386 million in cash from the settlement of two structured stock repurchase transactions totaling $350 million that were entered into in April 2005.

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 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 statements regarding our:

- expectations about revenues for marketing services and fees;
- expectations about costs of revenues, operating costs and expenses;
- anticipated capital expenditures;
- evaluation of possible acquisitions of, or investments in, businesses, products and technologies; and
- expectations about positive cash flow generation and existing cash 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 under the heading "Risk Factors" and elsewhere in 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

We are a leading global Internet brand and one of the most trafficked Internet destinations worldwide. We seek to provide Internet services that are essential and relevant to users and businesses through the provision of the Yahoo! Network to Internet users and a range of tools and marketing solutions for businesses to market to that community of users.

We seek to leverage the power of the Yahoo! Network to create the most innovative and highest quality Internet services for users, and to provide the most efficient and effective marketing services for businesses to reach these users. Our focus is to increase our user base and to achieve deeper engagement of our users on the Yahoo! Network thereby enhancing the value of that user base and increasing the spending by our advertisers.

We are also focused on extending our marketing platform and access to Internet users beyond the Yahoo! Network through our distribution network of affiliates who have integrated our sponsored search offerings into their websites.

Many of our services are free to our users. We generate revenues by providing marketing services to businesses across the majority of our properties and by establishing paying relationships with our users for premium services. We classify these revenues as either Marketing Services or Fees. Our offerings to users and businesses currently fall into three categories—Search and Marketplace; Information and Content; and Communications and Consumer Services. The majority of our offerings are available globally. We manage and measure our business geographically; our principal geographies being the United States and International.

Operating Highlights (in thousands)	Nine Months Ended September 30, 2004	2005	2004-2005 Change
Revenues	$2,496,800	$3,756,668	$1,259,868
Income from operations	$453,756	$778,777	$325,021
Net cash provided by operating activities	$753,101	$1,230,041	$476,940
Net cash provided by (used in) investing activities	$(853,503)	$739,457	$1,592,960
Net cash provided by (used in) financing activities	$327,684	$(746,569)	$(1,074,253)

During the first year of owning a significant acquired company, our practice has been to disaggregate the results and disclose any material impact on our revenues and expenses separately. As a result, until the first anniversary of the acquisition date, the revenues and expenses of our acquired businesses are described as "acquisition related" in the discussion that follows. Thereafter the underlying results of these acquisitions are considered part of our organic base. Our historical financial statements reflect the impact of these acquired businesses from their respective dates of acquisition and the discussion of our results of operations that follows explains the impact of these acquisitions, if any, on our consolidated results to provide information that will assist in understanding the changes in the periods presented. Our year over year reported growth rates, calculated on a consolidated basis, include the impact from acquisitions. Excluding the impact from acquisitions, our growth rates would be lower.

Our revenue growth in the nine months ended September 30, 2005 over the same period of 2004 can be attributed to an expanding user base and from increased user activity levels across our offerings on the Yahoo! Network. The growth in our engaged audience in terms of the number of users and activity levels on our properties have attracted more advertisers to our advertising services and resulted in an increase in our revenues. In addition, the average spending per advertiser has also increased which further explains the revenue growth over the prior period.

Cash generated from our operations is a measure of the cash productivity of our business model and is an area of focus for us. The growth of cash flow from operations is primarily a function of our increasing net income as well as net changes in our working capital balances that provided a source of cash. As of September 30, 2005, we had cash, cash equivalents and marketable debt securities totaling $4,764 million, an increase of $1,022 million compared to $3,742 million as of December 31, 2004. The principal components of the increase in cash, cash equivalents and marketable debt securities were cash generated from operating activities of $1,230 million, proceeds of $1,006 million from the sale of non-strategic marketable equity security investments, proceeds of $378 million from the exercise of employee stock options, offset by net cash used in structured stock repurchase activities of $753 million, $373 million used for direct share repurchases, $127 million used for acquisitions and $257 million used for net capital expenditures.

During the three and nine months ended September 30, 2005, we recorded gains of $27 million and $987 million, respectively, related to the sale of non-strategic marketable equity security investments. These gains have been included in other income, net on the condensed consolidated statements of operations.

On October 23, 2005, we acquired an approximate 46 percent interest in the outstanding common stock of Alibaba which represents an approximate 40 percent interest on a fully diluted basis, in exchange for $1 billion in cash, the contribution of Yahoo! China and direct transaction costs of $8 million. Pursuant to the terms of a shareholders agreement, we have an approximate 35 percent voting interest in Alibaba, with the remainder of our voting rights subject to a voting agreement with Alibaba management. We will account for this investment using the equity method of accounting. Following the acquisition date, our consolidated financial results will include our share of the results of Alibaba together with amortization expense relating to any acquired intangible assets identified. We will record our share of the results of Alibaba, and any related amortization expense, one quarter in arrears within earnings in equity interests. Following the acquisition date, Yahoo! China will no longer be consolidated in our results but included within earnings in equity interests to the extent of our continued ownership interest in Alibaba. The revenues and operating income of Yahoo! China were not material to our consolidated results for the year ended December 31, 2004 and the nine months ended September 30, 2005. In connection with the transaction, we also expect to record a non-cash gain based on the difference between Yahoo! China's fair value and its carrying value, adjusted for our continued ownership interest in the newly combined entity. We currently estimate a non-cash pre-tax gain of $300 - $350 million in the fourth quarter of 2005.

We continue to believe the search queries, page views, click-throughs and the related marketing services and fees revenues that we generate are correlated to the number of users and the amount of time that these users are spending on our network. By providing a platform for our users that brings together our search technology, content, and community while allowing for personalization and integration across devices, we seek to increase our share of users, become more essential to our users and deepen their engagement with our products and services. We believe this deeper engagement of new and existing users, coupled

with the expansion of the online advertising market as advertisers shift their spending from traditional media to the Internet, will continue to increase our revenues for the remainder of 2005 over 2004. We also believe that our operating expenses for the remainder of 2005 will continue to increase over 2004 as we make additional investments in all areas of our business and will incur a full year of costs in 2005 related to acquisitions completed in 2004 as well as incur additional costs for new acquisitions completed this year.

Results of Operations

The following table sets forth selected information on our results of operations as a percentage of revenues for the periods indicated:

	Three Months Ended September 30, 2004	2005	Nine Months Ended September 30, 2004	2005
Revenues	100%	100%	100%	100%
Cost of revenues	37	39	37	39
Gross profit	63	61	63	61
Operating expenses:				
Sales and marketing	21	20	22	20
Product development	10	11	10	10
General and administrative	8	6	8	6
Stock compensation expense	1	1	1	1

Amortization of intangibles	4	3	4	3
Total operating expenses	44	41	45	40
Income from operations	19	20	18	21
Other income, net	14	5	6	29
Income before income taxes, earnings in equity interests and minority interests	33	25	24	50
Provision for income taxes	(8)	(8)	(8)	(20)
Earnings in equity interests	3	2	3	2
Minority interests in operations of consolidated subsidiaries	—	—	—	—
Net income	28%	19%	19%	32%

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

	Three Months Ended September 30,				Percent	Nine Months Ended September 30,				Percent
	2004	(1)	2005	(1)	Change	2004	(1)	2005	(1)	Change
Marketing services(2)	$796,568	88%	$1,159,572	87%	46%	$2,184,319	87%	$3,278,669	87%	50%
Fees(2)	110,147	12%	170,357	13%	55%	312,481	13%	477,999	13%	53%
Total revenues	$906,715	100%	$1,329,929	100%	47%	$2,496,800	100%	$3,756,668	100%	50%

(1) Percent of total revenues.

(2) For the three and nine months ended September 30, 2004, we have reclassified previously reported Marketing Services revenues of $6 million and $16 million, respectively as Fees in order to refine our alignment of revenue sources with these classifications.

Marketing Services Revenue. Marketing Services revenue for the third quarter of 2005 increased by $363 million, or 46 percent as compared to the same period in 2004. Marketing Services revenue for the nine months ended September 30, 2005 increased by $1,094 million, or 50 percent as compared to the same period in 2004. The year over year growth in our marketing services revenue can be attributed to a combination of factors that are driving increased advertising revenue across the entire Yahoo! Network, including an increase in our user base and activity levels on the Yahoo! Network, including a higher volume of

search queries, page views and click-throughs. As a result of our increased user audience, we continued to attract new advertisers to our portfolio of marketing solutions and increased the average spending per advertiser over the prior year periods.

On the Yahoo! Network, our number of unique users worldwide as of September 30, 2005 was approximately 26 percent higher than the number of unique users as of September 30, 2004. Unique users are the estimated number of people who visited the Yahoo! Network in a given time period.

The combined number of page views and searches, including those from our affiliate network, increased by approximately 38 percent and 39 percent, respectively, in the three and nine months ended September 30, 2005 compared to the same periods in 2004. These increases can be attributed to an increased number of users, an increased number of affiliates, an expanded offering of properties which increased our inventory of page views and greater market acceptance of new sponsored search offerings. The combined average revenue per page view and search increased by approximately 5 percent and 8 percent, respectively, in the three and nine months ended September 30, 2005 compared to the same periods in 2004. Our combined revenue per page view and search is influenced by sales mix changes period to period as we expand our offerings on the Yahoo! Network and introduce new inventory with differing yields.

Fees Revenue. Fees revenue for the third quarter of 2005 increased $60 million, or 55 percent, as compared to the same period in 2004, of which $15 million is attributable to acquisitions. Fees revenue for the nine months ended September 30, 2005 increased $166 million, or 53 percent, as compared to the same period in 2004, of which $42 million is attributable to acquisitions. The remainder of the increase was primarily associated with an increase in the number of paying users for our fee-based services, which were approximately 11.4 million as of September 30, 2005 compared to 7.6 million as of September 30, 2004, an increase of 50 percent. Our increased base of fee paying users was due to growth in users across most of our offerings that were available in the prior year as well as from our acquisition of Musicmatch in the fourth quarter of 2004. Our fee-based services include Internet broadband and dial-up services, sports, music, personals and premium mail offerings as well as our services for small businesses. Average monthly revenue per paying user has remained consistent at approximately $4 for the third quarter of 2005 and the same period in 2004.

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

	Three Months Ended September 30,				Percent	Nine Months Ended September 30,				Percent
	2004	(1)	2005	(1)	Change	2004	(1)	2005	(1)	Change
Cost of revenues	$332,333	37%	$520,238	39%	57%	$911,421	37%	$1,459,433	39%	60%
Sales and marketing	$192,950	21%	$265,714	20%	38%	$551,120	22%	$742,639	20%	35%
Product development	$97,033	10%	$141,616	11%	46%	$261,162	10%	$386,509	10%	48%
General and administrative	$69,215	8%	$77,733	6%	12%	$189,930	8%	$232,708	6%	23%
Stock compensation expense	$6,111	1%	$13,524	1%	121%	$25,823	1%	$33,938	1%	31%
Amortization of intangibles	$36,968	4%	$41,047	3%	11%	$103,588	4%	$122,664	3%	18%

(1) Percent of total revenues.

Cost of Revenues. Cost of revenues consists of traffic acquisition costs (“TAC”) and other expenses associated with the production and usage of the Yahoo! Network. TAC consists of payments made to affiliates that have integrated our sponsored search offerings into their websites and payments made to companies that direct consumer and business traffic to the Yahoo! website. Other cost of revenues consists of fees paid for content included on our online media properties, Internet connection charges, facilities costs, server equipment depreciation, technology license fees and compensation related expenses.

	Three Months Ended September 30,				Percent	Nine Months Ended September 30,				Percent
	2004	(1)	2005	(1)	Change	2004	(1)	2005	(1)	Change
Traffic acquisition costs (“TAC”)	$251,314	76%	$397,814	76%	58%	$682,108	75%	$1,128,686	77%	65%
Other costs of revenues	81,019	24%	122,424	24%	51%	229,313	25%	330,747	23%	44%

Costs of revenues	$332,333	100%	$520,238	100%	57%	$911,421	100%	$1,459,433	100%	60%

(1) Percent of cost of revenues.

Cost of revenues for the third quarter of 2005 increased $188 million, or 57 percent, as compared to the same period of 2004. The increase included $147 million of additional TAC which represents the largest component of cost of revenues, as well as an increase of $26 million in content costs and depreciation. This year over year increase in TAC of 58 percent was driven by our 46 percent growth in marketing services revenues over the same period in 2004 and a product mix change toward revenue streams that have associated TAC. Cost of revenues for the nine months ended September 30, 2005 increased $548 million, or 60 percent, as compared to the same period of 2004. The increase included $447 million of additional TAC as well as an increase of $69 million in content costs and depreciation. This 65 percent year over year increase in TAC was driven by our 50 percent growth in marketing services revenues over the same period in 2004 and a product mix change toward revenue streams that have associated TAC. Cost of revenues, as a percent of revenue, has increased from 37 percent for the three and nine months ended September 30, 2004 to 39 percent for the three and nine months ended September 30, 2005. This trend is the result of a product mix shift and our increase in spending on content for the Yahoo! Network.

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

Sales and marketing expenses for the third quarter of 2005 increased $73 million, or 38 percent, as compared to the same period of 2004. Sales and marketing expenses for the nine months ended September 30, 2005 increased $192 million, or 35 percent, as compared to the same period of 2004. Approximately one-half of the increases, $37 million and $102 million, for the three and nine month periods, respectively, related to compensation expense as we increased our headcount to expand our presence in certain territories to service our expanding advertising business as well as support our growing advertiser base in existing regions. Additionally, year over year spending on marketing and distribution increased by $20 million and $51 million for the three and nine months ended September 30, 2005, respectively, as we continued to invest in product branding and develop our distribution channels.

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

Product development expenses for the third quarter of 2005 increased $45 million, or 46 percent, as compared to the same period of 2004. Product development expenses for the nine months ended September 30, 2005 increased $125 million, or 48 percent, as compared to the same period of 2004. Approximately $31 million and $84 million of the increases for the three and nine month periods ended September 30, 2005, respectively, related to increased compensation expenses as we continued to hire engineers to further develop and build new properties and services on the Yahoo! Network. Additionally, approximately $4 million and $17 million of the increases for the three and nine months ended September 30, 2005 respectively, related to increased depreciation expense arising from our additional investments in property and equipment to support further product development.

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

General and administrative expenses for the third quarter of 2005 increased $9 million, or 12 percent, as compared to the same period of 2004. General and administrative expenses for the nine months ended September 30, 2005 increased $43 million, or 23 percent, as compared to the same period of 2004. For both the three and nine months September 30, 2005, the increases were primarily due to compensation related expenses, which reflects the expansion of our team to support increased compliance and infrastructure needs.

Stock Compensation. Stock compensation expense relates to the amortization of the intrinsic value of Yahoo! stock options issued and assumed in connection with acquisitions and other equity-based awards. This expense is generally being amortized using the accelerated amortization method in accordance with FASB Interpretation No. 28 “Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans”.

The increases in stock compensation expense for the three and nine months ended September 30, 2005 were primarily a result of the amortization of newly issued equity-based awards partially offset by decreased costs associated with options assumed in acquisitions. The amortization of options assumed in acquisitions has declined as the accelerated amortization method results in declining amortization of awards over their vesting periods and as we have not assumed a significant amount of options in our recent acquisitions.

Amortization of Intangibles. We have purchased, and expect to continue purchasing, assets or businesses, which may include the purchase of intangible assets. Amortization of intangibles for the third quarter of 2005 was $41 million compared to $37 million for the same period of 2004. Amortization of intangibles for the nine months ended September 30, 2005 was

$123 million compared to $104 million for the same period of 2004. The year over year increases in amortization of intangibles in the three and nine months ended September 30, 2005 were the result of our continued acquisition activity which has resulted in an increased balance of amortizable intangible assets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Interest and investment income	$14,962	$37,676	$40,978	$88,548
Investment gains (losses), net	110,268	26,948	107,780	995,231
Other	(1,949)	1,371	2,080	11,946
Total other income, net	$123,281	$65,995	$150,838	$1,095,725

Other income increased due to sales of non-strategic marketable equity security investments which generated investment gains of $105 million in the three and nine months ended September 30, 2004 and $27 million and $987 million for the three and nine months ended September 30, 2005. In addition, interest and investment income earned in both the three and nine months ended September 30, 2005 was higher than the income during the same periods in 2004 as a result of larger invested balances, as well as higher yields on our investment portfolio.

Income Taxes. The effective tax rate for the three and nine months ended September 30, 2004 was 23 percent and 34 percent, respectively, compared to 34 percent and 40 percent, respectively, for the three and nine months ended September 30, 2005. For all periods, the provision for income taxes differs from the amount computed by applying the statutory federal income tax rate due to state taxes and foreign losses for which no tax benefit is provided. Additionally, for the three and nine months ended September 30, 2004 the tax rate was reduced due to the utilization of previously unbenefited capital losses against the capital gain on the sale of an equity investment. For the three months ended September 30, 2005, the tax rate was reduced primarily due to the realignment of our year-to-date tax provision based on a lower than previously expected annual effective tax rate, as well as the receipt of foreign tax refunds.

Earnings in Equity Interests. Earnings in equity interests for the third quarter of 2005 was $32 million compared to $26 million for the same period of 2004. Earnings in equity interests for the nine months ended September 30, 2005 was $95 million compared to $70 million for the same period of 2004. The increases in both the three and nine months ended September 30, 2005 resulted from increased net income earned by Yahoo! Japan.

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority holders' percentage share of income or losses from such subsidiaries in which we hold a majority ownership interest, but less than 100 percent, and consolidate the subsidiaries' results in our consolidated financial statements. Minority interests in income from operations of consolidated subsidiaries were $1 million and $6 million for the three and nine months ended September 30, 2005 compared to $1 million and $3 million in both the three and nine months ended September 30, 2004.

Business Segment Results

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

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

	Three Months Ended September 30,				Percent Change	Nine Months Ended September 30,				Percent Change
	2004	(1)	2005	(1)		2004	(1)	2005	(1)	
Revenues by segment:										
United States	$ 654,985	72%	$ 922,860	69%	41%	$ 1,878,417	75%	$ 2,611,103	70%	39%
International	251,730	28%	407,069	31%	62%	618,383	25%	1,145,565	30%	85%
Total revenues	$ 906,715	100%	$ 1,329,929	100%	47%	$ 2,496,800	100%	$ 3,756,668	100%	50%

(1) Percent of total revenues.

	Three Months Ended September 30 ,		Percent Change	Nine Months Ended September 30,		Percent Change
	2004	2005		2004	2005	
Segment operating income before depreciation and amortization:						
United States	$223,260	$306,031	37%	$612,879	$867,690	42%
International	36,444	79,091	117%	91,808	230,934	152%
Total segment operating income before depreciation and amortization	$259,704	$385,122	48%	$704,687	$1,098,624	56%
Depreciation and amortization	(81,488)	(101,541)	25%	(225,108)	(285,909)	27%
Stock compensation expense	(6,111)	(13,524)	121%	(25,823)	(33,938)	31%
Income from operations	$172,105	$270,057	57%	$453,756	$778,777	72%

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues in the three and nine months periods ended September 30, 2005 or 2004.

United States. United States revenues in the third quarter of 2005 increased $268 million, or 41 percent as compared to the same period in 2004. United States revenues for the nine months ended September 30, 2005 increased $733 million, or 39 percent as compared to the same period in 2004. The year over year growth can be attributed to strong growth in advertising across the entire Yahoo! Network, as well as growth from our fee-based services. The advertising growth can be attributed to our expanding user audience which is allowing us to attract more advertisers and deepen their spending on Internet marketing solutions. United States segment operating income before depreciation and amortization increased $83 million, or 37 percent from the third quarter of 2004 to the third quarter of 2005. United States segment operating income before depreciation and amortization for the nine months ended September 30, 2005 increased $255 million, or 42 percent as compared to the same period in 2004. The year over year increases for both the three and nine months ended September 30, 2005 were primarily as a result of the increased revenues.

International. International revenues in the third quarter of 2005 increased $155 million, or 62 percent as compared to the same period in 2004. International revenues for the nine months ended September 30, 2005 increased $527 million, or 85 percent as compared to the same period in 2004. The year over year growth can be attributed to our continued expansion into new markets, as well as our increased penetration into the markets in which we operate coupled with the continued expansion of the online advertising marketplace on a worldwide basis. In 2005, the revenue growth rate has also been favorably impacted by foreign

currency rates. International segment operating income before depreciation and amortization increased $43 million, or 117 percent from the third quarter of 2004 compared to the third quarter of 2005. International segment operating income before depreciation and amortization for the nine months ended September 30, 2005 increased $139 million, or 152 percent as compared to the same period in 2004. The increases for both the three and nine months ended September 30, 2005 were primarily as a result of the increase in revenues, as well as continued efforts to control discretionary spending and our ability to generate revenue without a commensurate increase in costs.

International revenues accounted for 31 percent and 30 percent of total revenues during the three and nine months ended September 2005, respectively, as compared to 28 percent and 25 percent during the three and nine months ended September 30, 2004. The growth in our international operations has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the functional currencies of the local countries. Primary currencies include Euros, British Pounds, Japanese Yen, Korean Won, Chinese Yuan and Australian Dollars. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues, operating expenses and net income for our International segment. Similarly, our revenues, operating expenses and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Changes in foreign currencies increased international revenues in the three and nine months ended September 30, 2005 by approximately $9 million and $44 million, respectively, when translated at the average foreign currency exchange rates in effect during the corresponding periods in 2004.

Critical Accounting Policies, Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and 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, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 estimates are made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur, could materially impact the consolidated financial statements. We believe the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the consolidated financial statements.

Revenue Recognition. Our revenues are generated from marketing services and fees. Marketing services revenue is generated from several offerings including: the display of textual, rich media and graphical advertisements, display of text based links to advertisers' listings, listing based services, and commerce based transactions. Fees revenue includes revenue from a variety of consumer and business fee-based services. While the majority of our revenue transactions contain standard business terms and conditions, there are certain transactions that contain non-standard business terms and conditions. In addition, we have certain sales transactions that involve multiple element arrangements (arrangements with more than one deliverable) that may include placement on specific properties and content integration. We also enter into arrangements to purchase goods and/or services from certain customers. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting for these transactions including: (1) whether an arrangement exists; (2) how the arrangement consideration should be allocated among potential multiple elements; (3) when to recognize revenue on the deliverables; (4) whether all elements of the arrangement have been delivered; (5) whether the arrangements should be reported gross as a principal versus net as an agent; and (6) whether we receive a separately identifiable benefit from purchase arrangements with our customers for which we can reasonably estimate fair value. In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

Deferred Income Tax Asset Valuation Allowance. We record a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. In evaluating our ability to recover our deferred income tax assets we consider all available positive and negative evidence, including our operating results, ongoing prudent and feasible tax planning strategies and forecasts of future taxable income on a jurisdiction by jurisdiction basis. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would likely increase stockholders' equity as substantially all of our net operating losses result from employee stock option deductions.

Goodwill and Other Intangible Assets. Our long-lived assets include goodwill and other intangible assets and as of September 30, 2005 had a net balance of $3.0 billion. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment. See Note 4—"Goodwill" in the condensed consolidated financial statements for additional information. Based on our 2004 impairment test, there would have to be a significant unfavorable change to our assumptions used in such calculations for an impairment to exist.

We amortize other intangible assets over their estimated economic useful lives. We must record an impairment charge on these assets when we determine that their carrying value may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Based on the existence of one or more indicators of impairment, we measure any impairment of intangible assets based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our business model. Our estimates of future cash flows attributable to our other intangible assets require significant judgment based on our historical and anticipated results and are subject to many factors. Different assumptions and judgments could materially affect the calculation of the fair value of our other intangible assets, which could trigger impairment.

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement No. 123R, "Share-Based Payment," which requires companies to recognize in the statement of operations all share-based payments to employees, including grants of employee stock options, based on their fair values. Accounting for share-based compensation transactions using the intrinsic method supplemented by pro forma disclosures will no longer be permissible. The new statement will be effective for public entities no later than the beginning of the first fiscal year beginning after June 15, 2005. We will adopt the new statement on January 1, 2006. We have not yet completed our analysis of the impact of adopting FASB Statement No. 123R and therefore we are currently unable to quantify its effect on our results of operations. However, we know that the adoption of this new statement will have a significant impact on the results of operations and net income per share as we will be required to expense the fair value of all share-based payments.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections", a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes", and Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). The new statement changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. We do not believe adoption of this new statement will have a material effect on our financial position, cash flows or results of operations.

Liquidity and Capital Resources

(dollars in thousands)	As of December 31, 2004	As of September 30, 2005
Cash and cash equivalents	$823,723	$2,027,003
Marketable debt securities	2,918,539	2,736,618
Total cash, cash equivalents and marketable debt securities	$3,742,262	$4,763,621
Percentage of total assets	41%	50%

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2005
Net cash provided by operating activities	$753,101	$1,230,041
Net cash provided by (used in) investing activities	$(853,503)	$739,457
Net cash provided by (used in) financing activities	$327,684	$(746,569)

Our operating activities for the nine months ended September 30, 2005 and 2004 generated adequate cash to meet our operating needs. As of September 30, 2005, we had cash, cash equivalents, and marketable debt securities totaling $4,764 million, an increase of $1,022 million compared to $3,742 million as of December 31, 2004. The principal components of the increase in cash, cash equivalents and marketable debt securities were cash generated from operating activities of $1,230 million, proceeds of $1,006 million from the sale of non-strategic marketable equity security investments, proceeds of $378 million from the exercise of employee stock options, offset by net cash used in structured stock repurchase activities of $753 million, $373 million used for direct share repurchases, $127 million used for acquisitions and $257 million used for net capital expenditures.

We expect to continue to generate positive cash flow from operations for the remaining quarter in 2005. Management believes existing cash, cash equivalents and investments in marketable debt securities, together with any cash generated from operations will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position, and the sale of additional equity securities could result in additional dilution to our stockholders.

Cash flow changes

Cash provided by operating activities was greater than net income in the nine months ended September 30, 2005 and 2004 mainly due to the net impact of non cash adjustments to income. Non cash adjustments include depreciation and amortization, tax benefits from stock options, earnings in equity interests, stock compensation expense, as well as adjustments for gains and losses from the sale of investments. In both the nine months ended September 30, 2005 and 2004, operating cash flows were positively impacted by changes in working capital balances.

Cash provided by (used in) investing activities was primarily attributable to purchases and sales of marketable debt and equity securities as well as cash investments in capital expenditures and acquisitions. For the nine months ended September 30, 2005, we generated cash in the amount of $1,006 million from the sale of non-strategic marketable equity security investments, and $157 million from the net sales of marketable debt securities, while we also used cash for capital expenditures totaling $257 million, acquisitions totaling $127 million, and other investing activities totaling $39 million. For the nine months ended September 30, 2004, we had capital expenditures totaling $160 million and used cash for acquisitions totaling $609 million. In addition, we had outlays of $293 million in net purchases of marketable debt securities, offset by cash generated from the net sales of marketable equity securities of $193 million and from other investing activities of $15 million. In each period our capital expenditures were primarily for purchases of information technology assets to support our expanding offerings, our increased number of users and our international growth.

On October 23, 2005 we used approximately $1 billion in cash as partial consideration for our Alibaba investment.

Cash provided by (used in) financing activities was driven primarily by employee option exercises and stock repurchases. Cash proceeds from employee option exercises during nine months ended September 30, 2005 decreased to $378 million from $424 million during the same period in 2004. During the nine months ended September 30, 2005, we used $373 million in the direct repurchase of 11.2 million shares of our common stock in open market transactions at an average price of $33.20 per share. We also entered into structured stock repurchase transactions resulting in a total cash outlay of $1,150 million during the nine months ended September 30, 2005. This $1,150 million outlay was offset by proceeds of $397 million from the settlement of structured

stock repurchase transactions in the nine months ended September 30, 2005, for a net cash usage of $753 million for these transactions. In the nine months ended September 30, 2004, we entered into two structured stock repurchase transactions resulting in a net cash outlay of $96 million.

As of September 30, 2005, we had unsettled structured stock transactions in the amount of $850 million. These transactions will mature in separate tranches in October 2005, January 2006 and April 2006. On each of the remaining maturity dates, if the market price of Yahoo! common stock is at or above $35.11 for the two tranches totaling $350 million maturing in October 2005, $33.98 for the $250 million tranche maturing in January 2006, and $33.99 for the $250 million tranche maturing in April 2006, we will have our investment returned with a premium. On each of the remaining maturity dates, if the market price of our common stock is below the pre-determined prices, we will repurchase our common stock, up to an aggregate of 27.3 million shares.

In October and November 2005, we received $386 million in cash from the settlement of two structured stock repurchase transactions totaling $350 million that were entered into in April 2005.

Stock repurchases

In March 2005, following the expiration of the $500 million share repurchase program that was authorized in 2001 and extended in 2003, our Board of Directors authorized the repurchase of up to $3 billion of our outstanding shares of common stock from time to time over the next five years, depending on market conditions, share price and other factors. Repurchases may take place in the open market or in privately negotiated transactions and may be made under a Rule 10b5-1 plan. Our Board of Directors and management believe that additional repurchases made under appropriate market conditions are a prudent use of cash currently available to us in order to enhance long-term stockholder value. Under this program, during the three months ended September 30, 2005 the Company repurchased 6.3 million shares of common stock at an average price of $32.89 per share for a total amount of $208 million.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment and furniture and fixtures. Capital expenditures, net were $257 million in the nine months ended September 30, 2005 and are expected to continue to increase in 2005 as we invest in the expansion of our network and offerings. This continued increase in capital expenditures and operating lease commitments is consistent with our increased staffing and operational expansion, and we anticipate that this will continue in the future as business conditions merit.

Contractual obligations and commitments

Operating Leases. We have entered into various non-cancelable operating lease agreements for offices and facilities globally, for original lease periods up to 23 years and expiring between 2005 and 2027.

Gross lease commitments as of September 30, 2005 can be summarized as follows (in millions):

Three months ending December 31, 2005	$17
Years ending December 31,	
2006	70
2007	76
2008	81
2009	78
2010	68
Due after 5 years	389
Total gross lease commitments	$779

Affiliate Commitments. In connection with our contracts to provide sponsored search services to affiliates, we are obligated to make payments, which represent traffic acquisition costs, to our affiliates. As of September 30, 2005, the commitments total $293 million of which $64 million will be payable in the remainder of 2005, $214 million will be payable in 2006 and $15 million will be payable in 2007.

Other Commitments

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, services to be provided by us, or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers, directors and employees of acquired companies in connection with the acquisition of such companies. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers, and former directors and officers of acquired companies, in certain circumstances.

It is not possible to determine the 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 may 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.

On April 21, 2003, Overture completed its purchase of the Web Search unit of Fast Search and Transfer ASA, a Norway based developer of search and real-time filtering technologies, for $70 million in cash, plus a contingent earn-out payment of up to $30 million over three years based on specified operating criteria.

As of September 30, 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

RISK FACTORS

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

We face significant competition from companies, including AOL, Google, and Microsoft that have combined a variety of services under one brand name in a manner similar to Yahoo!. AOL has access to content from Time Warner's movie, television, music, book, periodical, news, sports and other media holdings; access to a network of cable and other broadband users and delivery technologies; and considerable resources for future growth and expansion. Google, in addition to a Web search service, offers many other services that directly compete with our services, including a consumer email service, desktop search, local search, photos, maps, shopping services and Internet advertising solutions. Microsoft has introduced its own Web search service and has announced plans to develop features that may make Web searching capabilities a more integrated part of its Windows operating system. We expect these competitors increasingly to use their financial and engineering resources to compete with us, individually, and potentially in combination with each other. In certain of these cases, most notably AOL, our competition has a direct billing relationship with a greater number of their users through Internet access and other services than we have with our users through our premium services. This relationship may permit these competitors to be more effective than us in targeting services and advertisements to the specific preferences of their users thereby giving them a competitive advantage. If our competitors are more successful than we are in attracting users and customers, our revenues could decline.

We also face competition from other Internet service providers, including destination websites and Internet access providers.

We also compete for customers and users with many other providers of online services, including online navigation, Web search, commercial search, information, entertainment, recruiting, community, electronic commerce and Internet access services. Some of our competitors in specific areas, particularly in specific vertical markets or commerce services, such as shopping, auctions or travel, may have longer operating histories in the market, larger customer or user bases, and more brand recognition in the specific market.

Our users must access our services through an Internet access provider, including wireless providers and providers of cable and DSL Internet access. To the extent that an access provider or a telephone, computer or computing device manufacturer offers online services that are competitive with those of Yahoo!, the user may find it more convenient to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider's or manufacturer's own directory or by providing Yahoo! with less prominent listings than the access provider, manufacturer, or a competitor's offerings. Further, through their direct billing relationship with users, access providers may be better able to target services and advertisements to the preferences of their users.

In addition, smaller competitors may consolidate with larger competitors or with each other and become more competitive. New competitors may also enter the market. If our competitors are more successful than we are in attracting and retaining customers and users, then our revenues could decline.

We face competition from other providers of sponsored search advertising services which could affect our operating results.

We compete directly with other providers of sponsored search advertising services, including MIVA (formerly FindWhat.com), Google, LookSmart, Ltd., and Lycos Inc. In addition, we believe it is likely that there will be additional entrants to this advertising market. Some of the existing competitors and possible additional entrants may have greater operational, strategic, financial, personnel or other resources than we do, as well as greater brand recognition. These competitors compete against us for affiliate arrangements and could cause us to have to enter into affiliate arrangements with less favorable terms, to lose current affiliates or to fail to acquire new affiliates. The loss of affiliates or a reduction in the revenue from affiliate arrangements could harm our business, operating results, and cash flows from operations.

We face significant competition from traditional media companies which could affect our operating results.

We also compete with traditional media companies for advertising. Most advertisers currently spend only a small portion of their advertising budgets on Internet advertising. If we fail to persuade existing advertisers to retain and increase their spending with us and if we fail to persuade new advertisers to spend a portion of their budget on advertising with us, our business and revenues could be adversely affected.

If we are unable to provide search technologies and services which generate significant traffic to our websites, our business could be harmed, causing our revenues to decline.

We have deployed our own Web search technology to provide Web search results on our network. We have more limited experience in operating our own search service than do some of our competitors. Web search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We must continually invest in improving our users' experience, including search relevance, speed, and services responsive to their needs and preferences to continue to attract, retain and expand our user base. If we are unable to provide search technologies and services which generate significant traffic to our websites, our business could be harmed, causing our revenues to decline.

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

For the third quarter of 2005, 87 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenue depends upon:

- growing our user base;
- broadening our relationships with advertisers to small and medium size businesses;
- attracting advertisers to our user base;
- increasing demand for our marketing services by advertisers, users and businesses, including prices paid by advertisers, the number of searches performed by users and the rate at which users click-through to commercial search results;
- maintaining our affiliate program for our sponsored search offerings;
- deriving better demographic and other information from our users; and
- driving continued acceptance of the Web by advertisers as an advertising medium.

In the majority of cases, our agreements with advertisers have terms of one year or less, or, in the case of our sponsored search advertising services, may be terminated at any time by the advertiser. Sponsored search agreements often have payments contingent on usage or click-through levels. Accordingly, it is difficult to forecast marketing services revenues accurately. However, our expense levels are based in part on expectations of future revenues, include guaranteed minimum payments to our affiliates in connection with our sponsored search advertising services, and are fixed over the short-term with respect to certain categories. Any reduction in spending by or loss of existing or potential future customers would cause our revenues to decline. Further, we may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall.

In certain markets we depend on a limited number of sources to direct a significant percentage of users and businesses to our service to conduct searches and a loss of any of these sources could harm our operating results.

A significant percentage of users and businesses that conduct searches using our sponsored search service, come from a limited number of sources in certain markets. In addition to the Yahoo! Network, sources for users conducting searches are members of our affiliate network, including portals, browsers, and other affiliates. Our agreements with affiliates vary in duration, and depending on the agreement, provide varying levels of discretion to the affiliate in the implementation of the sponsored search service, including the degree to which affiliates can modify the presentation of the search results on their websites or integrate the sponsored search services with their own services. The agreements may be terminable upon the occurrence of certain events, including failure to meet certain service levels, material breaches of agreement terms, changes in control or in some instances, at will. We may not be successful in renewing our affiliate agreements on as favorable terms or at all. The loss of affiliates providing significant users or businesses or an adverse change in implementation of the sponsored search service by any of these affiliates could harm our ability to generate revenue, our operating results, and cash flows from operations.

Some of our shared revenue arrangements may not generate anticipated revenues.

We typically receive co-branded revenue through revenue sharing arrangements and sponsorship fees or a portion of transactions revenue in return for minimum levels of user impressions to be provided by us. These arrangements expose us to potentially significant financial risks in the event our usage levels decrease, including the following:

- the revenue we are entitled to receive may be adjusted downwards;
- we may be required to “make good” on our obligations by providing additional advertising or alternative services;

- the sponsors or co-brand services may not renew the arrangements or may renew at lower rates; and
- the arrangements may not generate anticipated levels of shared transactions revenue, or sponsors may default on the payment commitments in such agreements as has occurred in the past.

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

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

Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive the majority of our revenues from advertising, any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

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

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

We may not be able to generate substantial revenues from our alliances with Internet access providers.

Through alliances with Internet access providers, we offer access services that combine customized content and services from Yahoo! (including browser and other communications services) and Internet access from the third party access providers. We may not be able to retain the alliances with our existing Internet access providers or to obtain new alliances with Internet access providers on terms that are reasonable. In addition, these Internet access services compete with many large companies such as AOL, MSN, Comcast Corporation and other established Internet access providers. In certain of these cases, our competition has substantially greater market presence (including an existing user base) and greater financial, technical, marketing or other resources. As a result of these and other competitive factors, the Internet access providers with which we have formed alliances, may not be able to attract, grow or retain their customer bases, which would negatively impact our ability to sell customized content and services through this channel and, in turn, reduce our anticipated revenues from our alliances.

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

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

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

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

If we are unable to license or acquire compelling content at reasonable costs or if we do not develop compelling content, the number of users of our services may not grow as anticipated which could harm our operating results.

Our future success depends in part upon our ability to aggregate compelling content and deliver that content through our online properties. We license much of the content on our online properties, such as news items, stock quotes, weather reports, maps and audio and video content from third parties. We have been providing increasing amounts of audio and video content to our users

and we believe that users will increasingly demand high-quality audio and video content, such as the broadcast of music, film content, speeches, news footage, concerts and other special events. Such content may require us to make substantial payments to third parties from whom we license or acquire such content. For example, our music and entertainment properties rely on major sports organizations, radio and television stations, record labels, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. In addition, as new methods for accessing the Web become available, including through alternative devices, we may need to enter into amended content agreements with existing third-party content providers to cover the new devices. Also, to the extent that Yahoo! develops content of its own, Yahoo!'s current and potential third-party content providers may view our services as competitive with their own and this may adversely affect their willingness to contract with us. We may be unable to enter into new, or preserve existing, relationships with the third parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us and potential content providers may not offer their content on terms agreeable to us. An increase in the prices charged to us by third-party content providers could harm our operating results and financial condition. Further, many of our content licenses with third parties are non-exclusive. Accordingly, other webcasters and other media such as radio or television may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate Yahoo! from other businesses. If we are unable to license or acquire compelling content at reasonable prices, if other companies broadcast content that is similar to or the same as that provided by Yahoo!, or if we do not develop compelling editorial content or personalization services, the number of users of our services may not grow at all or may grow at a slower rate than anticipated, which could harm our operating results.

Our intellectual property rights are valuable and any inability to protect them could reduce the value of our brand image and harm our business and our operating results.

We regard our copyrights, patents, trademarks, trade dress, trade secrets, and similar intellectual property, including our rights to certain domain names, as important to Yahoo!'s brand and success. The efforts we have taken to protect our proprietary rights may not be sufficient or effective at stopping any unauthorized use of our proprietary rights. In addition, effective trademark, patent, copyright, and trade secret protection may not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. Further, while we attempt to ensure that the quality of our brand is maintained by our licensees, our licensees may take actions that could impair the value of our brand, our proprietary rights or the reputation of our products and media properties. We are aware that third parties have, from time to time, copied significant content available on Yahoo! for use in competitive Internet services. Protection of the distinctive elements of Yahoo! may not be available under copyright law. If we are unable to protect our proprietary rights from unauthorized use, the value of our brand image may be reduced. Any impairment of our brand could negatively impact our business. 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 rely on the value of the Yahoo! brand, and a failure to maintain or enhance the Yahoo! brand in a cost effective manner could harm our operating results.

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

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

Internet, technology, media companies and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce and other Web-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. As a result, disputes regarding the ownership of technologies and rights associated with online business are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in several 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 or violations of privacy rights or failure to maintain confidentiality of user data. Currently, our subsidiary LAUNCH Media, Inc. ("LAUNCH") is engaged in a lawsuit regarding copyright issues that commenced prior to our acquisition of LAUNCH. In addition, Overture is in litigation involving claims that allowing advertisers to bid on certain search terms and Overture's display of search results triggered by those search terms constitutes trademark infringement. A court in France recently held Overture SARL and Overture liable for displaying search results triggered by certain trademarked keywords.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement claims. In the event that there is a determination that we have infringed third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights or other third party rights such as publicity and privacy rights, we could incur substantial monetary liability, be required to enter into costly royalty or licensing agreements or be prevented from using the rights, which could require us to change our business practices in the future and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. In addition, many of our agreements with our customers or affiliates require us to indemnify them for certain third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. The occurrence of any of these results could harm our brand and negatively impact our operating results.

Acquisitions could result in operating difficulties and unanticipated liabilities.

We have made acquisitions in the past including Overture in October 2003, Kelkoo in April 2004 and Musicmatch in October 2004 and expect to enter into additional business combinations and acquisitions in the future. Acquisitions may result in dilutive issuances of equity securities, use of our cash resources, incurrence of debt and amortization of expenses related to intangible assets. Our acquisitions to date were accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- 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 potential for patent and trademark infringement claims against the acquired company;
- the impairment of relationships with customers and partners of the acquired companies or our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with employees of the acquired companies or our employees as a result of integration of new management personnel;
- the difficulty of integrating the acquired company's accounting, management information, human resources and other administrative systems;
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences; and
- the impact of known potential liabilities or unknown liabilities associated with the acquired companies.

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

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

We are continuing to grow and diversify our business both in the United States and internationally. As a result, we must expand and adapt our operational infrastructure and increase the number of our personnel in certain areas. Our business relies on our data

systems, billing systems for our fee based and other services, and other operational and financial reporting and control systems. All of these systems have become increasingly complex in the recent past due to the growing diversification and complexity of our business and to acquisitions of new businesses with different systems. To effectively manage this growth, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures and controls. In particular, as our premium and other services for which we bill users grow, any failure of our billing systems to accommodate the increasing number of transactions and accurately bill users could adversely affect our business and ability to collect revenue. These upgrades and improvements will require a dedication of resources and in some cases are likely to be complex. If we are unable to adapt our systems in a timely manner to accommodate our growth, our business may be adversely affected.

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

If we are unable to retain our existing senior management and key personnel and hire new highly skilled personnel, we may not be able to execute our business plan.

We are substantially dependent on the continued services of our senior management, including our two founders, our chief executive officer, chief financial officer, chief operating officer, chief technical officer, and our executive and senior vice presidents. These individuals have acquired specialized knowledge and skills with respect to Yahoo! and its operations. The loss of any of these individuals could harm our business. Our business is also dependent on our ability to retain, hire and motivate talented, highly skilled personnel. The competition for such highly skilled personnel can be intense, particularly in the San Francisco Bay Area, where our corporate headquarters is located. Many of our management and key personnel have reached or will soon reach the four-year anniversary of their Yahoo! hiring date and, as a result, have become or will shortly become fully vested in their initial stock option grants. Although employees receive additional grants, an employee may be more likely to leave Yahoo! upon completion of the vesting period for the initial option grant which is generally the largest option grant an employee receives. If we do not succeed in retaining and motivating our existing key employees and attracting new key personnel, we may be unable to meet our business plan and as a result our stock price may decline.

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

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

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

We are required under generally accepted accounting principles to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. This may adversely impact our results of operations. As of September 30, 2005, our goodwill and amortizable intangible assets were $3.0 billion.

We plan to expand operations in international markets in which we may have limited experience or rely on business partners, and in which we are faced with relatively higher costs.

We plan to expand Yahoo! branded online properties and search offerings in international markets. We have currently developed, through joint ventures, subsidiaries and branch offices, localized offerings in over 20 countries outside of the United States. As we expand to new international markets, we will have only limited experience in marketing and operating our products and services in such markets and we may rely on the efforts and abilities of foreign business partners in such markets. We have experienced and expect to continue to experience higher costs as a percentage of revenues in connection with the development and maintenance of our international online properties relative to our domestic experience. Certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium and so our operations in international markets may not develop at a rate that supports our level of investment.

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

In a number of international markets, especially those in Asia, Europe, and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications and other commercial services. Many of these companies have a dominant market share in their territories and are owned by local telecommunications providers which give them a competitive advantage. Local providers of competing online services may also have a substantial advantage over us in attracting users in their country due to more established branding in that country, greater knowledge with respect to the tastes and preferences of users residing in that country and/or their focus on a single market. Further, the local providers may have greater regulatory and operational flexibility than Yahoo! due to the fact that we are subject to both domestic and foreign regulatory requirements. We must continue to improve our local offerings, become more knowledgeable about our local users and their preferences, deepen our relationships with our local users as well as increase our branding and other marketing activities in order to remain competitive and strengthen our international market position.

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

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

- trade barriers and changes in trade regulations;

- difficulties in developing, staffing and simultaneously managing a large number of varying foreign operations as a result of distance, language and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- import or export restrictions;
- seasonal volatility in business activity;
- risks related to government regulation including those more fully described below; and
- potentially adverse tax consequences.

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

We are subject to U.S. and foreign government regulation of the Internet and Voice over Internet Protocol which could subject us to claims and remedies including monetary liabilities and limitations on our business practices.

We are subject to regulations and laws directly applicable to providers of Internet and Voice over Internet Protocol services both domestically and internationally. The application of existing domestic and international laws and regulations to Yahoo! relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, consumer protection, content regulation, quality of services, telecommunications 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 activities. Further, the application of existing laws to Yahoo! or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol, adult content, tobacco or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Internationally, we may also be subject to foreign laws and regulations that are inconsistent from country to country. We may incur substantial liabilities for expenses necessary to comply with these laws and regulations or 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 federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third party content. Yahoo! relies on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children’s Online Protection Act and the Children’s Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on our part to comply with these regulations may subject us to significant liabilities.

There are federal, state and international laws regarding privacy and protection of user data. We post, on our website, our privacy policies and practices concerning the use and disclosure of user data. Any failure by us to comply with our posted privacy policies, any consent orders from time to time entered into by us, Federal Trade Commission requirements or other federal, state or international privacy-related laws and regulations could result in proceedings against us by governmental entities or others which could potentially have an adverse effect on our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could impose requirements which may result in a decrease in our user registrations and revenues. In addition, the interpretation and application of user data protection laws in Europe and other international jurisdictions is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied inconsistently from country to country and with our current data protection practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices. Further, any failure by us to protect users’ privacy and data could result in a loss of user confidence in our services and ultimately in a loss of users which could adversely affect our business.

We may be subject to legal liability for online services.

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

We also periodically enter into arrangements to offer third-party products, services, or content under the Yahoo! brand or via distribution on various Yahoo! properties, including stock quotes and trading information. We may be subject to claims concerning these products, services or content by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services or content. While our agreements with respect to these products, services and content, often provide that we will be indemnified against such liabilities, the ability to receive such indemnification depends on the financial resources of the other party to the agreement and any amounts received may not be adequate to cover our liabilities.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. For example, we offer Web-based email services, which expose us to potential risks,

such as liabilities or claims resulting from unsolicited email, lost or misdirected messages, illegal or fraudulent use of email, or interruptions or delays in email service. Investigating and defending any of these types of claims is expensive, even to the extent that the claims are without merit or do not ultimately result in liability.

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

Yahoo! is one of the most highly trafficked Websites on the Internet and is regularly serving an increased number of users and delivering an increased number of daily page views and search results. For example, the usage levels of email and the number and complexity of our sponsored search offerings have increased. In addition, the products and services offered by Yahoo! have expanded and changed significantly and are expected to continue to expand and change rapidly in the future. There is also an increased use of rich media content such as audio and video. Rapid increases in the levels or types of use of our online properties and services could result in delays or interruptions in our service. In particular, the technology architectures utilized for our services are highly complex and may not provide satisfactory support in the future, as usage increases and products and services expand, change and become more complex. In the future, we may be required to make significant changes to our architectures, including moving to completely new architectures. If we are required to switch architectures, we may incur substantial costs and experience delays or interruptions in our service. These delays or interruptions in our service may cause users and customers to become dissatisfied with our service and move to competing providers of online services. Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex, and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store and integrate data that will enable us to track each user’s preferences. Any difficulties experienced in adapting our architectures and infrastructure to accommodate increased traffic, to store user data and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations and financial condition.

We may not be successful in expanding the number of users of our e-commerce offerings which could result in a decline in our revenues.

The success of our e-commerce offerings depends on our ability to generate traffic to Yahoo! Shopping and similar services and the rate at which users either purchase products or click through to search results. The revenue that we derive from Yahoo! Shopping and related services is typically in the form of lead-based fees, where retailers pay a fee based on the number of times a user clicks on a link to their site, transaction fees, and advertising fees. Users who had a favorable buying experience with a particular retailer may contact that retailer directly for future purchases rather than through our services. Competing providers of e-commerce offerings, including retailers with whom we have relationships, may provide a more convenient and comprehensive online customer experience due to their singular focus on e-commerce. Retailers may also establish exclusive relationships with our competitors. If our users bypass our e-commerce offerings and related services and contact competing providers or retailers directly, our revenue could decline.

New technologies could block our ads, which would harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block the display of our ads. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of ads on web pages. As a result, ad-blocking technology could, reduce the number of ads that we are able to deliver and, in turn, our advertising revenues.

We rely on third party providers for our principal Internet connections and technologies, databases and services critical to our properties and services and any errors, failures or disruption in the services provided by these third parties could significantly harm our business and operating results.

We rely on private third-party providers for our principal Internet connections, co-location of a significant portion of our data servers and network access. Any disruption, from natural disasters, technology malfunctions, sabotage or other factors, in the Internet or network access or co-location services provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could significantly harm our business, operating results and financial condition. We have little control over these third-party providers which increases our vulnerability to disruptions or problems with their services. Any financial difficulties experienced by our providers may have negative effects on our business, the nature and extent of which we cannot predict. We license technology and related databases from third parties for certain elements of our properties, including, among others, technology underlying the delivery of news, stock quotes and current financial information, chat services, street mapping and telephone listings, streaming capabilities and similar services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. We also rely on a third-party provider for key components of our email service. Furthermore, we depend on hardware and software suppliers for prompt delivery, installation and service of servers and other equipment to deliver our services. Any errors, failures, interruptions, or

delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand, our business and operating results.

We rely on distribution agreements and relationships with various third parties and any failure to obtain or maintain such distribution relationships on reasonable terms could impair our ability to fully execute our business plan.

In addition to our relationships with Internet access providers, to increase traffic for our offerings and make them more available and attractive to advertisers and users, we have certain distribution agreements and informal relationships with operators of online networks and leading Websites, software companies, electronics companies, and computer manufacturers. Depending on the distributor and the agreement, these distribution arrangements may not be exclusive and may only have a short term. Some of our distributors, particularly distributors who are also competitors or potential competitors, may not renew their distribution agreements with us. In addition, as new methods for accessing the Web become available, including through alternative devices, we may need to enter into amended distributions agreements with existing distributors to cover the new devices and agreements with additional distributors. In the future, existing and potential distributors may not offer distribution of our properties and services to us 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.

We rely on third party providers of streaming media products to broadcast streaming audio and video content to our users and any change in the licensing terms, costs or user acceptance of these products could adversely affect our business.

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

If we fail to detect click-through spam, we could lose the confidence of our advertisers, thereby causing a loss of advertisers and revenue.

We are exposed to the risk of clicks on our ads by persons seeking to increase the fees paid by our advertisers. Click-through spam occurs when a click is generated on one of our advertiser’s listings displayed on a website in order to generate a payment rather than to view the underlying content. If this activity occurs and we are unable to stop it, we will have to provide refunds of revenue that our advertisers have paid to us and that was later attributed to click-through spam. These types of activities could damage our brand. If click-through spam is not detected, the affected advertisers may perceive a reduced return on their investment in our advertising programs because those clicks will not lead to potential revenue for the advertisers. This could lead the advertisers to become dissatisfied with our advertising programs, which could lead to loss of advertisers and revenue.

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

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, terrorist attacks and similar events. In addition, a significant portion of our network infrastructure is located in Northern California, an area subject to earthquakes. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, physical and electronic break-ins, sabotage and similar disruptions from unauthorized tampering with our computer systems. For example, we are vulnerable to coordinated attempts to overload our systems with data, resulting in denial or reduction of service to some or all of our users for a period of time. We have experienced a coordinated denial of service attack in the past, and may experience such attempts in the future. We do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of any such occurrence. In an effort to reduce the likelihood of a geographical or other disaster impacting our business, we have distributed and intend to continue distributing our servers among additional data centers located around the world. Failure to execute these changes properly or in a timely manner could result in delays or interruptions to our service, which could result in a loss of users and damage to our brand. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events which cause interruptions in our service.

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the third quarter of 2005, the closing sale prices of our common stock on the Nasdaq ranged from $31.97 to $37.73 per share and the closing sale price on November 1, 2005 was $37.72 per share. Our stock price may fluctuate in response to a number of events and factors,

such as quarterly variations in operating results; announcements of technological innovations or new services and media properties by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; the operating performance and stock price of companies in which we have an equity investment, including Yahoo! Japan; and news reports relating to trends in our markets or general economic conditions.

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

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

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

In addition, our Board of Directors has the authority to issue up to 10,000,000 shares of Preferred Stock (of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock) and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock may have the effect of delaying, deterring or preventing a change of control of Yahoo! without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock. Further, certain provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Yahoo!, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change of control or management.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We invest excess cash in marketable debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers and, by policy, limit the amount of credit exposure to any one issuer. We protect and preserve invested funds by limiting default, market and reinvestment risk.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of September 30, 2005 and 2004, we had investments in debt securities with effective maturities between three months and one year of $1.2 billion and $1.5 billion, respectively. Such investments had a weighted-average yield of approximately 3.20 percent and 2.06 percent, respectively. As of September 30, 2005 and 2004, we had investments in debt securities with effective maturities between one and five years of $1.5 billion and $907 million respectively. Such investments had a weighted average yield of approximately 3.68 percent and 2.76 percent, respectively. A hypothetical 100 basis point increase in interest rates would result in an approximate $30 million and $24 million decrease, respectively, in the fair value of our available-for-sale debt securities as of September 30, 2005 and 2004.

The fair market value of the zero coupon senior convertible notes (the "Notes") is subject to interest rate risk and market risk due to the convertible feature of the Notes. Generally the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of the Notes will also increase as the market price of the Yahoo! stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of the Notes but do not impact our financial position, cash flows or results of operations. As of September 30, 2005 and 2004, the fair value of the Notes was approximately $1.2 billion and $1.3 billion, respectively based on quoted market prices.

Foreign Currency Risk. International revenues accounted for 31 percent and 30 percent of total revenues during the three and nine months ended September 30, 2005, respectively, as compared to 28 percent and 25 percent during the three and nine months ended September 30, 2004, respectively. The growth in our international operations has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the functional currencies of the local countries. Primary currencies include Euros, British Pounds, Japanese Yen, Korean Won, Chinese Yuan and Australian Dollars. The income statements of our international operations are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues, operating expenses and net income for our International segment. Similarly, our revenues, operating expenses and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the average foreign currency exchange rates from 2004, our international revenues for the three and nine months ended September 30, 2005 would have been lower than we reported, by approximately $9 million and $44 million, respectively.

We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries 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 will lead to a translation gain or loss which is recorded as a component of other comprehensive income. In addition, we have certain assets and liabilities that are denominated in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. During the three and nine months ended September 30, 2005 and 2004, the foreign currency transaction gains and losses, realized and unrealized, were not material.

Investment Risk. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and short-term and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of September 30, 2005 and 2004, net unrealized losses on these investments were not material. We are exposed to market risk as it relates to changes in the market value of our investments. We invest in equity instruments of public companies for business and strategic purposes and have classified these securities as available-for-sale. These available-for-sale equity investments are subject to significant fluctuations in fair value due to the volatility of the stock market and the industries in which these companies participate. As of September 30, 2005, we had available-for-sale equity investments with a fair value of

$51 million. These equity investments have a total cost basis of $59 million. Our objective in managing exposure to stock market fluctuations is to minimize the impact of stock market declines to earnings and cash flows. However, continued market volatility, as well as mergers and acquisitions, have the potential to have a material non-cash impact on our financial position and/or operating results in future periods. Using a hypothetical reduction of 10 percent in the stock price of these equity securities, the fair value of our equity investments would decrease by approximately $5 million as of September 30, 2005. As of September 30, 2004 we had available-for-sale equity investments with a fair value of $765 million. These equity investments had a total cost basis of $16 million. Using a hypothetical reduction of 10 percent in the stock price of these equity securities, the fair value of our equity investments would decrease by approximately $77 million as of September 30, 2004.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

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

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

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

In October 2000, 800-JR-Cigar, Inc. filed a complaint in the United States District Court for the District of New Jersey against Overture, a wholly-owned subsidiary of Yahoo! acquired in October 2003. The plaintiff in this case, and in certain other cases which have been brought against Overture in the past, claims, among other things, that it has trademark rights in certain search terms and that Overture violates these rights by allowing its advertisers to bid on these search terms. The complaint seeks injunctive relief and damages. Yahoo! and Overture believe that Overture has meritorious defenses to liability and damages and are contesting the lawsuit vigorously. In August 2003, Accor filed a similar complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture's wholly-owned subsidiary in France. On January 17, 2005, the Nanterre District Court ruled in favor of Accor and found Overture and Overture S.A.R.L. liable for trademark infringement. Overture S.A.R.L. and Overture have appealed this decision.

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

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court for the Southern District of New York against certain underwriters involved in Overture's initial public offering, Overture, and certain of Overture's current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint, alleging Rule 10b-5 claims of fraud. On July 15, 2002, the issuers filed a motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the Rule 10b-5 claims against certain defendants, including Overture. On August 31, 2005 the Court entered an order confirming its preliminary approval of a settlement proposal made by plaintiffs, which includes settlement of, and release of claims against, the issuer defendants, including Overture. A hearing on the fairness of the settlement to the shareholder class is currently set for April 24, 2006. If the settlement does not occur, and litigation against Overture continues, the Company and Overture believe that Overture has meritorious defenses to liability and damages and will continue to defend the case vigorously.

On or about February 4, 2004, a shareholder derivative action was filed in the Court of Chancery of the State of Delaware in and for New Castle County, against the Company (as nominal defendant) and certain of the Company's current and former officers and directors (the "Derivative Defendants"). Two similar shareholder derivative actions were filed in the California Superior Court for the County of San Mateo on February 13, 2004. The complaints generally alleged breaches of fiduciary duties by the Derivative Defendants related to the alleged purchase of shares in initial public offerings or the alleged acquiescence in such conduct and sought unspecified monetary damages and other relief purportedly on behalf of the Company from the Derivative Defendants. The action in Delaware was dismissed by the Delaware Court of Chancery, and the dismissal has been affirmed by the Delaware Supreme Court. The actions in California were dismissed by the California Superior Court on September 13, 2005.

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

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

Share repurchase activity during the three months ended September 30, 2005 was as follows:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (in 000s) (1) (2)
July 1 - July 31, 2005	—	$—	—	$3,000,000
August 1 - August 31, 2005	1,435,124	$32.93	1,435,124	$2,952,735
September 1 - September 30, 2005	4,902,496	$32.88	4,902,496	$2,791,543
Total	6,337,620	$32.89	6,337,620	

(1) The shares repurchased in the three months ended September 30, 2005 were under our stock repurchase program that was announced in March 2005 with an authorized level of $3 billion. This program will expire in March 2010.

(2) As of September 30, 2005, we had unsettled structured stock transactions in the amount of $850 million. These transactions will mature in separate tranches in October 2005, January 2006 and April 2006. On each of the remaining maturity dates, if the market price of Yahoo! common stock is at or above $35.11 for the two tranches totaling $350 million maturing in October 2005, $33.98 for the $250 million tranche maturing in January 2006, and $33.99 for the $250 million tranche maturing in April 2006, we will have our investments returned with a premium. On each of the remaining maturity dates, if the market price of our common stock is below such pre-determined prices, we will repurchase our common stock, up to an aggregate of 27.3 million shares. Any repurchases under this structured stock repurchase transaction will be reported in the quarter or quarters in which they occur.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Description
2.1	Stock Purchase and Contribution Agreement, dated as of August 10, 2005, by and between Yahoo! Inc. and Alibaba.com Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed August 16, 2005 and incorporated herein by reference).
2.2	Amendment to the Stock Purchase and Contribution Agreement, dated as of October 24, 2005, by and between Yahoo! Inc. and Alibaba.com Corporation (filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K, filed October 27, 2005 [the October 27, 2005 Form 8-K] and incorporated herein by reference).
2.3	Tao Bao Share Purchase Agreement, dated as of October 24, 2005, by and among Yahoo! Inc., SOFTBANK CORP. and SB TB Holding Limited (filed as Exhibit 2.3 to the October 27, 2005 Form 8-K and incorporated herein by reference).
2.4	Secondary Share Purchase Agreement, dated as of October 24, 2005, by and among Yahoo! Inc. and certain shareholders of Alibaba.com Corporation (filed as Exhibit 2.4 to the October 27, 2005 Form 8-K and incorporated herein by reference).
2.5	Shareholders Agreement, dated as of October 24, 2005, by and among Alibaba.com Corporation, Yahoo! Inc., SOFTBANK CORP., the Management Members, and the other shareholders named therein (filed as Exhibit 2.5 to the October 27, 2005 Form 8-K and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the Registrant's Quarterly Report on From 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
3.2	Amended Bylaws of Registrant (Filed as Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed on March 5, 2002 and incorporated herein by reference).
4.1	Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 [the September 22, 2000 Form S-3] and incorporated herein by reference).
4.2	Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.3**	Form of Senior Note.

4.4**	Form of Subordinated Note.
4.5**	Form of Certificate of Designation for preferred stock (together with preferred stock certificate).
4.6	Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.7**	Form of Warrant Agreement (together with form of Warrant Certificate).
4.8	Amended and Restated Rights Agreement, dated as of April 1, 2005, between the Registrant and Equiserve Trust Company, N.A., as Rights Agent, including the form of Rights Certificate as Exhibit B and the summary of Rights to Purchase Preferred Stock as Exhibit C (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 4, 2005 and incorporated herein by reference).
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 10, 2003 [the April 10, 2003 Form 8-K] and incorporated herein by reference).
4.10	Registration Rights Agreement, dated as of April 9, 2003, among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2005.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2005.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 18 U.S.C. section 1350 dated November 4, 2005.

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* Filed herewith.

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

Signatures

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

YAHOO! INC.

Dated: November 4, 2005

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

Dated: November 4, 2005

By: /s/ MICHAEL MURRAY
Michael Murray
Senior Vice President, Finance (Principal Accounting Officer)

YAHOO! INC.
Index to Exhibits

Exhibit Number	Description
2.1	Stock Purchase and Contribution Agreement, dated as of August 10, 2005, by and between Yahoo! Inc. and Alibaba.com Corporation (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K, filed August 16, 2005 and incorporated herein by reference).
2.2	Amendment to the Stock Purchase and Contribution Agreement, dated as of October 24, 2005, by and between Yahoo! Inc. and Alibaba.com Corporation (filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K, filed October 27, 2005 [the October 27, 2005 Form 8-K] and incorporated herein by reference).
2.3	Tao Bao Share Purchase Agreement, dated as of October 24, 2005, by and among Yahoo! Inc., SOFTBANK CORP. and SB TB Holding Limited (filed as Exhibit 2.3 to the October 27, 2005 Form 8-K and incorporated herein by reference).
2.4	Secondary Share Purchase Agreement, dated as of October 24, 2005, by and among Yahoo! Inc. and certain shareholders of Alibaba.com Corporation (filed as Exhibit 2.4 to the October 27, 2005 Form 8-K and incorporated herein by reference).
2.5	Shareholders Agreement, dated as of October 24, 2005, by and among Alibaba.com Corporation, Yahoo! Inc., SOFTBANK CORP., the Management Members, and the other shareholders named therein (filed as Exhibit 2.5 to the October 27, 2005 Form 8-K and incorporated herein by reference).
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the Registrant's Quarterly Report on From 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference).
3.2	Amended Bylaws of Registrant (Filed as Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed on March 5, 2002 and incorporated herein by reference).
4.1	Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 [the September 22, 2000 Form S-3] and incorporated herein by reference).
4.2	Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.3**	Form of Senior Note.
4.4**	Form of Subordinated Note.
4.5**	Form of Certificate of Designation for preferred stock (together with preferred stock certificate).
4.6	Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated

	herein by reference).
4.7**	Form of Warrant Agreement (together with form of Warrant Certificate).
4.8	Amended and Restated Rights Agreement, dated as of April 1, 2005, between the Registrant and Equiserve Trust Company, N.A., as Rights Agent, including the form of Rights Certificate as Exhibit B and the summary of Rights to Purchase Preferred Stock as Exhibit C (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 4, 2005 and incorporated herein by reference).
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 10, 2003 [the April 10, 2003 Form 8-K] and incorporated herein by reference).
4.10	Registration Rights Agreement, dated as of April 9, 2003, among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference).
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2005.
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated November 4, 2005.
32*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to section 18 U.S.C. section 1350 dated November 4, 2005.

* Filed herewith.

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

Exhibit 31.1

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

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

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Dated: November 4, 2005

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

Exhibit 31.2

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

I, Susan Decker, the Chief Financial Officer of Yahoo! Inc., certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Dated: November 4, 2005

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

Exhibit 32

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Yahoo! Inc. (the “Company”) for the quarter ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Terry Semel, as Chief Executive Officer of the Company, and Susan Decker, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his and her knowledge, respectively, that:

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

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

Dated: November 4, 2005	By:	/s/ TERRY SEMEL Terry Semel Chief Executive Officer
Dated: November 4, 2005	By:	/s/ SUSAN DECKER Susan Decker Chief Financial Officer