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

FORM 10-Q

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

For the quarterly period ended March 31, 2004

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	**77-0398689**
(State or other jurisdiction of incorporation or organization)	(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 3, 2004
Common stock, $0.001 par value	673,364,167

As of May 3, 2004 there were 673,364,167 shares (or 1,346,728,334 shares after giving retroactive effect to the registrant's two-for-one stock split, payable in the form of a stock dividend, having a record date of April 26, 2004 and taking effect as of May 11, 2004) of the registrant's common stock, $0.001 par value, outstanding.

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	
	March 31, 2003	March 31, 2004
Revenues	$ 282,948	$ 757,786
Cost of revenues	43,132	281,705
Gross profit	239,816	476,081
Operating expenses:		
Sales and marketing	113,479	166,295
Product development	36,398	76,989
General and administrative	28,640	57,556
Stock compensation expense (1)	575	12,572
Amortization of intangibles	5,747	30,512
Total operating expenses	184,839	343,924
Income from operations	54,977	132,157
Other income, net	12,530	14,378
Earnings in equity interests	9,729	19,868
Minority interests in operations of consolidated subsidiaries	(1,908)	(482)
Income before income taxes	75,328	165,921
Provision for income taxes	28,625	64,709
Net income	$ 46,703	$ 101,212
Net income per share—basic:	$ 0.04	$ 0.08
Net income per share—diluted:	$ 0.04	$ 0.07
Shares used in per share calculation—basic	1,193,284	1,328,154
Shares used in per share calculation—diluted	1,231,576	1,426,548

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(1) Stock compensation expense by function:		
Sales and marketing	$ 209	$ 3,605
Product development	286	4,723
General and administrative	80	4,244
Total stock compensation expense	$ 575	$ 12,572

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

YAHOO! INC.
Condensed Consolidated Balance Sheets
(in thousands except par value)

	December 31, 2003	March 31, 2004 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 713,539	$ 790,809
Short-term investments in marketable securities	595,978	767,118
Accounts receivable, net	282,415	281,966
Prepaid expenses and other current assets	129,777	138,052

Total current assets	1,721,709	1,977,945
Long-term investments in marketable securities	1,261,693	1,232,343
Property and equipment, net	449,512	449,428
Goodwill	1,805,561	1,849,111
Intangible assets, net	445,640	433,477
Other assets	247,539	249,883
Total assets	$ 5,931,654	$ 6,192,187
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 31,890	$ 15,234
Accrued expenses and other current liabilities	483,628	516,415
Deferred revenue	192,278	200,991
Total current liabilities	707,796	732,640
Long-term debt	750,000	750,000
Other liabilities	72,890	75,996
Minority interests in consolidated subsidiaries	37,478	42,060
Stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,321,408 and 1,331,970 issued and outstanding, respectively	1,356	1,364
Additional paid-in capital	4,288,138	4,408,141
Treasury stock	(159,988)	(159,988)
Retained earnings	230,386	331,598
Accumulated other comprehensive income	3,598	10,376
Total stockholders' equity	4,363,490	4,591,491
Total liabilities and stockholders' equity	$ 5,931,654	$ 6,192,187

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

YAHOO! INC.
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Three Months Ended	
	March 31, 2003	March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46,703	$ 101,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,073	66,192
Tax benefits from stock options	21,057	60,750
Earnings in equity interests	(9,729)	(19,868)
Non-cash (gains) losses and impairments from investments	3,101	(3,745)
Minority interests in operations of consolidated subsidiaries	1,908	482
Stock compensation expense	575	12,572
Other non-cash items	(89)	2,472
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(15,347)	1,189
Prepaid expenses and other assets	5,215	(4,410)
Accounts payable	2,603	(17,909)
Accrued expenses and other liabilities	4,260	32,303
Deferred revenue	9,298	4,735
Net cash provided by operating activities	98,628	235,975
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(20,503)	(38,689)
Purchases of marketable securities	(137,440)	(514,555)
Proceeds from sales and maturities of marketable securities	430,518	382,060
Acquisitions, net of cash acquired	(228,318)	(43,767)
Proceeds from sales of other investments	1,281	10,911
Net cash provided by (used in) investing activities	45,538	(204,040)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	23,567	92,295
Structured stock repurchase	—	(50,000)
Net cash provided by financing activities	23,567	42,295
Effect of exchange rate changes on cash and cash equivalents	(262)	3,040
Net change in cash and cash equivalents	167,471	77,270
Cash and cash equivalents at beginning of period	310,972	713,539
Cash and cash equivalents at end of period	$ 478,443	$ 790,809

YAHOO! INC.
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands)

Supplemental schedule of investing activities:

Acquisition-related activities (in thousands):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Cash paid for acquisitions	$ 272,928	$ 50,684
Cash acquired in acquisitions	(44,610)	(6,917)
	$ 228,318	$ 43,767
Value of common stock options issued in connection with acquisitions	$ 13,367	$ 2,209

See Note 6 – “Acquisitions” for further information.

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

YAHOO! INC.
Condensed Consolidated Statements of Stockholders’ Equity
(unaudited, in thousands)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Common stock		
Balance, beginning of period	$ 1,222	$ 1,356
Common stock issued	6	8
Balance, end of period	1,228	1,364
Additional paid-in capital		
Balance, beginning of period	2,429,611	4,288,138
Common stock issued	40,261	95,154
Stock compensation expense	575	12,572
Tax benefit from stock options	19,076	63,543
Structured stock repurchase	—	(50,000)
Deferred stock-based compensation	(1,287)	(865)
Other	(3,507)	(401)
Balance, end of period	2,484,729	4,408,141
Treasury stock		
Balance, beginning and end of period	(159,988)	(159,988)
Retained earnings (accumulated deficit)		
Balance, beginning of period	(7,493)	230,386
Net income	46,703	101,212
Balance, end of period	39,210	331,598
Accumulated other comprehensive income (loss)		
Balance, beginning of period	(1,082)	3,598
Net unrealized gains (losses) on securities	(2,970)	4,201
Foreign currency translation adjustment	(233)	2,577
Balance, end of period	(4,285)	10,376
Total stockholders’ equity	$ 2,360,894	$ 4,591,491
Other comprehensive income		
Net income	$ 46,703	$ 101,212
Other comprehensive income (loss):		
Net unrealized gains (losses) on securities	(2,970)	4,201
Foreign currency translation adjustment	(233)	2,577
Comprehensive income	$ 43,500	$ 107,990

	Number of Shares	
Common stock		
Balance, beginning of period	1,189,720	1,321,408
Common stock issued	5,914	10,562
Balance, end of period	1,195,634	1,331,970

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 Basis of Presentation

Yahoo! Inc. ("Yahoo!" or the "Company") is a leading provider of comprehensive online products and services to consumers and businesses worldwide. The Company, a Delaware corporation, commenced operations in 1995.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal and recurring items, which in the opinion of management, are necessary for a fair presentation 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.

On April 7, 2004, the Yahoo! Board of Directors approved a two-for-one split of the Company's shares of common stock to be effected in the form of a stock dividend. As a result of the stock split, Yahoo! stockholders will receive 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 will be 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.

These 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, 2003. Certain prior period balances have been reclassified to conform to the current year presentation.

Note 2—Summary of Significant Accounting Policies

Revenue Recognition. The Company's revenues are derived principally from services, which include marketing services, fees, and listings.

The Company recognizes revenue on arrangements in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 "Revenue Recognition," and Emerging Issues Task Force Issue 00-21, "Revenue Arrangements with Multiple Deliverables." In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectibility of the resulting receivable is reasonably assured.

Marketing services revenue is primarily generated from rich media advertisements (banner and other media advertisements), sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic search services and transactions. Banner advertising agreements typically range from one week to three years. The Company recognizes marketing services revenue related to banner advertisements as "impressions" are delivered by the Company. "Impressions" are defined as the number of times that an advertisement appears in pages viewed by users of the Yahoo! network. Sponsorship advertising agreements have longer terms than banner advertising agreements, typically ranging from three months to three years, and often involve multiple element arrangements (arrangements with more than one deliverable) that may include placement on specific properties, exclusivity and content integration. Sponsorship advertisement revenue is recognized as "impressions" are delivered or ratably over the contract period, where applicable. Text-link and hypertext link advertisements, including pay-for-performance search advertisements or results, are recognized in the period in which the "click-throughs" occur. "Click-throughs" are defined as the number of times a user clicks on an advertisement or search result. Per-query search fees are recognized based on the query volume in the period, and revenue from customers who pay a fixed fee to be included in the Web search index are recognized over the term of the agreement. Transactions revenue includes service fees for facilitating transactions through the Yahoo! network, principally from the Company's commerce properties. Transactions revenue is recognized when there is evidence that the qualifying transactions have occurred.

Fees revenue consists of revenues generated from a variety of consumer and business fee-based services, including SBC Yahoo! DSL and SBC Yahoo! Dial, Yahoo! Personals, Small Business Services and Yahoo! Mail. Revenue is recognized in the month in which the services are performed, provided that no significant Company obligations remain and collection of the resulting receivable is reasonably assured.

Listings revenue consists of revenues generated from a variety of consumer and business listings-based services, including access to the HotJobs database and classifieds such as Yahoo! Autos, Yahoo! Real Estate and other search services. Revenue is recognized in the month in which the services are performed, provided that no significant Company obligations remain and collection of the resulting receivable is reasonably assured.

Deferred revenue primarily comprises contractual billings in excess of recognized revenue and payments received in advance of revenue recognition.

Traffic Acquisition Costs. The Company enters into agreements of varying duration with third party affiliates that integrate the Company's pay-for-performance search service into their Web sites. There are generally three economic structures of the affiliate agreements: guaranteed fixed payments which often carry reciprocal performance guarantees from the affiliate, variable payments based on a percentage of the Company's revenue or based on a certain metric, such as number of searches or paid clicks, or a combination of the two.

The Company expenses, as cost of revenues, traffic acquisition costs under two methods; agreements with fixed payments are expensed pro-rata over the term the fixed payment covers, and agreements based on a percentage of revenue, number of paid introductions, number of searches, or other metric are expensed based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

Use of Estimates. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, investment values, goodwill and intangible assets, income taxes, restructuring costs and contingencies. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

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. Diluted net income per share is computed using the weighted average number of common and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method) and the conversion of zero coupon senior convertible notes (using the if-converted method). For the three month period ended March 31, 2003, potential common shares of 38 million (split adjusted) were included in the computation and were related to shares issuable upon the exercise of stock options. For the three month period ended March 31, 2004, total potential common shares of 98 million (split-adjusted), consisting of 61 million (split-adjusted) issuable upon the exercise of stock options and 37 million (split-adjusted) issuable upon the conversion of the zero coupon senior convertible notes, were included in the computation. See Note 8—"Long-Term Debt" for additional information related to the zero-coupon senior convertible notes.

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 approximately $1 million and $13 million in the three months ended March 31, 2003 and 2004, respectively. As of March 31, 2004, approximately $39 million of deferred stock-based compensation expense remains to be amortized over the remaining vesting periods of the options and restricted stock, and is included in additional paid-in capital in the consolidated balance sheet.

If the fair value based method had been applied in measuring stock compensation expense, the pro forma effect on net income (loss) and net income (loss) per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Net income (loss):		
As reported	$ 46,703	$ 101,212
Add: Stock compensation expense included in reported net income (loss), net of related tax effects	362	7,543
Less: Stock compensation expense determined under fair value based method for all awards, net of related tax effects	(65,595)	(71,011)
Pro forma net income (loss)	$ (18,530)	$ 37,744
Net income (loss) per share:		
As reported - basic	$ 0.04	$ 0.08
Pro forma - basic	$ (0.02)	$ 0.03
As reported - diluted	$ 0.04	$ 0.07
Pro forma - diluted	$ (0.02)	$ 0.03

Pro forma diluted net loss per share for the three months ended March 31, 2003 is computed excluding potential common shares of 38 million (split-adjusted), as their effect is anti-dilutive.

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. 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.

Note 3—Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Certain provisions of FIN 46 became effective during the quarter ended March 31, 2004, the adoption of which did not have a material impact on the Company's financial position, cash flows or results of operations.

In April 2004, the Emerging Issues Task Force issued Statement No. 03-06 "Participating Securities and the Two-Class Method Under FASB Statement No. 128, *Earnings Per Share*" ("EITF 03-06"). EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 is effective for fiscal periods beginning after March 31, 2004. The Company is currently evaluating the effect of adopting EITF 03-06 on its financial statements.

Note 4—Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2004 are as follows (in thousands):

	United States	International	Total
Balance at December 31, 2003	$ 1,710,998	$ 94,563	$ 1,805,561
Acquisitions and other (1)	4,594	38,956	43,550
Reclassification (2)	(242,490)	242,490	—
Balance at March 31, 2004	$ 1,473,102	$ 376,009	$ 1,849,111

(1) Other primarily includes certain purchase price adjustments that affect existing goodwill. See also Note 6—"Acquisitions."
(2) Reclassification reflects the allocation of goodwill related to the Overture acquisition to our financial reporting segments.

Note 5—Intangible Assets, Net

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

	December 31, 2003	March 31, 2004		
	Net	Gross carrying amount	Accumulated amortization	Net
Trademark, trade name and domain name	$ 56,830	$ 75,400	$ (20,626)	$ 54,774
Customer, affiliate, and advertiser related relationships	233,390	287,885	(61,700)	226,185
Developed technology and patents	155,420	175,254	(22,736)	152,518
Total intangible assets, net	$ 445,640	$ 538,539	$ (105,062)	$ 433,477

The intangible assets are all amortizable and have original estimated useful lives as follows: Trademark, trade name and domain name—four to seven years; Customer, affiliate, and advertiser related relationships—three to seven years; Developed technology and patents—two to five years. The Company recognized amortization expense on intangible assets of approximately $6 million and $31 million for the three months ended March 31, 2003 and 2004, 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: Nine months ending December 31, 2004: $91million; years ending December 31, 2005: $116 million; 2006: $108 million; 2007: $78 million; and 2008: $38 million.

Note 6—Acquisitions

3721. On January 2, 2004, Yahoo! 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 Yahoo!'s global audience and 3721's keyword search technology to enable Yahoo! 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 estimated purchase price of approximately $54 million consisted of approximately $51 million in cash consideration, approximately $2 million related to stock options exchanged, and direct transaction costs of approximately $1 million. The value of the stock options was determined using the Black-Scholes option valuation model. Under the terms of the acquisition, Yahoo! has also contingently agreed to pay up to a maximum amount of $70 million in cash, part of which will be an addition to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met.

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

Cash acquired	$ 6,917
Other tangible assets acquired	4,553
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	37,523
Total assets acquired	61,393
Liabilities assumed	(9,467)
Deferred stock-based compensation	1,757
Total	$ 53,683

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $38 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. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for 3721 is subject to revision as more detailed analysis is 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 3721 will change the amount of the purchase price allocable to goodwill.

The results of operations of 3721 have been included in the Company's condensed consolidated statements of operations since the completion of the acquisition on January 2, 2004. Results of operations for 3721 for periods prior to the acquisition were not material to the Company and accordingly pro forma results of operations have not been presented.

In March and October 2003, we acquired Inktomi Corporation ("Inktomi") and Overture Services, Inc. ("Overture"), for aggregate purchase prices of approximately $290 million and $1.7 billion, respectively. Based on preliminary estimates, goodwill of approximately $217 million and $1.2 billion, and other intangible assets of approximately $49 million and $354 million, respectively, were recorded as a result of the Inktomi and Overture acquisitions. The preliminary purchase price allocation for Overture is subject to revision as more detailed analysis is 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 Overture will change the amount of the purchase price allocable to goodwill. The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisitions of Inktomi and Overture occurred on January 1, 2003 (in thousands, except per share amounts):

	Three Months Ended	
	March 31, 2003	March 31, 2004
Net revenues	$ 476,930	$ 757,786
Net income	$ 37,187	$ 101,212
Net income (loss) per share — basic:	$ 0.03	$ 0.08
Net income (loss) per share — diluted:	$ 0.03	$ 0.07

Note 7 —Related Party Transactions

SOFTBANK Corp., including its consolidated affiliates ("SOFTBANK") was approximately a four percent stockholder of the Company at March 31, 2004. The Company has joint ventures with SOFTBANK in France, Germany, Japan, Korea and the United Kingdom to establish and manage versions of the Yahoo! Internet Guide for those countries. A Managing Partner of a SOFTBANK affiliate is also a member of the Company's Board of Directors. In March 2004, SOFTBANK and the Company entered into an agreement that provided that, so long as SOFTBANK directly or indirectly owns or controls any shares of the Company's common stock, SOFTBANK shall, at the Company's direction, either vote or cause to be voted such shares of common stock in accordance with any written voting recommendation of the Company's Board of Directors or grant a proxy to the Company entitling the Company to vote or cause to be voted such shares in proportion to the votes cast by the other stockholders of the Company. Revenues from SOFTBANK accounted for less than one percent of total revenues for the three months ended March 31, 2004 and 2003. The Company believes that contracted prices in the relevant transactions are comparable to those with other similarly situated customers.

The Company and other third parties are limited partners in Softbank Capital Partners LP ("Softbank Capital"), a venture capital fund for which a SOFTBANK affiliate is the General Partner. The Company initially committed in July 1999 to a total investment of $30 million in the fund, and subsequently committed to invest an additional $6 million. To date, the total investment by the Company in Softbank Capital is approximately $34 million. Pursuant to the Partnership Agreement, the Company invested on the same terms and on the same basis as all other limited partners.

In addition, the Company has commercial arrangements with Yahoo! Japan, consisting of services and license fees for which the net cost was approximately $8 million in the three months ended March 31, 2004.

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 approximately $17 million, which have been deferred and are included on the balance sheet in other assets. As of March 31, 2004, approximately $14 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 (split-adjusted), which would result in the issuance of an aggregate of approximately 37 million shares (split-adjusted), subject to adjustment upon the occurrence of specified events. Each $1,000 principal amount of the Notes will initially be convertible into 48.7804 shares (split-adjusted) of Yahoo! common stock prior to April 1, 2008 if the sale price of the Company's common stock issuable upon conversion of the Notes reaches a specified threshold for a defined period of time or specified corporate transactions have occurred. The specified thresholds for conversion prior to the maturity date are (1) 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 exceeds 110 percent of the conversion price on that 30th trading day, and (2) during the period beginning January 1, 2008 through the maturity date, 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. Upon conversion, Yahoo! 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. Yahoo! may not redeem the Notes prior to their maturity. For the three month period ended March 31, 2004, the 37 million (split-adjusted) shares issuable upon the conversion of the zero coupon senior convertible notes, were included in the computation of diluted earnings per share. As of March 31, 2004, the fair value of the Notes was approximately $1.0 billion based on quoted market prices.

Note 9— Stockholders' Equity

Stock Repurchase Program. In March 2001, the Company announced that its Board of Directors had 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, which extension authorizes the

Company to repurchase up to approximately $340 million (representing the balance of the $500 million originally authorized in March 2001) 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. The Company may utilize equity instrument contracts to facilitate the repurchase of common stock. From March 2001 through March 31, 2004, the Company had repurchased 32,917,240 shares of common stock at an average of $4.86 per share (split-adjusted) for a total amount of approximately $160 million. Of the shares repurchased, 32,067,240 shares were purchased from SOFTBANK at an average of $4.84 per share (split-adjusted). No shares were repurchased during the quarter ended March 31, 2004. Treasury stock is accounted for under the cost method.

Structured Stock Repurchase. In February 2004, Yahoo! entered into a six month structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase will be settled in cash or stock depending on the market price of the Company's common stock on the date of the settlement. Upon settlement, the Company will either have its investment returned with a premium or receive up to approximately 2.6 million shares of its own common stock, respectively, depending on whether the market price of Yahoo! common stock is above or below $20.56 (split-adjusted), the pre-determined price agreed in connection with such transaction. This transaction is recorded in stockholders' equity in the consolidated balance sheet as of March 31, 2004. The shares underlying this transaction were considered outstanding at March 31, 2004.

Note 10—Segment Information

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.

Summarized information by segment is as follows (in thousands):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Revenues by segment:		
United States	$ 238,546	$ 599,271
International	44,402	158,515
Total revenues	$ 282,948	$ 757,786
Segment operating income before depreciation and amortization:		
United States	$ 77,523	$ 191,254
International	7,102	19,667
Total segment operating income before depreciation and amortization	84,625	210,921
Corporate and unallocated operating costs and expenses:		
Depreciation and amortization	(29,073)	(66,192)
Stock compensation expense	(575)	(12,572)
Income from operations	$ 54,977	$ 132,157

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Capital expenditures, net:		
United States	$ 15,998	$ 30,357
International	4,505	8,332
Total consolidated capital expenditures, net	$ 20,503	$ 38,689

	December 31, 2003	March 31, 2004
Property and equipment, net:		
United States	$ 414,632	$ 411,806
International	34,880	37,622
Total consolidated property and equipment, net	$ 449,512	$ 449,428

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 during the three months ended March 31, 2003 and 2004.

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2004
Marketing services	$ 189,965	$ 635,468
Fees	63,729	88,470
Listings	29,254	33,848
Total revenues	$ 282,948	$ 757,786

For the three month period ended March 31, 2003, revenues from the Company's agreement with Overture (prior to being acquired by the Company) were included in marketing services and amounted to approximately 19 percent of total revenues.

Note 11—Commitments and Contingencies

Operating Leases. The Company has entered into various non-cancelable operating lease agreements for its offices throughout the United States, and for its international subsidiaries with original lease periods up to 15 years and expiring between 2004 and 2018. In addition, the Company has entered into various sublease arrangements associated with its excess facilities. Such subleases have terms extending through 2006.

Net lease commitments as of March 31, 2004 can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Nine months ending December 31, 2004	$ 36	$ (5)	$ 31
Years ending December 31,			
2005	37	(4)	33
2006	26	(3)	23
2007	21	—	21
2008	17	—	17
2009	15	—	15
Thereafter	90	—	90
Total lease commitments	$ 242	$ (12)	$ 230

Other Commitments. In the ordinary course of business the Company enters into various arrangements with vendors and other business partners, principally for marketing, technology, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond March 31, 2005 that are not included in the table below.

In connection with Company's commercial agreements, Yahoo! provides indemnifications of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements and out of 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. In addition, the Company has agreed to indemnify certain former officers, directors and employees of acquired companies in connection with the acquisition of such companies. The Company maintains directors and officers insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers, and former directors, officers and employees of acquired companies, in certain circumstances. The indemnification provided by the Company to its officers and directors does not have a stipulated maximum, therefore the Company is not able to develop a reasonable estimate of the maximum liabilities. To date, the Company has not incurred material costs as a result of such obligations and has not accrued any liabilities related to such indemnification obligations in its financial statements.

Contractual Obligations. Contractual obligations at March 31, 2004 are as follows (in millions):

	Payments due by period				
	Total	Due in 2004	Due in 2005-006	Due in 2007-008	Due in 2009 or after
Long-term debt (1)	$ 750	$ —	$ —	$ 750	$ —
Operating lease obligations, net of sublease income	230	31	56	38	105
Affiliate commitments (2)	213	55	158	—	—
Noncancelable purchase obligations	48	26	22	—	—
Total contractual obligations	$ 1,241	$ 112	$ 236	$ 788	$ 105

(1) The long-term debt matures in April 2008, unless converted into Yahoo! common stock at a conversion price of $20.50 per share (split-adjusted), subject to adjustment upon the occurrence of certain events. Upon conversion, Yahoo! has the right to deliver cash in lieu of common stock. See Note 8 — "Long-Term Debt" for further information related to the long-term debt.

(2) The Company is obligated to make payments under contracts to provide search services to its third party affiliates, which represent traffic acquisition costs.

At March 31, 2003 and 2004, 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.

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. The contingent earn-out payment is not included in the table above.

On January 2, 2004, Yahoo! completed the acquisition of 3721. In January 2004, approximately $51 million in cash consideration was paid. Under the terms of the acquisition, Yahoo! also contingently agreed to pay up to a maximum of $70 million in cash, part of which will be an addition to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met. The contingent payment is not included in the table above. See Note 6 –"Acquisitions" for additional information related to this acquisition.

See also Note 12 –"Subsequent Events."

Contingencies. From time to time, third parties assert patent infringement claims against the Company in the form of letters, lawsuits, and other forms of communication. Currently, the Company or its subsidiaries 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 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 arising in connection with its email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy.

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 Yahoo!, 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.

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. In October 2002, Robert Novak, doing business as PetsWarehouse and PetsWarehouse.com, filed a complaint in the United States District Court for the Eastern District of New York against Overture. In August 2003, Accor filed a complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture's wholly-owned subsidiary in France. In May 2004, Government Employees Insurance Company filed a complaint in the Eastern District of Virginia against Overture. The plaintiffs in each of these cases claim, among other things, that they have 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. Overture has also been named as a defendant in several other trade name infringement actions filed in Los Angeles, California in which plaintiffs made similar claims. Yahoo! and Overture believe that Overture has meritorious defenses to liability and damages in each of these lawsuits and are contesting them vigorously.

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 Media, Inc. ("LAUNCH") in the United States District Court for the Southern District of New York. 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. Yahoo!'s acquisition of LAUNCH closed in August 2001, and since that time LAUNCH has been a wholly owned subsidiary of Yahoo!. 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. Yahoo! and LAUNCH do not believe that LAUNCH has infringed any rights of plaintiffs and intend to vigorously contest the lawsuit. The lawsuit is still in the discovery phase and we do not believe it is feasible to predict or determine the outcome or resolution of the LAUNCH litigation. The range of possible resolutions of the LAUNCH litigation could include judgments against us or settlements that could require substantial payments by us, which could have a material adverse impact on our financial position, results of operations or cash flows. An estimate of the potential loss, if any, or range of loss that could arise from the LAUNCH litigation cannot be made at this time. 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 as of March 2004.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court, 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 into case number 01 Civ. 6339. 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. Settlement discussions relating to this case on behalf of the named defendants have occurred over the last year, resulting in a final settlement memorandum of understanding with the plaintiffs in the case and Overture's insurance carriers. A proposal has been made for the settlement and release of claims against the issuer defendants, including Overture. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. 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 intend 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 its 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 allege 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. The complaints seek unspecified monetary damages and other relief purportedly on behalf of Yahoo! from the Derivative Defendants. The Company understands the Derivative Defendants deny any impropriety and intend to defend the lawsuits vigorously. The Company does not believe that the ultimate costs to resolve these matters will have a material adverse effect on its financial condition, results of operations or cash flows. In addition, the Company believes there are procedural defects to permitting these complaints to proceed on Yahoo!'s behalf.

Note 12—Subsequent Events

Kelkoo S.A. 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. Under the terms of the acquisition, the Company has agreed to acquire up to 100 percent of the share capital of Kelkoo for an aggregate cash purchase price of approximately €475 million (approximately $576 million), subject to certain adjustments. The allocation of the purchase price to the assets acquired and liabilities assumed is still being determined.

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 to be effected in the form of a stock dividend. As a result of the stock split, Yahoo! stockholders will receive 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 will be 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.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects," "anticipates," "intends," "believes," or similar language. These forward-looking statements, including those with respect to our operating results for 2004, are based upon current expectations and beliefs of the Company's management and are subject to risks and uncertainties that could cause results to differ materially from those indicated in the forward-looking statements. Some, but not all, of the factors, which could cause actual results to differ materially include those set forth in the risks discussed below under the subheading "Risk Factors" and elsewhere in this report. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements, or to explain why actual results differ. Readers should carefully review the risk factors described in this section below and in any reports subsequently filed with the Securities and Exchange Commission.

Overview

Yahoo! Inc., including its consolidated subsidiaries ("Yahoo!"), is a global Internet company that offers a comprehensive branded network of properties and services to consumers and businesses worldwide. As the first online navigational guide to the Web, www.yahoo.com is a leading guide in terms of traffic, advertising, household and business user reach. Yahoo!'s global brand reaches the largest audience worldwide. Headquartered in Sunnyvale, California, we have offices in the United States, Europe, Asia, Latin America, Australia and Canada.

We manage our business geographically. We rely on an internal management reporting process that provides revenue and certain operating cost information for making financial decisions and allocating resources. Our principal areas of measurement and decision-making are the United States and International.

In March and October 2003, we acquired Inktomi Corporation ("Inktomi") and Overture Services, Inc. ("Overture"), for aggregate purchase prices of approximately $290 million and $1.7 billion, respectively. In January 2004, we acquired 3721 Network Software Company Limited ("3721") for an aggregate purchase price of approximately $54 million.

On April 7, 2004, our Board of Directors approved a two-for-one split of our shares of common stock to be effected in the form of a stock dividend. As a result of the stock split, our stockholders will receive 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 will be distributed on May 11, 2004. All share and per share amounts in the accompanying condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

We generate service revenues from our marketing services, fees and listings offerings. Revenues for the quarters ended March 31, 2003 and 2004 were as follows (dollars in thousands):

	Quarter ended		Year -over-Year	
Revenues	**March 31, 2003**	**March 31, 2004**	**Growth ($)**	**Growth (%)**
Marketing services	$ 189,965	$ 635,468	$ 445,503	235%
Fees	63,729	88,470	24,741	39%
Listings	29,254	33,848	4,594	16%
Total revenues	$ 282,948	$ 757,786	$ 474,838	168%

Marketing services revenue is primarily generated from rich media advertisements, sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic search services and transactions. Marketing services revenue increased in the first quarter of 2004 compared to the same period in 2003 due to an increase in legacy (non-acquisition related) marketing services revenues, and incremental revenue associated with acquisitions completed during the past year. For the quarter ended March 31, 2004, approximately 84 percent of our total revenues came from marketing services. Fees revenue is generated from a variety of consumer and business fee-based services. Fees revenue increased in the first quarter of 2004 compared to the same period in 2003 due to an increase in the number of paying relationships for our fee-based services to approximately 5.8 million paying users at March 31, 2004 from approximately 2.9 million paying users at March 31, 2003. Average revenue per paying user per month decreased to approximately $5 per user per month in the quarter ended March 31, 2004 from approximately $8 per user per month in the quarter ended March 31, 2003 as a result of faster subscriber growth in some of our lower priced offerings. Listings revenue consists of revenues generated from a variety of consumer and business listings-based services. Listings revenue increased in the quarter ended March 31, 2004 compared to the same period in 2003, primarily from our Search and Marketplace listings.

Cash flows for the quarters ended March 31, 2003 and 2004 were as follows (in thousands):

Quarter ended	Year -over-Year Change

	March 31, 2003	March 31, 2004	($)
Net cash provided by operating activities	$ 98,628	$ 235,975	$ 137,347
Net cash provided by (used in) investing activities	$ 45,538	$ (204,040)	$ (249,578)
Net cash provided by financing activities	$ 23,567	$ 42,295	$ 18,728

The increase in net cash provided by operating activities was primarily related to increased revenues described above and from the strong collections of accounts receivable. We also generated cash from the exercise of stock options by our employees. We used the cash we generated to continue to pursue our investment and acquisition strategies, and completed the acquisition of 3721, a Hong Kong-based software development company on January 2, 2004 for approximately $44 million in cash, net of cash acquired. In February 2004, we entered into a six month structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase will be settled in cash or stock depending on the market price of our common stock on the date of the settlement. Upon settlement, we will either have our investment returned with a premium or receive up to approximately 2.6 million shares (split-adjusted) of our own common stock, respectively, depending on whether the market price of our common stock is above or below $20.56 (split-adjusted), the pre-determined price agreed in connection with such transaction.

Results of Operations

Revenues

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

	Three Months Ended			
	March 31, 2003	(1)	March 31, 2004	(1)
Marketing services	$ 189,965	67%	$ 635,468	84%
Fees	63,729	23%	88,470	12%
Listings	29,254	10%	33,848	4%
Total revenues	$ 282,948	100%	$ 757,786	100%

(1) Percent of total revenues

Marketing Services Revenues. Marketing services revenue for the first quarter of 2004 increased by approximately $446 million, or 235%, as compared to the same period in 2003. This increase resulted from a 53 percent increase in legacy (non-acquisition related) marketing services revenues, primarily in the Search and Marketplace properties, including approximately $10 million related to a gain from unredeemed third party loyalty program points that expired during the quarter, and incremental revenue of approximately $346 million associated with acquisitions completed during the past year.

Including the effects of our Overture acquisition, the combined number of impressions and click-throughs delivered under advertising arrangements in the three months ended March 31, 2004 increased by approximately 170% as compared to the three months ended March 31, 2003, and the combined average price yield per impression and click-through delivered increased approximately 46% for the same period. The increase in volume primarily resulted from an overall increase in total click-throughs. The increase in average price per unit resulted from an overall increase in the price achieved for click-throughs and our network inventory.

Fees Revenues. Fees revenue for the first quarter of 2004 increased approximately $25 million, or 39% as compared to the same period in 2003. The increase was driven by the growth in the number of our paying relationships for Yahoo!'s fee-based services, which was approximately 5.8 million users as of March 31, 2004, compared to approximately 2.9 million users as of March 31, 2003. Average revenue per paying user per month decreased to approximately $5 per user per month in the quarter ended March 31, 2004 from approximately $8 per user per month in the quarter ended March 31, 2003 as a result of faster subscriber growth in some of our lower priced services.

Listings Revenues. Listings revenue for the first quarter of 2004 increased approximately $5 million, or 16% compared to the same period in 2003 primarily due to an increase in our Search and Marketplace services revenues.

Overall, we currently expect total combined revenues for marketing services, fees, and listings to increase in absolute dollars for 2004, compared to 2003.

Costs and Expenses:

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

	Three Months Ended			
	March 31, 2003	(1)	March 31, 2004	(1)
Cost of revenues	$ 43,132	15%	$ 281,705	37%
Sales and marketing	113,479	40%	166,295	22%
Product development	36,398	13%	76,989	10%
General and administrative	28,640	10%	57,556	8%
Stock compensation expense	575	—%	12,572	2%
Amortization of intangibles	5,747	2%	30,512	4%

(1) Percent of total revenues

Cost of Revenues. Cost of revenues consist of traffic acquisition costs and other expenses associated with the production and usage of the Yahoo! network. Traffic acquisition costs consist of payments made to our third party affiliates that have integrated our pay-for-performance search services into their Web sites. Other cost of revenues primarily consist of fees paid to third parties for content included on our online media properties, Internet connection charges, equipment depreciation, technology license fees and compensation related expenses.

Cost of revenues in the first quarter of 2004 increased by approximately $239 million as compared to the same period of 2003. The increase reflects approximately $234 million of incremental cost of revenue related to acquisitions completed during the past year, of which approximately $208 million related to traffic acquisition costs.

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 in the first quarter of 2004 increased approximately $53 million, or 47%, as compared to the same period in 2003. Approximately $29 million of this increase was due to incremental costs associated with acquisitions completed during the past year. The remainder of the increase was primarily due to increases in total compensation expenses related to increased headcount.

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, research and development expenses, and other operating costs.

Product development expenses in the first quarter of 2004 increased approximately $41 million, or 112%, as compared to the same period of 2003. Approximately $29 million of this increase was due to incremental costs associated with the acquisitions completed during the past year. The remainder of the increase was the result of increases in our total compensation expense related to an increase in the number of engineers that develop and enhance properties and services throughout the Yahoo! network.

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

General and administrative expenses in the first quarter of 2004 increased approximately $29 million, or 101%, as compared to the same period of 2003. Approximately $19 million of this increase was due to incremental costs associated with the acquisitions completed during the past year. The remainder of the increase was the result of increases in our total compensation, related to increased headcount and professional services expenses.

Stock Compensation. Stock compensation expense relates to the amortization of the intrinsic value of Yahoo! stock options issued in connection with acquisitions we have completed and other equity-based awards. This expense is primarily being recorded using an accelerated amortization method.

Stock compensation expense for the three months ended March 31, 2004, was approximately $13 million, an increase of approximately $12 million as compared to the same period of 2003. Stock compensation expense increased in connection with the acquisitions completed during the past year. Stock compensation expense is allocated as follows (in thousands):

	Quarter Ended	
	March 31, 2003	March 31, 2004
Sales and marketing	$ 209	$ 3,605
Product development	286	4,723
General and administrative	80	4,244
Total stock compensation expense	$ 575	$ 12,572

Amortization of Intangibles. In the past, we have purchased, and expect to continue purchasing, assets or businesses, which may result in the creation of amortizable intangible assets.

Amortization of intangibles expense was approximately $31 million for the first quarter of 2004, or 4% of total revenues, compared to approximately $6 million, or 2% of revenues for the first quarter of 2003. The increase in amortization of intangibles is primarily the result of the additional amortizable intangibles acquired in conjunction with the acquisitions completed during the past year.

Overall, we currently expect total combined primary operating costs and expenses for 2004 to increase in absolute dollars as compared to 2003, as the Company continues to grow. In addition, we expect to incur incremental costs in 2004 related to acquisitions completed in 2003 and 2004.

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

	Three Months Ended	
	March 31, 2003	March 31, 2004
Interest and investment income	$ 10,757	$ 12,762
Investment gains, net	652	3,122
Contract termination proceeds, net	750	—
Other	371	(1,506)
Total other income, net	$ 12,530	$ 14,378

Other income, net increased for three months ended March 31, 2004 compared to the three months ended March 31, 2003, primarily as a result of increased interest and investment income related to our increased investments in debt securities, despite an interest rate decline from 2.99 percent in the quarter ended

March 31, 2003 to 1.94 percent in the quarter ended March 31, 2004. In addition, the Company recognized an increase in net gains on investments. These increases were partially offset by foreign exchange losses for the quarter ended March 31, 2004 compared to gains for the quarter ended March 31, 2003.

Other income, net in future periods may fluctuate as a result of changes in our average investment balances held, changes in market rates or the sale of investments, and investment impairments.

Earnings in Equity Interests. Earnings in equity interests was approximately $20 million for the three months ended March 31, 2004 compared to approximately $10 million for the three months ended March 31, 2003, as a result of our investment in Yahoo! Japan, which achieved increased net income compared to the same period in the prior year.

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority investors' percentage share of income or losses from subsidiaries in which we hold a majority ownership interest, but less than 100%, and consolidate the subsidiaries' results in our financial statements.

Minority interests in income from operations of consolidated subsidiaries was an expense of approximately $1 million and $2 million for the three months ended March 31, 2004 and 2003, respectively. The change was due to decreased net income in European subsidiaries.

Income Taxes. The provision for income taxes for the three months ended March 31, 2004 differs from the amount computed by applying the statutory federal rate principally due to state taxes, foreign losses for which no tax benefit is provided and nontaxable equity earnings from certain investments. For the three months ended March 31, 2003, the provision for income taxes differed from the amount computed by applying the statutory federal rate principally due to foreign losses for which no tax benefit is provided and nontaxable equity earnings from certain investments. The effective tax rate for the three months ended March 31, 2004 was 39 percent compared to 38 percent for the same period in 2003.

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 intangibles and amortization of stock compensation expense. Management believes that segment operating income before depreciation and amortization is an appropriate measure of evaluating the operating 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.

Summarized information by segment is as follows (in thousands):

	Three Months Ended March 31, 2003	(1)	2004	(1)
Revenues by segment:				
United States	$ 238,546	84%	$ 599,271	79%
International	44,402	16%	158,515	21%
Total revenues	$ 282,948	100%	$ 757,786	100%

Segment operating income before depreciation and amortization:

	2003	2004
United States	$ 77,523	$ 191,254
International	7,102	19,667
Total segment operating income before depreciation and amortization	$ 84,625	$ 210,921
Corporate and unallocated operating costs and expenses:		
Depreciation and amortization	(29,073)	(66,192)
Stock compensation expense	(575)	(12,572)
Income from operations	$ 54,977	$ 132,157

(1) Percent of total revenues.

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% of revenues during the three months ended March 31, 2004 and 2003.

United States. United States revenues in the first quarter of 2004 increased approximately $361 million, or 151% compared to the same period in 2003. Approximately $257 million of this increase was due to incremental revenue associated with acquisitions completed during the past year. The remainder of the increase in legacy revenues resulted primarily from our search and marketplace properties. United States segment operating income before depreciation and amortization in the first quarter of 2004 increased approximately $114 million, or 147% compared to the same period of 2003. The increase is primarily due to the increase in United States revenues, as well as continued efforts to control discretionary spending during the period.

International. International revenues in the first quarter of 2004 increased approximately $114 million, or 257% compared to the same period in 2003. Approximately $93 million of this increase was due to incremental revenue associated with acquisitions completed during the past year. The remainder of the increase was primarily due to overall strength in the European and Asian markets, which resulted in an increase in legacy revenues, primarily from our search and marketplace properties. International segment operating income before depreciation and amortization in the first quarter of 2004 increased approximately $13 million compared to the same period in 2003. These increases were primarily a result of the increase in International revenues and continued efforts to control discretionary spending.

Acquisition

On January 2, 2004, we completed the acquisition of all of the outstanding capital shares of 3721, a Hong Kong-based software development company. The acquisition combined Yahoo!'s global audience and 3721's keyword search technology to enable Yahoo! 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, we have recorded goodwill in connection with this transaction.

The total estimated purchase price of approximately $54 million consisted of approximately $51 million in cash consideration, approximately $2 million related to stock options exchanged, and direct transaction costs of approximately $1 million. The value of the stock options was determined using the Black-Scholes option valuation model. Under the terms of the acquisition, we have also contingently agreed to pay up to a maximum amount of $70 million in cash, part of which will be an addition to the purchase price and the remainder will be operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met.

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

Cash acquired	$	6,917
Other tangible assets acquired		4,553
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		37,523
Total assets acquired		61,393
Liabilities assumed		(9,467)
Deferred stock-based compensation		1,757
Total	$	53,683

Amortizable intangible assets consist of trade names, trademarks and domain names, customer, affiliate and advertiser related intangible assets and developed technology and patents, with useful lives not exceeding five years. Based on a preliminary estimate, no amount has been allocated to in-process research and development, and $38 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. Goodwill will not be amortized and will be tested for impairment, at least annually. The preliminary purchase price allocation for 3721 is subject to revision as more detailed analysis is 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 3721 will change the amount of the purchase price allocable to goodwill.

Related Party Transactions

SOFTBANK Corp., including its consolidated affiliates ("SOFTBANK"), was approximately a four percent stockholder of the Company at March 31, 2004. We have joint ventures with SOFTBANK in France, Germany, Japan, Korea and the United Kingdom to establish and manage versions of the Yahoo! Internet Guide for those countries. A Managing Partner of a SOFTBANK affiliate is also a member of our Board of Directors. In March 2004, SOFTBANK and the Company entered into an agreement that provided that, so long as SOFTBANK directly or indirectly owns or controls any shares of the Company's common stock, SOFTBANK shall, at the Company's direction, either vote or cause to be voted such shares of common stock in accordance with any written voting recommendation of the Company's Board of Directors or grant a proxy to the Company entitling the Company to vote or cause to be voted such shares in proportion to the votes cast by the other stockholders of the Company. Revenues from SOFTBANK accounted for less than one percent of total revenues for the three months ended March 31, 2004 and 2003. We believe contracted prices in the relevant transactions are comparable to those with our other similarly situated customers.

Yahoo! and other third parties are limited partners in Softbank Capital Partners LP ("Softbank Capital"), a venture capital fund for which a SOFTBANK affiliate is the General Partner. We initially committed in July 1999 to a total investment of $30 million in the fund, and subsequently committed to invest an additional $6 million. To date, the total investment by the Company in Softbank Capital is approximately $34 million. Pursuant to the Partnership Agreement, the Company invested on the same terms and on the same basis as all other limited partners.

In addition, we have commercial arrangements with Yahoo! Japan, consisting of services and license fees for which the net cost was approximately $8 million in the three months ended March 31, 2004.

Critical Accounting Policies 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 financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to uncollectible receivables, investment values, intangible assets, income taxes, restructuring costs and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be 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 under different assumptions or conditions.

We believe the following critical accounting policies are affected by more significant judgments used in the preparation of our consolidated financial statements: revenue recognition; valuation allowances, specifically the allowance for doubtful accounts and deferred tax assets; accounting for investments in private and publicly-traded securities; and goodwill and other intangible asset impairment.

Revenue recognition. Our revenues are primarily generated from the sale of rich media advertisements (banner and other media advertisements), sponsorship and text-link advertisements (including pay-for-performance search advertisements), paid inclusion, algorithmic searches, transactions and from a variety of consumer and business fee and listings-based services. In accordance with generally accepted accounting principles in the United States, the recognition of these revenues is partly based on our assessment of the probability of collection of the resulting accounts receivable balance. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection of accounts receivable had been made at the time the transactions were recorded in revenue.

Valuation Allowances. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its 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.

Accounting for investments in private and publicly-traded securities. We hold equity interests in companies, some of which are publicly traded and have highly volatile share prices. We record an investment impairment charge when we believe an investment has experienced a decline in value that is judged to be other than temporary. We monitor our investments for impairment by considering current factors including economic environment, market conditions and the operational performance and other specific factors relating to the business underlying the investment. Future adverse changes in these factors could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future. We did not record any impairments on the carrying value of privately held equity securities during the three months ended March 31, 2004. We recorded approximately $4 million of impairments on the carrying value of privately held equity securities during the three months ended March 31, 2003.

Goodwill Impairment. Our long-lived assets include goodwill and other intangible assets. Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" requires that goodwill be 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 and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment losses recorded in the future could have a material adverse impact on our financial condition and results of operations.

Intangible Asset Impairment. Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," requires that we record an impairment charge on finite-lived intangibles or long-lived assets to be held and used when we determine that the carrying value of intangible assets and long-lived assets may not be recoverable. Based on the existence of one or more indicators of impairment, we measure any impairment of intangibles or long-lived 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 cash flows require significant judgment based on our historical results and anticipated results and are subject to many factors.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity, as defined, to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Certain provisions of FIN 46 became effective during the quarter ended March 31, 2004, the adoption of which did not have a material impact on our financial position, cash flows or results of operations.

In April 2004, the Emerging Issues Task Force issued Statement No. 03-06 "Participating Securities and the Two-Class Method Under FASB Statement No. 128, *Earnings Per Share*" ("EITF 03-06"). EITF 03-06 addresses a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. The issue also provides further guidance in applying the two-class method of calculating earnings per share, clarifying what constitutes a participating security and how to apply the two-class method of computing earnings per share once it is determined that a security is participating, including how to allocate undistributed earnings to such a security. EITF 03-06 is effective for fiscal periods beginning after March 31, 2004. We are currently evaluating the effect of adopting EITF 03-06 on our financial statements.

Liquidity and Capital Resources

Summarized cash flow information is as follows (in thousands):

	Three Months Ended	
	March 31, 2003	**March 31, 2004**

Cash provided by operating activities	$ 98,628	$ 235,975
Cash provided by (used in) investing activities	45,538	(204,040)
Cash provided by financing activities	23,567	42,295

We invest excess cash predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than two years, with the intent to make such funds readily available for operating purposes, including expansion of operations and potential acquisitions or other transactions. As of March 31, 2004, we had cash, cash equivalents and investments in marketable securities totaling approximately $2.8 billion, compared to $2.6 billion at December 31, 2003.

Cash provided by operating activities of approximately $236 million for the quarter ended March 31, 2004 consisted primarily of net income of approximately $101 million adjusted for non-cash items of approximately $119 million and approximately $16 million provided by working capital. The increase in cash provided by operating activities was due to higher net income levels, adjusted for non-cash items, including depreciation and amortization of approximately $66 million and tax benefits from stock options of approximately $61 million. The strong collections of accounts receivable provided an increased contribution of cash from working capital. Cash provided by operating activities for the three months ended March 31, 2003 of approximately $99 million consisted primarily of net income of approximately $47 million adjusted for non-cash items of approximately $46 million and approximately $6 million provided by working capital and other activities.

Cash used in investing activities in the three months ended March 31, 2004 of approximately $204 million was primarily attributable to purchases of investments in marketable securities and other investments (net of proceeds from sales and maturities) of approximately $132 million, cash paid (net of cash acquired) for acquisitions of approximately $44 million, and capital expenditures totaling approximately $39 million. Capital expenditures have generally comprised purchases of computer hardware, software, server equipment and furniture and fixtures, and are currently expected to range from $175 million to $205 million in 2004 as we invest in expansion of our network capabilities. Cash provided by investing activities in the three months ended March 31, 2003 of approximately $46 million was primarily attributable to proceeds from sales and maturities of investments in marketable securities and other investments (net of purchases) of approximately $293 million, partially offset by cash paid (net of cash acquired) for acquisitions of approximately $228 million, and capital expenditures of approximately $21 million.

Cash provided by financing activities in the three months ended March 31, 2004 of approximately $42 million was primarily attributable to proceeds from issuance of common stock of approximately $92 million as a result of the exercise of employee stock options, partially offset by cash used in a structured stock repurchase transaction in the amount of $50 million. The structured stock repurchase will be settled in cash or stock depending on the market price of the Company’s common stock on the date of the settlement. Upon settlement, the Company will either have its capital investment returned with a premium or receive up to approximately 2.6 million shares (split-adjusted) of its own common stock, respectively, depending on whether the market price of Yahoo! common stock is above or below $20.56 (split-adjusted), the pre-determined price agreed in connection with such transaction. Cash provided by financing activities in the three months ended March 31, 2003 of approximately $24 million was due to proceeds from the issuance of common stock as a result of the exercise of employee stock options.

Commitments and Contractual Obligations

Operating Leases. We have entered into various non-cancelable operating lease agreements for our offices throughout the U.S. and for our international subsidiaries with original lease periods ranging up to 15 years and expiring between 2004 and 2018. In addition, we have entered into various sublease arrangements associated with our excess facilities. Such subleases have terms extending through 2006.

Net lease commitments as of March 31, 2004 can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Nine months ending December 31, 2004	$ 36	$ (5)	$ 31
Years ending December 31,			
2005	37	(4)	33
2006	26	(3)	23
2007	21	—	21
2008	17	—	17
2009	15	—	15
Thereafter	90	—	90
Total lease commitments	$ 242	$ (12)	$ 230

Other Commitments. In the ordinary course of business, Yahoo! enters into various arrangements with vendors and other business partners, principally for marketing, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond March 31, 2005 that are not included in the table below.

In connection with our commercial agreements, we provide indemnifications of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements and out of 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.   In addition, the Company has 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, officers and employees of acquired companies, in certain circumstances. The indemnification provided by us to our officers and directors does not have a stipulated maximum, therefore we are not able to develop a reasonable estimate of the maximum liabilities. To date, we have not incurred material costs as a result of such obligations and have not accrued any liabilities related to such indemnification obligations in our financial statements.

We continue to increase capital expenditures and operating lease commitments, which is consistent with our increased staffing and operational expansion, and we anticipate that this will continue in the future as business conditions merit. Additionally, we will continue to evaluate possible acquisitions of, or investments in businesses, products, and technologies that are complementary to our business, which may require the use of cash. Management believes existing cash and investments will be sufficient to meet operating requirements for at least the next twelve months; however, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position beyond March 31, 2005. The sale of additional securities could result in further dilution to our stockholders.

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. The contingent earn-out payment is not included in the table below.

On January 2, 2004, we completed our acquisition of 3721. In January 2004, approximately $51 million in cash consideration was paid. Under the terms of the acquisition, we have also contingently agreed to pay up to a maximum of $70 million in cash, part of which will be an addition to the purchase price and the remainder operating expense, over the two-year period ending December 31, 2005, if certain performance criteria are met. The contingent payment is not included in the table below.

Contractual Obligations. Contractual obligations at March 31, 2004 are as follows (in millions):

	Payments due by period				
	Total	**Due in 2004**	**Due in 2005-006**	**Due in 2007-008**	**Due in 2009 or after**
Long-term debt (1)	$ 750	$ —	$ —	$ 750	$ —
Operating lease obligations, net of sublease income	230	31	56	38	105
Affiliate commitments (2)	213	55	158	—	—
Noncancelable purchase obligations	48	26	22	—	—
Total contractual obligations	$ 1,241	$ 112	$ 236	$ 788	$ 105

(1) The long-term debt matures in April 2008, unless converted into Yahoo! common stock at a conversion price of $20.50 per share (split adjusted), subject to adjustment upon the occurrence of certain events. Upon conversion, Yahoo! has the right to deliver cash in lieu of common stock.

(2) We are obligated to make payments under contracts to provide search services to our third party affiliates, which represent traffic acquisition costs.

At March 31, 2004 and 2003, 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

If our competitors are more successful in attracting and retaining customers and users, then our revenues could decline.

We compete with many other providers of online navigation, Web search, commercial search, information, entertainment, business, recruitment, community, electronic commerce and Internet access services. As we expand the scope of our Internet offerings, we will compete directly with a greater number of Internet sites, media companies, and companies providing business services across a wide range of different online services, including:

- companies offering communications, Web search, commercial search, information, community and entertainment services and Internet access either on a stand alone basis or integrated into other products and media properties;
- vertical markets where competitors may have advantages in expertise, brand recognition, available financial and other resources, and other factors;
- online employment recruiting companies; and
- online merchant hosting services.

In order to compete effectively, we may need to expend significant internal engineering resources or acquire other technologies and companies to provide or enhance our capabilities. If we are unable to maintain or expand our customer and user base in the future, our revenues may decline.

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

We face significant competition from companies that have combined a variety of services under one brand name in a manner similar to Yahoo!, including Time Warner's America Online business ("AOL" or America Online"), Microsoft Corporation ("Microsoft" or "MSN") and Google Inc. ("Google"). The combination of America Online and Time Warner provides America Online with content from Time Warner's movie and television, music, books and periodicals, news, sports and other media holdings; access to a network of cable and other broadband delivery technologies; and considerable resources for future growth and expansion. The America Online/Time Warner combination also provides America Online with access to a broad potential customer base consisting of Time Warner's current customers and subscribers of its various media properties. Many of these competitors are developing new technologies, allocating extensive resources to product development and marketing and expanding their offerings which may be competitive with our offerings. For example, Google has recently announced the development of a consumer email service and has launched shopping services that may be competitive with services that we offer and Microsoft has announced plans to develop its own search services. In certain of these cases, most notably AOL and MSN, our competition has a direct billing relationship with a greater number of their users through access and other services than we have with our users through certain of our premium services. This relationship permits our competitors to have several potential advantages including the potential to be more effective than us in targeting services and advertisements to the specific taste of their users.

Our acquisitions of Inktomi and Overture expose our business to greater competition in the area of algorithmic Web search and paid inclusion services.

In March 2003 we completed our acquisition of Inktomi Corporation ("Inktomi"), a provider of algorithmic Web search and paid inclusion services. In addition, we completed our acquisition of Overture Services, Inc. ("Overture") in October 2003, increasing our algorithmic Web search and paid inclusion business through Overture's Alta Vista and Fast Search & Transfer Web search businesses. As a result of these acquisitions, we compete directly with other providers of Web search and related search services, including, among others, AskJeeves, Inc., Google, and LookSmart, Ltd. Some of these competitors may have longer operating histories focusing on providing Web search services, larger customer or user bases and greater brand recognition for their Web search businesses. In addition to the general acquisition risks highlighted in these risk factors, we are subject to the risk that other companies with greater operational, strategic, financial, personnel or other resources may choose to enter the Web search or paid inclusion spaces by acquisition or internal development, and may create greater competition for advertisers, customers and users.

If we are unable to provide search technologies and services which generate significant traffic to our Web sites, our business could be harmed.

We recently deployed our own web search technology to provide web search results on our network. We have limited experience in operating our own search service. Web search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent enhancements. We must continually invest in improving user experience, search relevance, speed, our operational infrastructure and other aspects of our search technology 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 Web sites, our business could be harmed.

If Overture fails to maintain its advertiser, user, business and affiliate constituencies, our revenues could significantly decline and our business could be adversely affected.

Overture's pay-for-performance search service is comprised of advertiser-generated listings, which are screened for relevance and accessed by users and businesses through the Yahoo! properties and through Overture's affiliates, a network of other Web properties that have integrated Overture's search service into their sites or that direct user traffic to Overture's sites. The search listings are ranked according to the advertiser's bid; that is, the higher the bid, the higher the ranking. Advertisers pay Overture the bid price for clicks on the advertiser's search listing (also known as a paid introduction, click-through or a paid click). Overture's success in pay-for-performance search services depends in part on the maintenance of a critical mass of advertisers, users, and traffic generated by the Yahoo! properties and Overture's affiliates. Such a critical mass encourages increased participation in Overture's paid placement search marketplace. To the extent Overture experiences a decline in the number of any of these constituents, the value of Overture's paid placement service could be harmed, and our revenues or business could be adversely affected.

Our recent acquisition of Overture exposes our business to greater competition with providers of pay-for-performance advertising search services.

As a result of our acquisition of Overture, we compete directly with other providers of pay-for-performance advertising services that are similar to Overture's, including Espotting Media, Inc. (which is under agreement to be acquired by FindWhat), FindWhat.com, Google Inc., LookSmart, Ltd., and Terra Lycos. In addition, we believe it is likely that there will be additional entrants to the pay-for-performance search market. Some of these entrants may have greater operational, strategic, financial, personnel or other resources than we do, as well as greater brand recognition. These competitors compete against Overture for affiliate arrangements and could cause Overture to enter into affiliate arrangements with less favorable terms, lose current affiliates or not acquire new affiliates, which could reduce the number of click-throughs, increase the amount of revenue shared with affiliates, and reduce total revenues and thereby harm our business, operating results and financial condition.

Acquisitions could result in operating difficulties.

As part of our business strategy, we acquired Overture in October 2003, 3721 Network Software Company Limited ("3721") in January 2004, Kelkoo S.A. ("Kelkoo") in April 2004 and have completed several other acquisitions since inception. We 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. The acquisitions of Overture, 3721 and Kelkoo were accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of our acquired companies with and into Yahoo!'s operations;
- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology and rights into our products and unanticipated expenses related to such integration;
- the failure to further successfully develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;

- the impairment of relationships with customers of the acquired companies or our own customers as a result of any integration of operations;
- the impairment of relationships with employees of the acquired companies or our own business as a result of any integration of new management personnel;
- in the case of 3721 and Kelkoo, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences; and
- the potential unknown liabilities associated with the acquired companies.

We may experience similar risks in connection with our future acquisitions. We may not be successful in addressing these risks or any other problems encountered in connection with the acquisitions of Overture, 3721 and Kelkoo or that we could encounter in future acquisitions, which would harm our business or cause us to fail to realize the anticipated benefits of our acquisitions.

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

Many parties are actively developing 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 these technologies and rights associated with online business are likely to arise in the future. In addition to existing patents and intellectual property rights, we anticipate that additional third-party patents related to our services will be issued in the future. From time to time, parties assert patent infringement claims against us in the form of letters, lawsuits and other forms of communications. Currently, we are engaged in several lawsuits regarding patent issues and have been notified of a number of other potential disputes. We expect that we will increasingly be subject to patent litigation as our services expand.

In addition to patent claims, third parties have asserted and most likely will continue 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. 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 with several companies, each of which has claimed that allowing advertisers to bid on certain search terms constitutes trademark infringement.

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, if available, or be prevented from using the rights, which could require us to change our business practices in the future. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. As a result, these claims could harm our business.

Our intellectual property rights are valuable and any inability to protect them could dilute our brand image or harm our business.

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 success. Effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed or made available through the Internet. Further, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. If we are unable to protect our trademarks from unauthorized use, our brand image may be harmed. 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 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. Any impairment of our brand image could harm our business and cause our stock price to decline. In addition, protecting our intellectual property and other proprietary rights can be expensive. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results. In turn, this could harm the results of our business and lower our stock price.

Our international segment competes with local Internet service providers that may have a competitive advantage.

On an international level, we compete directly with local Internet Service Providers ("ISPs"); they may have several advantages, including greater knowledge about the particular country or local market and access to significant financial or strategic resources in such local markets. We must continue to improve our product offerings, obtain more knowledge about our users and their preferences, deepen our relationships with our users as well as increase our branding and other marketing activities in order to remain competitive and strengthen our international market position.

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 continue to 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 the Overture service will not vary widely from period to period. As revenues from sources other than advertising increase, it may become more difficult to predict our financial results based on historical performance. Because of the rapidly changing market we serve, period-to-period comparisons of operating results are not likely to be meaningful. You should not rely on the results for any period as an indication of future performance.

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.

Yahoo! currently expects that its 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.

We may be required to record a significant charge to earnings if we must reassess our goodwill or amortizable intangible assets.

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 financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. At March 31, 2004, our goodwill and amortizable intangible assets were $2.3 billion. In the first quarter of 2002, we recorded a transitional impairment charge of $64 million as a cumulative effect of an accounting change, upon the adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

The majority of our revenues are derived from marketing services. Demand from our current and potential clients for online advertising is difficult to forecast accurately.

For the quarter ended March 31, 2004, approximately 84 percent of our total revenues came from marketing services. Our ability to continue to achieve substantial advertising revenue depends upon:

- growth of our user base, including through our email and other communications services;
- broadening our relationships with advertisers to small and medium size businesses;
- our user base being attractive to advertisers;
- demand for our commercial search services by advertisers, users and businesses, including prices paid by advertisers, the number of searches performed by users and the rate at which they click-through to commercial search results;
- our ability to maintain our affiliate program for our commercial search services;
- our ability to generate significant traffic to our Websites;
- our ability to derive better demographic and other information from our users; and
- continued acceptance of the Web by advertisers as an advertising medium.

Our agreements with advertisers and sponsors generally have terms of three years or less and, in many cases, the terms are one year or less or, in the case of Overture's business, may be immediately terminable by the advertiser. The agreements often have payments contingent on usage or "click-through" levels. Accordingly, it is difficult to forecast these 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 pay-for-performance advertising services, and are fixed over the short-term with respect to certain categories. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall.

Overture depends on a limited number of sources to direct users and businesses to its service to conduct searches.

The users and businesses that conduct searches on Overture's service come from a limited number of sources. In addition to the Yahoo! properties, sources for users conducting searches are members of Overture's affiliate network, including portals, browsers, and other affiliates. Overture's agreements with affiliates vary in duration, and depending on the agreement, provide varying levels of discretion to the affiliate in the implementation of the Overture service, including the degree to which affiliates can modify the presentation of the Overture search results on their websites or integrate the Overture services with their own services, and may be terminable upon the occurrence of certain events, including failure to meet certain service levels, material breaches of agreement terms, changes in control (including the change of control of Overture which occurred with Yahoo!'s acquisition of Overture) or in some instances, at will. Overture may not be successful in renewing any of its affiliate agreements, or if they are renewed, they may not be on as favorable terms. The loss of any of these affiliates or adverse change in implementation of the Overture service by any of our affiliates could harm our ability to generate revenue and our operating results.

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

Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. In the past, the overall market for advertising, including Internet advertising, was generally characterized by softness of demand and the reduction of marketing and advertising budgets or the delay in spending of budgeted resources. As a result, advertising spending decreased. Since Yahoo! derives a large part of its revenues from advertising fees, any decreases in or delays of advertising spending could reduce our revenues or negatively impact our ability to grow our revenues. Even as economic conditions improve, marketing budgets and advertising spending may not increase from current levels.

Due to intense competition, we may not be able to generate substantial revenues from the Internet access market.

In 2002 we launched SBC Yahoo! DSL and SBC Yahoo! Dial, an Internet access service provided through an alliance with SBC Communications Inc. In 2003 we launched BT Yahoo! Internet, a range of broadband and dial-up Internet access services provided in the United Kingdom through an alliance with British Telecommunications plc ("BT"). These access services combine customized content and services from Yahoo! (including browser and other communications services) and Internet access from SBC Internet Services (an affiliate of SBC Communications Inc.) and BT. In January 2004, we announced a similar alliance with Rogers Cable Communications Inc. ("Rogers") to provide cable broadband Internet access service in Canada. These Internet access services compete with many large companies, some of which may have substantially greater market presence (including an existing user base), financial, technical, marketing or other resources than those committed to the product offerings with SBC, BT and Rogers. In the United States, these services primarily compete directly or indirectly with established Internet services, such as AOL and MSN; other national telecommunications companies and regional Bell operating companies; and broadband Internet access providers such as Earthlink, Inc., Comcast Corporation, and other cable broadband providers. In the United Kingdom, these services primarily compete directly or indirectly with established Internet services, such as AOL and Freeserve plc; other major UK Internet service providers; and cable broadband providers such as NTL Incoporated and Telewest Communications. In Canada, these services primarily compete with Bell Canada's Sympatico and Aliant Inc. As a result of these and other competitive factors, these services may not be able to attract, grow or retain a customer base, which would negatively impact our ability to sell customized content and services through this channel.

Our success in the Internet access market will depend on technical and customer service issues, which we have a limited ability to control.

Internet access services, including SBC Yahoo! DSL, SBC Yahoo! Dial and BT Yahoo! Internet, are susceptible to natural or man-made disasters such as earthquakes, floods, fires, power loss, or sabotage, as well as interruptions from technology malfunctions, computer viruses or hacker attacks. Other potential service interruptions may result from unanticipated demands on network infrastructure, increased traffic or problems in customer service to our access customers. Our ability to control technical and customer service issues is further limited by our dependence on SBC and BT for connectivity, customer service, joint marketing and technical integration of aspects of our access service. Significant disruptions in our access service could harm our goodwill, the Yahoo! brand and ultimately could significantly and negatively impact the amount of revenue we may earn from our service.

Some of our sponsorship arrangements may not generate anticipated revenues.

A key element of our strategy is to generate marketing services revenue through sponsored services and placements by third parties in our online media properties in addition to banner advertising. We typically receive 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 fees we are entitled to receive may be adjusted downwards;
- we may be required to “make good” on our obligations by providing alternative services;
- the sponsors 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.

We may not be successful in expanding the number of users of our electronic commerce services.

We have focused, and intend to continue to focus, significant resources on the development and enhancement of our electronic commerce properties, such as Yahoo! Shopping. The success of our electronic commerce properties depends on, among other things, our ability to attract and retain well-known brands among our network of retailers, the ability to generate traffic to our commerce properties, and, in some cases, the rate at which users click through to search results. Through our electronic commerce properties, we do not establish a direct billing relationship with our users as a result of any purchases they may make with the retailers. The revenue that we derive from our electronic commerce properties is typically in the form of lead-based fees, wherein 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 service. If our users bypass our electronic commerce properties, such as Yahoo! Shopping, and contact retailers directly, our revenue could decline. Competing providers of online shopping, including merchants with whom we have relationships, may provide a more convenient and comprehensive online shopping experience due to their singular focus on electronic commerce. As a result, we may have difficulty competing with those merchants for users of electronic commerce services and as a consequence our revenue could decline or we could fail to generate significant revenues from electronic commerce.

We will continue to operate in international markets in which we have limited experience and are faced with relatively higher costs and are exposed to greater risks.

A key part of our strategy is to develop Yahoo!-branded online properties and expand our commercial search offerings in international markets. We have developed, through joint ventures, subsidiaries and branch offices, localized properties in over 20 international countries. We also provide search services in 15 international countries. To date, we have only limited experience in marketing and operating our products and services internationally, and we rely on the efforts and abilities of our foreign business partners in such activities.

We believe that in light of substantial competition, we need to expand our operations in international markets quickly in order to obtain market share effectively. However, in a number of international markets, especially those in Europe, we face substantial competition from ISPs that offer or may offer their own navigational services and from other companies that provide commercial search services. Many of these companies have a dominant market share in their territories. Furthermore, foreign providers of competing online services may 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. 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. We have selected international markets that may not develop at a rate that supports our level of investment. In particular, certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium.

Our international operations are subject to increased risks.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international presence, there are certain risks inherent in doing business on an international level, including:

- trade barriers and unexpected changes in regulatory requirements;
- difficulties in developing, staffing and simultaneously managing a large number of unique foreign operations as a result of distance, language and cultural differences;
- longer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- import or export restrictions;
- seasonal reductions 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.

If key personnel leave unexpectedly and are not replaced, we may not be able to execute our business plan.

We are substantially dependent on the continued services of our key personnel, 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. In addition, as part of our integration of Overture’s personnel and operations, we may lose key employees of Overture. If any of these individuals were to leave unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. Many of our management 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. While management personnel are typically granted additional stock options subsequent to their hire date, which will usually vest over a period of four years to provide additional incentive to remain at Yahoo!, the initial option grant is typically the largest for a given position, and an employee may be more likely to leave Yahoo! upon completion of the vesting period for the initial option grant.

If we are unable to hire qualified personnel in designated growth areas, we may not be able to execute our business plan.

We expect that we will need to hire additional personnel in designated growth areas. The competition for qualified personnel can be intense, particularly in the San Francisco Bay Area, where our corporate headquarters are located. At times, we have experienced difficulties in hiring personnel with the right training or experience, particularly in technical areas. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, we may be unable to meet our business plan and as a result our stock price may decline.

We may have difficulty scaling and adapting our existing 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 numbers of users and delivering daily page views which are beyond previous standards for Internet usage. In addition, the services offered by Yahoo!, and popular with users and customers, have changed significantly in the past, are expected to change rapidly in the future, and are difficult to predict. 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 architectures utilized for our services are highly complex and may not provide satisfactory service in the future, especially as the usage levels of email and certain other services increase, the rate of unsolicited email continues to increase in volume and complexity and the number of advertisers utilizing the Overture service increases. 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 demand for our services increases, 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. An unanticipated loss of traffic, increased costs, inefficiencies or failures to adapt to new technologies or user requirements and the associated adjustments to our architecture could harm our operating results and financial condition.

Our competitors often provide Internet access or computer hardware to our users, and our competitors could make it difficult for our users to access our services, which in turn, could reduce the number of our users.

Our users must access our services through an Internet access provider, including providers of cable and DSL Internet access, with which the user establishes a direct billing relationship using a personal computer or other access device. To the extent that an access provider (other than those with which we have a relationship), such as AOL or MSN, or a computer or computing device manufacturer offers online services or properties 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. Also, because the access provider gathers information from the user in connection with the establishment of the billing relationship, the access provider may be more effective than us in tailoring services and advertisements to the specific tastes of the user. To the extent that a user opts to use the services offered by an access provider (other than those with which we have a relationship) or those offered by computer or computing device manufacturers rather than the services provided by us, our revenues 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 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, 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 will fail to capture a sufficient share of an increasingly important portion of the market for online services.

We rely on the value of the Yahoo! brand, and the costs of maintaining and enhancing our brand awareness are increasing.

We believe that maintaining and expanding the Yahoo! brand (and our other brands, including HotJobs, Inktomi, LAUNCH, and Overture) 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 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, such 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.

The successful operation of our business depends upon the supply of critical elements from other companies and any interruption in that supply could cause service interruptions or reduce the quality of our product offerings.

We depend upon third parties, to a substantial extent, for several critical elements of our business, including various technology, infrastructure, content development, software and distribution components.

Technology and Infrastructure. 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 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. Any financial difficulties for 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 manufacturer 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 products and 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 and our business and could expose us to liabilities to third parties.

Distribution Relationships. In addition to our relationships with access providers such as SBC and BT, to increase traffic for our online properties and services and make them more available and attractive to advertisers and consumers, we have certain distribution agreements and informal relationships with, operators of online networks and leading Websites, electronics companies, and computer manufacturers. These distribution arrangements typically are not exclusive and do not extend over a significant amount of time. Further, some of our distributors are competitors or potential competitors who may not renew their distribution contracts with us. Potential distributors may not offer distribution of our properties and services on reasonable terms, or at all. In addition, as new methods for accessing the Web become available, including through alternative devices, we may need to enter into additional distribution relationships. 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.

Streaming Media Software. We rely on the two leading providers of streaming media products, RealNetworks, Inc. and Microsoft, 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 will be adversely affected.

Content. Our future success depends upon our ability to aggregate compelling content and deliver that content through our online properties. We license much of the content that attracts users to our online properties, such as news items, stock quotes, weather reports, maps and audio and video content from third parties. In particular, 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. We may be unable to enter into or preserve relationships with the third parties whose content we seek to obtain. Many of our current licenses for third-party content extend for a period of less than two years and there can be no guarantee that they will be renewed upon their expiration. In addition, as competition for compelling content increases both domestically and abroad, 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 may be able to offer similar or identical content. Likewise, most sports and entertainment content available on our online properties are also available on other media like radio or television. These media are currently, and for the foreseeable future will be, much more widely adopted for listening or viewing such content than the Web. These factors also increase 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, 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 on our online properties may not grow at all or may grow at a slower rate than anticipated, which would harm our operating results.

As we provide more audio and video content, particularly music, we may be required to spend significant amounts of money on content acquisition and content broadcasts.

In the past, the majority of the content that we provided to our users was in print, picture or graphical format and was either created internally or licensed to us by third parties for little or no charge. However, we have been providing and intend to continue to provide increasing amounts of audio and video content to our users, such as the broadcast of music, film content, speeches, news footage, concerts and other special events, through our media and entertainment properties. We believe that users of Internet services such as the Yahoo! online properties will increasingly demand high-quality audio and video content. Such content may require us to make substantial payments to third parties from whom we license or acquire such content.

For example, in order to broadcast music through our online properties, we are currently required to pay royalties both on the copyright in the musical compositions and the copyright in the actual sound recordings of the music to be broadcast. The revenue we receive as a result of our audio and video broadcasts may not justify the costs of providing such broadcasts.

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

We have experienced dramatic growth in personnel since inception and expect to continue to hire additional personnel in selected areas. This growth requires significant time and resource commitments from us and 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 anticipate our future growth, our business will be adversely affected.

Additionally, our business relies on our financial reporting and data systems (including our systems for billing users of our fee-based services), which have grown increasingly complex in the recent past due to acquisitions and the diversification and complexity of our business. Our ability to operate our business efficiently depends on these systems and if we are unable to adapt to these changes, our business will be adversely affected.

We are subject to U.S. and foreign government regulation of the Internet, the impact of which is difficult to predict.

We are subject to general business regulations and laws, as well as regulations and laws directly applicable to the Internet. As we continue to expand the scope of our properties and service offerings, the application of existing laws and regulations to Yahoo! relating to issues such as user privacy, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, consumer protection, content regulation, quality of products and services, and intellectual property ownership and infringement can be unclear. In addition, we will also be subject to 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, tobacco or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Any existing or new legislation applicable to us could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and dampen the growth in use of the Web.

Several federal laws, including the following, could have an impact on our business. The Digital Millennium Copyright Act 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. 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. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

We post our privacy policies and practices concerning the use and disclosure of user data. In addition, GeoCities, a company we acquired in 1999, is required to comply with a consent order between it and the Federal Trade Commission (the "FTC"), which imposes certain obligations and restrictions with respect to information collected from users. Any failure by us to comply with our posted privacy policies, the consent order, FTC requirements or other privacy-related laws and regulations could result in proceedings by the FTC 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 materially and adversely affect our business through a decrease in user registrations and revenues. This could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

Due to the nature of the Web, it is possible that the governments of other states and foreign countries might attempt to regulate Web transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) could increase the costs of regulatory compliance for us or force us to change our business practices.

We may be subject to legal liability for online services.

We host a wide variety of services that enable individuals to exchange information, generate content, conduct business and engage in various online activities on an international basis, including public message posting and services relating to online auctions and homesteading. 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 abroad. 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. Due to the unsettled nature of the law in this area, 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 distraction of our management and other resources. In addition, we are aware that governmental agencies are currently investigating the conduct of online auctions.

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 these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate.

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 do not ultimately result in liability.

We issued $750 million of zero coupon senior convertible notes due April 2008 which we may not be able to repay in cash and could result in dilution of our earnings per share.

In April 2003, we issued $750 million of zero coupon senior convertible notes due April 1, 2008. The notes are convertible into our common stock at a conversion price of $20.50 per share (split-adjusted), which would result in the issuance of an aggregate of 37 million shares (split-adjusted), subject to adjustment upon the occurrence of specified events. Therefore, each $1,000 principal amount of the notes will initially be convertible into 48.7804 shares (split-adjusted) of our common stock prior to April 1, 2008 if the sale price of our common stock issuable upon conversion of the notes reaches a specified threshold or specified corporate transactions have occurred. The specified thresholds for conversion prior to the maturity date are (1) the closing sale price of our 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 exceeds 110 percent of the conversion price in effect on that 30th trading day, and (2) during the period beginning January 1, 2008 through the maturity date, the closing sale price of our common stock on the previous trading day was 110 percent or more of the then current conversion price. We may be required to repurchase all of the notes at face value following a fundamental change of the Company, such as a change of control, prior to maturity. Following a fundamental change of the Company, we may choose to pay the purchase price of the notes in cash, shares of our common stock, shares of common stock of the surviving corporation, or a combination of cash and shares of the applicable common stock. We may not have enough cash on hand or have the ability to access cash to pay the notes if presented on a fundamental change or at maturity. In addition, the purchase of our notes with shares of our common stock or the conversion of the notes into our common stock could result in dilution of our earnings per share.

Our stock price has been volatile historically and may continue to be volatile.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the first quarter of 2004, the closing sale prices of our common stock on the Nasdaq ranged from $20.83 to $24.87 per share (split-adjusted) and the closing sale price on May 3, 2004 was $26.15 per share (split-adjusted). 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 products 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.

Our operations could be significantly hindered by the occurrence of a natural disaster or other catastrophic event.

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. In addition, a significant portion of our network infrastructure is located in Northern California, an area susceptible to earthquakes. We do not have multiple site capacity for all of our services 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. In addition, despite our implementation of network security measures, our servers are vulnerable to computer viruses, physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems.

Technological or other assaults on our service could harm our business.

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 may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Any such event could reduce our revenue and harm our operating results and financial condition.

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 will now be 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 such 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.

Terrorist attacks and the recent hostilities in Iraq have contributed to economic instability in the United States and internationally, which could lead to reduced advertising spending by our customers.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope, and in March 2003, the United States became involved in hostilities with Iraq. These events, coupled with political instability elsewhere in the world have caused volatility in the financial markets and uncertainty in the global economy. Under these circumstances, there is a risk that our existing and potential customers may decrease spending, particularly for marketing services. Because marketing services continue to constitute a majority of our revenues, any such decrease in expenditures could materially and adversely affect our operating results and financial condition. In addition, the political and economic conditions described above may contribute to increased volatility in stock prices, which may cause our stock price to decline.

Special note regarding forward-looking statements.

Some of the statements in this Report constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “intend,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of such terms or other comparable terminology.   This Report includes, among others for fiscal 2004, statements regarding our:

- primary operating costs and expenses;
- capital expenditures;
- use of funds from the sale of convertible notes, together with cash and investments;
- operating lease arrangements;
- evaluation of possible acquisitions of, or investments in business, products and technologies; and
- existing cash and investments being sufficient to meet operating requirements.

These statements involve known and unknown risks, uncertainties, and other factors that may cause our or our industry’s results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed in these “Risk Factors” and elsewhere in this Report. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this Report to conform them to actual results.

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 have not used derivative financial instruments to hedge our investment portfolio. We invest excess cash in 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 March 31, 2004 we had investments in debt securities with maturities between three months and one year of approximately $767 million. Such investments had a weighted-average yield of approximately 2.04%. Investments in debt securities with maturities between one and five years of approximately $1.2 billion had a weighted-average yield of approximately 2.43%.   A hypothetical 100 basis point increase in interest rates would result in approximately $27 million decrease (approximately one percent) in the fair value of our available-for-sale securities at March 31, 2004.

The fair market value of our zero coupon senior convertible notes is subject to interest rate risk. Generally the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The interest changes affect the fair market value but do not impact our financial position, cash flows or results of operations. As of March 31, 2004, the fair value of the zero coupon senior convertible notes was approximately $1.0 billion based on quoted market prices.

Foreign Currency Risk. International revenues from our foreign subsidiaries accounted for approximately 21% of total revenues during the three months ended March 31, 2004. International sales are made mostly from our foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

Our international business is subject to risks, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility when compared to the United States. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Our exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to our foreign sales subsidiaries. These intercompany accounts are typically denominated in the functional currency of the foreign subsidiary. As exchange rates vary, our international financial results may vary from expectations and adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations for the three months ended March 31, 2004 was not material.

Investment Risk.   We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20 percent and we do not have the ability to exercise significant influence over operations. Since our initial investment, certain of these investments in privately held companies have become marketable equity securities upon the investees completing initial public offerings. Such investments are subject to significant fluctuations in fair market value due to the volatility of the stock market and are recorded as long-term investments. For these investments in public and privately-held companies, our policy is to monitor these investments for impairment by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and record reductions in carrying value when necessary. An impairment in the carrying value of our privately held investments of five percent would result in a decrease in the carrying value of our privately held investments and a charge to operations of approximately $2 million.

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, short-term and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of March 31, 2004, net unrealized gains 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, certain of which may be classified as derivatives, 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. We have realized gains and losses from both the sale of investments, as well as mergers and acquisitions of companies in which we have invested. As of March 31, 2004, we had available-for-sale equity investments with a fair value of approximately $5 million and a cost basis of approximately $4 million. The net unrealized gains have been recorded net of deferred taxes as a separate component of stockholders' equity. 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 operating results in future periods.

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! in the form of letters, lawsuits, and other forms of communication. 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 arising in connection with our email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy.

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. In October 2002, Robert Novak, doing business as PetsWarehouse and PetsWarehouse.com, filed a complaint in the United States District Court for the Eastern District of New York against Overture. In August 2003, Accor filed a complaint in the Nanterre District Court in France against Overture and Overture S.A.R.L., Overture's wholly-owned subsidiary in France. In May 2004, Government Employees Insurance Company filed a complaint in the Eastern District of Virginia against Overture. The plaintiffs in each of these cases claim, among other things, that they have 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. Overture has also been named as a defendant in several other trade name infringement actions filed in Los Angeles, California in which plaintiffs made similar claims. Yahoo! and Overture believe that Overture has meritorious defenses to liability and damages in each of these lawsuits and are contesting them vigorously.

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.

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 Media, Inc. ("LAUNCH") in the United States District Court for the Southern District of New York. 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!. 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. Yahoo! and LAUNCH do not believe that LAUNCH has infringed any rights of plaintiffs and intend to vigorously contest the lawsuit. The lawsuit is still in the discovery phase and we do not believe it is feasible to predict or determine the outcome or resolution of the LAUNCH litigation. The range of possible resolutions of the LAUNCH litigation could include judgments against us or settlements that could require substantial payments by us, which could have a material adverse impact on our financial position, results of operations or cash flows. An estimate of the potential loss, if any, or range of loss that could arise from the LAUNCH litigation cannot be made at this time. 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 as of March 2004.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court, 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 into case number 01 Civ. 6339. 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. Settlement discussions relating to this case on behalf of the named defendants have occurred over the last year, resulting in a final settlement memorandum of understanding with the plaintiffs in the case and Overture's insurance carriers. A proposal has been made for the settlement and release of claims against the issuer defendants, including Overture. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. 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 intend 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 us (as nominal defendant) and certain of our 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 allege 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. The complaints seek unspecified monetary damages and other relief purportedly on behalf of Yahoo! from the Derivative Defendants. We understand the Derivative Defendants deny any impropriety and intend to defend the lawsuits vigorously. We do not believe that the ultimate costs to resolve these matters will have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we believe there are procedural defects to permitting these complaints to proceed on Yahoo!'s behalf.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the June 30, 2000 10-Q 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	Rights Agreement, dated as of March 15, 2001, 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 March 19, 2001 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).
10.38*	Waiver and Voting Agreement between the Registrant and SOFTBANK Corp. dated February 26, 2004.
31.1*	Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated May 7, 2004.
31.2*	Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated May 7, 2004.

32*	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to section 18 U.S.C. section 1350 dated May 7, 2004.

* 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.

b. Reports on Form 8-K:

On January 6, 2004, the Company filed an amendment to a current report on Form 8-K/A to report that Yahoo! Holdings (Hong Kong) Limited, a wholly-owned subsidiary of the Company, had completed the acquisition of 3721 Network Software Company Limited.

On January 14, 2004, the Company filed a current report on Form 8-K to report that it had issued a press release announcing the Company's financial results for the quarter and full year ended December 31, 2003 and certain other information.

On March 26, 2004 the Company filed a Current Report on Form 8-K attaching as an exhibit a press release announcing that it had entered into a definitive agreement to acquire Kelkoo S.A.

Signatures

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YAHOO! INC.

Dated: May 7, 2004

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

Dated: May 7, 2004

By: /s/ PATRICIA CUTHBERT
Patricia Cuthbert
Vice President and Corporate Controller (Principal Accounting Officer)

YAHOO! INC.
Index to Exhibits

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WAIVER AND VOTING AGREEMENT

This WAIVER AND VOTING AGREEMENT, dated as of February 26, 2004 (this "Agreement"), is made by and between SOFTBANK Corp., a corporation organized under the laws of Japan ("SOFTBANK"), and Yahoo! Inc., a Delaware corporation ("Yahoo!").

WHEREAS, SOFTBANK, or one of its affiliates, and Yahoo! are parties to (i) a Consent and Resale Agreement dated March 25, 2002 (the "Resale Agreement"), which places certain restrictions (the "Restrictions") on SOFTBANK's ability to sell, transfer or otherwise dispose of shares of the common stock of Yahoo!, par value $0.001 per share, owned by SOFTBANK (the "Yahoo! Stock"), (ii) the Affiliate Agreement dated as of March 1, 1999 among Yahoo!, GeoCities and Softbank America Inc. (the "Affiliate Agreement") and (iii) the Stock Purchase Agreement dated as of July 7, 1999 between Yahoo! and Softbank Holdings Inc. (the "Stock Purchase Agreement");

WHEREAS, SOFTBANK intends to enter into a transaction, or series of transactions, pursuant to which it will monetize the Yahoo! Stock through the formation of certain partnership structures and/or the execution of certain loans, security agreements and/or financial derivative transactions with Citibank, N.A. in which SOFTBANK shall retain (except upon the occurrence and continuation of an event of default by SOFTBANK or its direct or indirect wholly-owned subsidiaries, an event which, with the giving of notice or passage of time or both, could result in an event of default by SOFTBANK or its direct or indirect wholly-owned subsidiaries or the rehypothecation of any securities underlying the financial derivative transaction) the sole power to vote the all shares of Yahoo! Stock on all matters (collectively, the "Transaction");

WHEREAS, the parties desire to waive application of the Restrictions to the Transaction, and desire to place certain voting restrictions on the Yahoo! Stock; and

WHEREAS, Section 5 of the Resale Agreement provides that any term of the Resale Agreement may be waived with the written consent of Yahoo! and SOFTBANK;

NOW, THEREFORE, in consideration of the premises and the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which the parties expressly acknowledge, the parties hereto hereby agree as follows:

1. Waiver of Restrictions. Yahoo! and SOFTBANK hereby agree that (i) the Restrictions set forth in Section 2.1 of the Resale Agreement shall not apply to any Transaction, or any part thereof, and (ii) any Transaction, and any part thereof, shall be deemed to not breach, and not be restricted in any way by, (A) such Section 2.1 or any other term or provision of the Resale Agreement that would otherwise be breached by the Transaction or any part thereof, (B) Section 2.1 of the Affiliate Agreement or (C) Section 4.5 of the Stock Purchase Agreement. Yahoo! further agrees that, in connection with the Transaction, the restrictive legend contemplated by Section 2.4 of the Resale Agreement and the portion of the restrictive legend contemplated by Section 2.2 of the Affiliate Agreement that refers to an agreement dated as of January 27, 1999 between the registered holder of certain certificates evidencing Yahoo! Stock and Yahoo! may be removed from the certificates evidencing the Yahoo! Stock and that SOFTBANK may require Yahoo! to issue new certificates evidencing the Yahoo! Stock to effectuate the removal of such legend or portion thereof, respectively.

2. Voting Restrictions. SOFTBANK hereby agrees that, effective as of the date hereof, so long as SOFTBANK, directly or indirectly, owns or controls any Yahoo! Stock, it shall, at Yahoo!'s direction, either (i) vote, or cause to be voted, the shares of such Yahoo! Stock in accordance with any written voting recommendation of the Yahoo! Board of Directors or (ii) grant a proxy to Yahoo! entitling Yahoo! to vote, or cause to be voted, the shares of such Yahoo! Stock in proportion to the votes cast by the stockholders of Yahoo! other than SOFTBANK, unless in each case SOFTBANK no longer retains the right to vote, or cause to be voted, the shares of such Yahoo! Stock pursuant to the provisions of any loan or security agreement or financial derivative contract entered into with a financial institution in connection with the Transaction.

3. Miscellaneous.

3.1 This Agreement may be executed in one or more counterparts and delivered by facsimile, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

3.2 This Agreement and the Resale Agreement set forth the entire understanding of the parties relating to subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the parties relating to the subject matter hereof and thereof. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of all the parties hereto.

3.3 This Agreement shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Delaware, without regard to its principles of conflict of laws.

3.4 In the event that one or more of the provisions of this Agreement should for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

YAHOO! INC.

By: /s/ Michael J. Callahan
Name: Michael J. Callahan
Title: SVP, General Counsel and Secretary

SOFTBANK CORP.

By: /s/ Masayoshi Son
Name: Masayoshi Son
Title: President & CEO

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)) 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) 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

   (c) 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: May 7, 2004

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)) 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) 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

   (c) 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: May 7, 2004

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

**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 March 31, 2004 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: May 7, 2004	By:	/s/ TERRY SEMEL Terry Semel Chief Executive Officer
Dated: May 7, 2004	By:	/s/ SUSAN DECKER Susan Decker Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Yahoo! Inc. and will be retained by Yahoo! Inc. and furnished to the Securities and Exchange Commission or its staff upon request.