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

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**Form 10-Q**

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

For the quarterly period ended March 31, 2010

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-28018

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**Yahoo! Inc.**

*(Exact name of Registrant as specified in its charter)*

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Delaware  
*(State or other jurisdiction of  
incorporation or organization)*

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

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

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

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

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

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

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

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

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

Class	Outstanding at April 30, 2010
Common Stock, \$0.001 par value	1,385,062,910

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**YAHOO! INC.**

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## PART I — FINANCIAL INFORMATION

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

## YAHOO! INC.

## Condensed Consolidated Statements of Income

	Three Months Ended	
	March 31, 2009	March 31, 2010
	(Unaudited, in thousands except per share amounts)	
Revenues	\$1,580,042	\$1,596,960
Cost of revenues	700,737	706,382
Gross profit	879,305	890,578
Operating expenses:		
Sales and marketing	321,112	313,538
Product development	306,043	266,077
General and administrative	136,997	110,428
Amortization of intangibles	9,667	8,102
Restructuring charges, net	4,801	4,412
Total operating expenses	778,620	702,557
Income from operations	100,685	188,021
Other income, net	4,960	86,328
Income before income taxes and earnings in equity interests	105,645	274,349
Provision for income taxes	(35,884)	(49,444)
Earnings in equity interests	48,934	87,374
Net income	118,695	312,279
Net income attributable to noncontrolling interests	(1,137)	(2,088)
Net income attributable to Yahoo! Inc.	\$ 117,558	\$ 310,191
Net income attributable to Yahoo! Inc. common stockholders per share — basic	\$ 0.08	\$ 0.22
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	\$ 0.08	\$ 0.22
Shares used in per share calculation — basic	1,391,526	1,398,308
Shares used in per share calculation — diluted	1,406,510	1,413,432
Stock-based compensation expense by function:		
Cost of revenues	\$ 3,579	\$ 1,011
Sales and marketing	49,897	13,678
Product development	54,278	32,373
General and administrative	18,966	13,721

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

## YAHOO! INC.

## Condensed Consolidated Balance Sheets

	December 31, 2009	March 31, 2010
	(Unaudited, in thousands except par values)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,275,430	\$ 1,330,632
Short-term marketable debt securities	2,015,655	1,911,423
Accounts receivable, net	1,003,362	900,253
Prepaid expenses and other current assets	300,325	428,156
Total current assets	4,594,772	4,570,464
Long-term marketable debt securities	1,226,919	1,001,654
Property and equipment, net	1,426,862	1,469,984
Goodwill	3,640,373	3,600,234
Intangible assets, net	355,883	288,294
Other long-term assets	194,933	135,067
Investments in equity interests	3,496,288	3,583,129
Total assets	<u>\$14,936,030</u>	<u>\$14,648,826</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 136,769	\$ 113,798
Accrued expenses and other current liabilities	1,169,815	1,049,481
Deferred revenue	411,144	351,795
Total current liabilities	1,717,728	1,515,074
Long-term deferred revenue	122,550	101,773
Capital lease and other long-term liabilities	83,021	135,797
Deferred and other long-term tax liabilities, net	494,095	448,237
Total liabilities	2,417,394	2,200,881
Commitments and contingencies (Note 10)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,413,718 shares issued and 1,406,075 shares outstanding as of December 31, 2009 and 1,417,994 shares issued and 1,385,563 shares outstanding as of March 31, 2010	1,410	1,415
Additional paid-in capital	10,640,367	10,700,847
Treasury stock at cost, 7,643 shares as of December 31, 2009 and 32,431 shares as of March 31, 2010	(117,331)	(502,602)
Retained earnings	1,599,638	1,909,829
Accumulated other comprehensive income	369,236	311,052
Total Yahoo! Inc. stockholders' equity	12,493,320	12,420,541
Noncontrolling interests	25,316	27,404
Total equity	12,518,636	12,447,945
Total liabilities and equity	<u>\$14,936,030</u>	<u>\$14,648,826</u>

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

## YAHOO! INC.

## Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	March 31, 2009	March 31, 2010
(Unaudited, in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 118,695	\$ 312,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	134,866	129,683
Amortization of intangible assets	46,707	35,563
Stock-based compensation expense, net	126,720	60,783
Non-cash restructuring charges	(558)	—
Tax benefits from stock-based awards	(2,705)	12,864
Excess tax benefits from stock-based awards	(22,127)	(32,889)
Deferred income taxes	5,826	28,687
Earnings in equity interests	(48,934)	(87,374)
Gain from sales of investments, assets, and other, net	(3,141)	(51,021)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	136,535	89,192
Prepaid expenses and other	2,267	(127,120)
Accounts payable	(29,689)	(22,553)
Accrued expenses and other liabilities	(170,480)	(150,027)
Deferred revenue	(31,633)	(54,470)
Net cash provided by operating activities	<u>262,349</u>	<u>143,597</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment, net	(70,481)	(112,541)
Purchases of marketable debt securities	(1,241,194)	(682,397)
Proceeds from sales of marketable debt securities	55,018	88,845
Proceeds from maturities of marketable debt securities	1,045,691	905,903
Purchases of intangible assets	(5,365)	(5,464)
Proceeds from the sale of a divested business	—	100,000
Net cash (used in) provided by investing activities	<u>(216,331)</u>	<u>294,346</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock, net	3,932	12,877
Repayments of capital lease obligations	—	(363)
Repurchases of common stock	—	(385,171)
Excess tax benefits from stock-based awards	22,127	32,889
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(10,339)	(30,086)
Net cash provided by (used in) financing activities	<u>15,720</u>	<u>(369,854)</u>
Effect of exchange rate changes on cash and cash equivalents	(35,525)	(12,887)
Net change in cash and cash equivalents	26,213	55,202
Cash and cash equivalents at beginning of period	<u>2,292,296</u>	<u>1,275,430</u>
Cash and cash equivalents at end of period	<u>\$ 2,318,509</u>	<u>\$ 1,330,632</u>

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

**Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company.** Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo!” or the “Company”), attracts hundreds of millions of users every month through its innovative technology and engaging content and services, making it one of the most trafficked Internet destinations and a world class online media company. Yahoo!’s vision is to be the center of people’s online lives by delivering personally relevant, meaningful Internet experiences. Together with the Company’s owned and operated online properties and services (“Yahoo! Properties” or “Owned and Operated sites”), Yahoo! also provides its advertising offerings and access to Internet users beyond Yahoo! through its distribution network of third-party entities (“Affiliates”), who have integrated the Company’s advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. The Company generates revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services the Company provides to users are free, Yahoo! does charge fees for a range of premium services.

**Basis of Presentation.** The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted except for the Company’s change in revenue recognition policy pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2009 was derived from the Company’s audited financial statements for the year ended December 31, 2009, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

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

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

The Company’s revenues are derived principally from services, which comprise marketing services for advertisers and publishers and offerings to users. The Company classifies these revenues as marketing services and fees.

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

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Marketing services revenues are generated from several offerings including the display of graphical advertisements (“display advertising”), the display of text-based links to an advertiser’s Website (“search advertising”), listing-based services, and commerce-based transactions.

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

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

The Company also recognizes revenues from search advertising, which are placed on Yahoo! Properties. Search advertising revenue is recognized as “click-throughs” occur. A “click-through” occurs when a user clicks on an advertiser’s search result listing.

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

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

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

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

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

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

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

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

Potentially dilutive securities representing approximately 127 million shares of common stock for the three months ended March 31, 2009 and 86 million shares of common stock for the three months ended March 31, 2010 were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

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

	<b>Three Months Ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2010</b>
<b>Basic:</b>		
Numerator:		
Net income attributable to Yahoo! Inc.	\$ 117,558	\$ 310,191
Less: Net income allocated to participating securities	(154)	(44)
Net income attributable to Yahoo! Inc. common stockholders — basic	<u>\$ 117,404</u>	<u>\$ 310,147</u>
Denominator:		
Weighted average common shares	<u>1,391,526</u>	<u>1,398,308</u>
Net income attributable to Yahoo! Inc. common stockholders per share — basic	<u>\$ 0.08</u>	<u>\$ 0.22</u>
<b>Diluted:</b>		
Numerator:		
Net income attributable to Yahoo! Inc.	\$ 117,558	\$ 310,191
Less: Net income allocated to participating securities	(4)	(21)
Less: Effect of dilutive securities issued by equity investees	(208)	(696)
Net income attributable to Yahoo! Inc. common stockholders — diluted	<u>\$ 117,346</u>	<u>\$ 309,474</u>
Denominator:		
Denominator for basic calculation	1,391,526	1,398,308
Weighted average effect of Yahoo! dilutive securities:		
Restricted stock and restricted stock units	10,179	7,483
Stock options and employee stock purchase plan	4,805	7,641
Denominator for diluted calculation	<u>1,406,510</u>	<u>1,413,432</u>
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	<u>\$ 0.08</u>	<u>\$ 0.22</u>

### **Note 3 INVESTMENTS IN EQUITY INTERESTS**

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

	<b>December 31, 2009</b>	<b>March 31, 2010</b>	<b>Percent Ownership of Common Stock as of March 31, 2010</b>
Alibaba Group	\$2,167,007	\$2,208,473	43%
Yahoo Japan	<u>1,329,281</u>	<u>1,374,656</u>	35%
Total	<u>\$3,496,288</u>	<u>\$3,583,129</u>	

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



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As of March 31, 2010, the difference between the Company's carrying value of its investment in Alibaba Group and its proportionate share of Alibaba Group's stockholders' equity is summarized as follows (in thousands):

Carrying value of investment in Alibaba Group	\$2,208,473
Proportionate share of Alibaba Group stockholders' equity	1,547,986
Excess of carrying value of investment over proportionate share of Alibaba Group's stockholders' equity <sup>(*)</sup>	<u>\$ 660,487</u>

<sup>(\*)</sup> The excess carrying value has been primarily assigned to goodwill.

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

	Three Months Ended	
	December 31, 2008	December 31, 2009
<b>Operating data:</b>		
Revenues	\$ 152,648	\$ 273,812
Gross profit	\$ 103,493	\$ 212,885
Loss from operations <sup>(*)</sup>	\$ (45,610)	\$ (169,123)
Net loss	\$ (51,004)	\$ (145,225)
Net loss attributable to Alibaba Group	\$ (59,088)	\$ (156,696)
	September 30, 2009	December 31, 2009
<b>Balance sheet data:</b>		
Current assets	\$ 3,191,097	\$ 3,525,652
Long-term assets	\$ 2,308,099	\$ 2,263,149
Current liabilities	\$ 1,559,975	\$ 1,937,937
Long-term liabilities	\$ 25,815	\$ 43,638
Noncontrolling interests	\$ 185,055	\$ 208,843

<sup>(\*)</sup> The loss from operations of \$169 million for the three months ended December 31, 2009 is primarily due to Alibaba Group's impairment loss of \$192 million on goodwill related to the business that Yahoo! contributed to Alibaba Group. This impairment does not impact Yahoo!'s earnings in equity interests as Yahoo!'s investment balance related to this contributed business was carried over at cost and therefore Yahoo! has no basis in the impaired goodwill.

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three months ended March 31, 2009 and 2010, these transactions were not material.

**Equity Investment in Yahoo Japan.** The investment in Yahoo Japan Corporation ("Yahoo Japan") is accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of investments in equity interests on the Company's condensed consolidated balance sheets. The Company records its share of the results of Yahoo Japan and any related amortization expense, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of income. The fair value of the Company's ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately \$7 billion as of March 31, 2010.

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

	Three Months Ended	
	December 31, 2008	December 31, 2009
<b>Operating data:</b>		
Revenues	\$ 778,647	\$ 893,895
Gross profit	\$ 657,978	\$ 733,937
Income from operations	\$ 344,305	\$ 405,660
Net income	\$ 200,516	\$ 233,927
Net income attributable to Yahoo Japan	\$ 198,709	\$ 232,246

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	September 30, 2009	December 31, 2009
<b>Balance sheet data:</b>		
Current assets	\$ 1,599,624	\$1,759,549
Long-term assets	\$ 2,395,863	\$2,318,384
Current liabilities	\$ 997,722	\$ 956,384
Long-term liabilities	\$ 3,556	\$ 3,187
Noncontrolling interests	\$ 26,662	\$ 26,355

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

Through its commercial arrangement with Yahoo Japan, the Company provides advertising and search marketing services to Yahoo Japan for a service fee. Under this arrangement, the Company records marketing services revenue from Yahoo Japan for the provision of search marketing services based on a percentage of advertising revenues earned by Yahoo Japan for the delivery of sponsored search results. In addition, the Company recognizes revenues from license fees received from Yahoo Japan. These arrangements resulted in revenues of approximately \$75 million and \$74 million for the three months ended March 31, 2009 and 2010, respectively. As of December 31, 2009 and March 31, 2010, the Company had a net receivable balance from Yahoo Japan of approximately \$41 million and \$39 million, respectively.

### **Note 4 GOODWILL**

The change in the carrying amount of goodwill for the three months ended March 31, 2010 was primarily due to foreign currency translation losses of \$23 million and a reduction of \$19 million related to the allocation of goodwill for the sale of Zimbra, Inc., an acquisition made by the Company in October 2007.

### **Note 5 INTANGIBLE ASSETS, NET**

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

	December 31, 2009	March 31, 2010		Net
	Net	Gross Carrying Amount	Accumulated Amortization (*)	
Customer and advertiser related relationships	\$ 83,232	\$ 128,284	\$ (58,919)	\$ 69,365
Developed technology and patents	239,285	422,336	(233,940)	188,396
Trade names, trademarks, and domain names	33,366	76,628	(46,095)	30,533
Total intangible assets, net	<u>\$ 355,883</u>	<u>\$ 627,248</u>	<u>\$ (338,954)</u>	<u>\$ 288,294</u>

(\*) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately \$15 million as of March 31, 2010.

For the three months ended March 31, 2009 and 2010, the Company recognized amortization expense for intangible assets of \$47 million and \$36 million, respectively, including \$37 million in cost of revenues for the three months ended March 31, 2009 and \$27 million in cost of revenues for the three months ended March 31, 2010. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2010 and each of the succeeding years is as follows: nine months ending December 31, 2010: \$83 million; 2011: \$87 million; 2012: \$62 million; 2013: \$25 million; 2014: \$12 million; 2015: \$2 million; and cumulatively thereafter: \$2 million.

### **Note 6 OTHER INCOME, NET**

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

	Three Months Ended	
	March 31, 2009	March 31, 2010
Interest and investment income	\$ 6,848	\$ 6,343
Investment gains, net	90	447
Gain on sale of Zimbra, Inc.	—	66,130
Other	(1,978)	13,408
Total other income, net	<u>\$ 4,960</u>	<u>\$ 86,328</u>

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

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Investment gains, net include gains/losses from sales of marketable debt securities and/or investments in privately held companies.

In February 2010, the Company sold Zimbra, Inc., an acquisition the Company made in October 2007, for net proceeds of \$100 million. The Company recorded a pre-tax gain of \$66 million.

Other consists of foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies and other non-operating items.

### Note 7 COMPREHENSIVE INCOME

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

	<b>Three Months Ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2010</b>
Net income	\$ 118,695	\$ 310,191
Change in net unrealized (losses) gains, net on available-for-sale securities, net of tax and reclassification adjustments	(328)	1,046
Foreign currency translation adjustment	82,230	(59,230)
Other comprehensive income (loss)	81,902	(58,184)
Comprehensive income	\$ 200,597	\$ 252,007
Comprehensive income attributable to noncontrolling interests	(1,137)	(2,088)
Comprehensive income attributable to Yahoo! Inc.	<u>\$ 199,460</u>	<u>\$ 249,919</u>

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

	<b>December 31, 2009</b>	<b>March 31, 2010</b>
Unrealized gains on available-for-sale securities, net of tax	\$ 4,921	\$ 5,967
Foreign currency translation, net of tax	364,315	305,085
Accumulated other comprehensive income	<u>\$ 369,236</u>	<u>\$ 311,052</u>

### Note 8 INVESTMENTS

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

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

	<b>March 31, 2010</b>			
	<b>Gross Amortized Costs</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Government and agency securities	\$1,610,216	\$ 1,239	\$ (615)	\$1,610,840
Municipal bonds	330,681	345	(4)	331,022
Corporate debt securities, commercial paper, and bank certificates of deposit	969,641	1,947	\$ (373)	971,215
Corporate equity securities	1,331	—	—	1,331
Total investments in available-for-sale securities	<u>\$2,911,869</u>	<u>\$ 3,531</u>	<u>\$ (992)</u>	<u>\$2,914,408</u>

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Reported as:

	December 31, 2009	March 31, 2010
Short-term marketable debt securities	\$2,015,655	\$ 1,911,423
Long-term marketable debt securities	1,226,919	1,001,654
Other assets	2,597	1,331
<b>Total</b>	<b><u>\$3,245,171</u></b>	<b><u>\$ 2,914,408</u></b>

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial for both 2009 and the three months ended March 31, 2010 as the carrying value approximates fair value because of the short maturity of those instruments.

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

	December 31, 2009	March 31, 2010
Due within one year	\$2,015,655	\$ 1,911,423
Due after one year through five years	1,226,919	1,001,654
<b>Total available-for-sale marketable debt securities</b>	<b><u>\$3,242,574</u></b>	<b><u>\$ 2,913,077</u></b>

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

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

	March 31, 2010					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	\$ 693,191	\$ (615)	\$ —	\$ —	\$ 693,191	\$ (615)
Municipal bonds	11,272	(4)	—	—	11,272	(4)
Corporate debt securities and commercial paper	269,729	(373)	—	—	269,729	(373)
<b>Total investments in available-for-sale securities</b>	<b><u>\$ 974,192</u></b>	<b><u>\$ (992)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 974,192</u></b>	<b><u>\$ (992)</u></b>

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

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

### Basis of Fair Value Measurement

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

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

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

<sup>(1)</sup> The money market funds, U.S. Government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

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

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy as of March 31, 2010 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds <sup>(1)</sup>	\$ 432,192	\$ —	\$ 432,192
Available-for-sale securities:			
U.S. Government and agency securities <sup>(1)</sup>	—	1,691,239	1,691,239
Municipal bonds <sup>(1)</sup>	—	331,023	331,023
Commercial paper and bank certificates of deposit <sup>(1)</sup>	—	306,090	306,090
Corporate debt securities <sup>(1)</sup>	—	732,520	732,520
Available-for-sale securities at fair value	\$ 432,192	\$ 3,060,872	\$ 3,493,064
Corporate equity securities <sup>(2)</sup>	1,331	—	1,331
<b>Total assets at fair value</b>	<b>\$ 433,523</b>	<b>\$ 3,060,872</b>	<b>\$ 3,494,395</b>

<sup>(1)</sup> The money market funds, U.S. Government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

The amount of cash and cash equivalents as of March 31, 2010 includes \$751 million in cash deposited with commercial banks, of which \$251 million are time deposits.

The fair values of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair values of the Company's Level 2 financial assets are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and

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determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During the quarter ended March 31, 2010, the Company did not make significant transfers between Level 1 and Level 2 assets. As of December 31, 2009 and March 31, 2010, the Company did not have any significant Level 3 financial assets.

### Note 9 STOCK-BASED COMPENSATION

**Employee Stock Purchase Plan.** As of March 31, 2010, there was \$12 million of unamortized stock-based compensation cost related to the Company's employee stock purchase plan which is expected to be recognized over a weighted average period of 0.52 years.

**Stock Options.** The Company's 1995 Stock Plan, the Directors' Plan, and other stock-based award plans assumed through acquisitions are collectively referred to as the "Plans." Stock option activity under the Company's Plans for the three months ended March 31, 2010 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2009	119,593	\$ 25.74
Options granted	4,922	\$ 15.22
Options exercised <sup>(*)</sup>	(1,237)	\$ 10.41
Options expired	(4,366)	\$ 50.67
Options cancelled/forfeited	(2,431)	\$ 18.95
Outstanding at March 31, 2010	<u>116,481</u>	\$ 24.67

<sup>(\*)</sup> The Company issued new shares to satisfy stock option exercises.

As of March 31, 2010, there was \$181 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.2 years.

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

	Stock Options		Purchase Plan	
	Three Months Ended		Three Months Ended	
	March 31, 2009	March 31, 2010	March 31, 2009	March 31, 2010
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.7%	2.2%	2.4%	2.3%
Expected volatility	57.1%	31.3%	71.8%	69.8%
Expected life (in years)	4.00	4.50	0.72	0.52

Restricted stock awards and restricted stock units activity for the three months ended March 31, 2010 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Awarded and unvested at December 31, 2009 <sup>(*)</sup>	26,189	\$ 21.14
Granted <sup>(*)</sup>	13,334	\$ 15.54
Vested	(4,993)	\$ 20.56
Forfeited	(1,386)	\$ 19.11
Awarded and unvested at March 31, 2010 <sup>(*)</sup>	<u>33,144</u>	\$ 19.06

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

As of March 31, 2010, there was \$292 million of unrecognized stock-based compensation cost related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.6 years.

During the three months ended March 31, 2010, 5.0 million shares subject to previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled. The

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Company withheld 1.9 million shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were \$30 million for the three months ended March 31, 2010 and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock.

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

Total payments for the employees' tax obligations to the relevant taxing authorities were \$10 million for the three months ended March 31, 2009 and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock.

**Performance-Based Executive Incentive Restricted Stock Units.** In February 2009, the Compensation Committee approved long-term performance-based incentive equity awards to Ms. Bartz and other senior officers, including two types of restricted stock units that vest based on the Company's achievement of certain performance goals. For both types of restricted stock units, the number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the applicable performance target. The first type of restricted stock unit generally will vest on the third anniversary of the grant date based on the Company's attainment of certain annual financial performance targets as well as the executive's continued employment through that vesting date. The annual financial performance targets are established at the beginning of each fiscal year and so for accounting purposes, the portion of the award subject to each annual target is treated as a separate annual grant. The fair value of each of the 2009 tranche and the 2010 tranche of the February 2009 annual financial performance grants was \$3 million. Based on the Company's relative attainment of the 2009 performance target, 75 percent of the target amount of the 2009 tranche shares will vest, provided each executive remains employed through the third anniversary of the grant date. For accounting purposes, the 2009 tranche will vest over a three-year service period and the 2010 tranche will vest over a two-year service period. The second type of restricted stock unit generally will vest following the third anniversary of the grant date based on the Company's attainment of certain levels of total stockholder return relative to the returns for the NASDAQ 100 Index companies as well as the executive's continued employment through that vesting date. The fair value of these restricted stock units is \$13 million and is being recognized over a three-year service period.

Separately in February 2010, the Compensation Committee approved long-term performance-based incentive equity awards to Ms. Bartz and other senior officers, including two types of restricted stock units that vest based on the Company's achievement of certain performance goals. For both types of restricted stock units, the number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the applicable performance target. The first type of restricted stock unit generally will vest on the third anniversary of the grant date based on the Company's attainment of certain annual financial performance targets as well as the executive's continued employment through that vesting date. The annual financial performance targets are established at the beginning of each fiscal year and so for accounting purposes, the portion of the award subject to each annual target is treated as a separate annual grant. The amount of stock-based compensation recorded for the first type of restricted stock unit will vary depending on the Company's attainment of annual financial performance targets and the completion of the service period. The fair value of these restricted stock units is \$4 million and is being recognized over a three-year service period. The second type of restricted stock unit generally will vest following the third anniversary of the grant date based on the Company's attainment of certain levels of total stockholder return relative to the returns for the NASDAQ 100 Index companies as well as the executive's continued employment through that vesting date. The fair value of these restricted stock units is \$15 million and is being recognized over a three-year service period.

**Stock Repurchases.** During the three months ended March 31, 2010, the Company repurchased approximately 24.8 million shares of its common stock under the current stock repurchase program at an average price of \$15.54 per share for a total of \$385 million.

### **Note 10 COMMITMENTS AND CONTINGENCIES**

**Lease Commitments.** The Company leases office space and data centers under operating lease and capital lease agreements with original lease periods of up to 16 years, expiring between 2010 and 2026.

During the first quarter of 2010, the Company entered into a purchase agreement to acquire for \$73 million certain office space that was being occupied by the Company under an operating lease. Accordingly, the operating lease was re-classified to a capital lease and the Company recorded \$73 million as a capital lease obligation in its condensed consolidated balance sheets. The transaction is expected to close in the second quarter of 2010.

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A summary of gross and net lease commitments as of March 31, 2010 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Nine months ending December 31, 2010	\$ 117	\$ (4)	\$ 113
Years ending December 31,			
2011	139	(4)	135
2012	110	(2)	108
2013	92	(2)	90
2014	79	(1)	78
2015	67	(1)	66
Due after 5 years	69	—	69
Total gross and net lease commitments	<u>\$ 673</u>	<u>\$ (14)</u>	<u>\$ 659</u>

	Capital Lease Commitment
Nine months ending December 31, 2010	\$ 16
Years ending December 31,	
2011	12
2012	13
2013	13
2014	14
2015	14
Due after 5 years	111
Gross lease commitment	<u>\$ 193</u>
Less: interest	<u>(79)</u>
Net lease commitment	<u>\$ 114</u>

**Affiliate Commitments.** In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs (“TAC”), to its Affiliates. As of March 31, 2010, these commitments totaled \$119 million, of which \$95 million will be payable in the remainder of 2010 and \$24 million will be payable in 2011.

**Intellectual Property Rights.** The Company is committed to make certain payments under various intellectual property arrangements of up to \$44 million through 2023.

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

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



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On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court for the Southern District of New York against certain underwriters involved in Overture Services Inc.'s ("Overture") IPO, Overture, and certain of Overture's former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the "Exchange Act") involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted IPOs of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 1, 2009, the parties filed a motion with the Court for preliminary approval of a stipulated global settlement. On October 5, 2009, the Court granted class certification and granted final approval of the settlement and plan of allocation. Notices of appeal have been filed with the U.S. Court of Appeals for the Second Circuit.

On June 14, 2007, a stockholder derivative action was filed in the U.S. District Court for the Central District of California by Jill Watkins against members of the Board and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in the former Brodsky/Hacker class action litigation relating to stock declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Exchange Act. On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had previously substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a shareholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment.

Plaintiff Congregation Beth Aaron voluntarily dismissed an action filed in Santa Clara County Superior Court and on December 3, 2008 re-filed in the U.S. District Court for the Northern District of California alleging claims for breach of fiduciary duty and corporate waste in connection with Yahoo!'s consideration of proposals by Microsoft Corporation to purchase all or a part of Yahoo! in 2008, adoption of severance plans, and the June 12, 2008 agreement between Google Inc. and Yahoo!. Plaintiff filed an amended complaint on February 20, 2009. The complaint also alleges claims under Section 14(a) of the Exchange Act for alleged false statements or omissions in Yahoo!'s June 9, 2008 proxy statement regarding the severance plans and for control person liability under Section 20(a) of the Exchange Act, and also alleges that the defendants' decision to settle similar Microsoft-related Delaware lawsuits constituted an independent breach of fiduciary duty. The complaint seeks unspecified compensatory damages, injunctive relief, and an award of plaintiffs' attorneys' fees and costs. On June 15, 2009, the Court granted defendants' motion to dismiss all of Congregation Beth Aaron's claims without leave to amend, which the Congregation has since appealed to the U.S. Court of Appeals for the Ninth Circuit.

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

### **Note 11 SEGMENTS**

The Company manages its business geographically. Through the first quarter of 2010, the primary areas of measurement and decision-making are the U.S. and International. In the Company's Annual Report on Form 10-K for the year ended December 31, 2009, the segment profitability measure reported by the Company was segment operating income before depreciation, amortization, and stock-based compensation expense. Management no longer uses this measure to evaluate the operational performance of the Company's segments. Beginning in the first quarter of 2010, management relies on an internal reporting process that provides revenues and direct costs by segment and consolidated income from operations for making decisions related to the evaluation of financial performance and allocating resources. Prior periods have been updated to conform to the measures currently being used by management to evaluate the operational performance of the Company's segments.

Beginning in the second quarter of 2010, the business management structure will be redefined along three geographies: Americas, Asia Pacific, and EMEA (Europe, Middle East, and Africa), and as the Company's internal reporting is aligned to the new structure, segment reporting will be updated accordingly.

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

	Three Months Ended	
	March 31, 2009	March 31, 2010
<b>Revenues by segment:</b>		
United States	\$ 1,187,930	\$ 1,120,664
International	392,112	476,296
Total revenues	<u>1,580,042</u>	<u>1,596,960</u>
<b>Direct costs by segment<sup>(1)</sup>:</b>		
United States	437,500	413,434
International	205,661	263,240
Global operating costs <sup>(2)</sup>	523,102	501,824
<b>Restructuring charges, net</b>		
Depreciation and amortization	4,801	4,412
Stock-based compensation expense	181,573	165,246
	126,720	60,783
Income from operations	<u>\$ 100,685</u>	<u>188,021</u>
<b>Capital expenditures, net:</b>		
United States	\$ 57,365	\$ 92,716
International	13,116	19,825
Total capital expenditures, net	<u>\$ 70,481</u>	<u>\$ 112,541</u>
	<b>December 31, 2009</b>	<b>March 31, 2010</b>
<b>Property and equipment, net:</b>		
United States	\$ 1,310,677	\$ 1,354,022
International	116,185	115,962
Total property and equipment, net	<u>\$ 1,426,862</u>	<u>\$ 1,469,984</u>

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

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

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

	Three Months Ended	
	March 31, 2009	March 31, 2010
<b>Marketing services:</b>		
Owned and Operated sites	\$ 871,764	\$ 874,820
Affiliate sites	511,417	547,698
Marketing services	1,383,181	1,422,518
Fees	196,861	174,442
Total revenues	<u>\$ 1,580,042</u>	<u>\$ 1,596,960</u>

## Note 12 INCOME TAXES

The effective tax rate for the three months ended March 31, 2010 was 18 percent, compared to 34 percent for the same period in 2009. The Company's U.S. federal and California income tax returns for the years ended December 31, 2005 and 2006 are currently under examination by the Internal Revenue Service ("IRS") and the California Franchise Tax Board. During the quarter, the Company reached an agreement with the IRS in connection with several adjustments to its tax returns, with a favorable outcome on certain of the Company's reserves for tax uncertainties. As a result, the effective tax rate for the three months ended March 31, 2010 differs from the statutory federal income tax rate of 35 percent due to the reduction of the Company's reserves for tax uncertainties and the usage of loss carryforwards to offset the tax on the gain on the sale of Zimbra, Inc. In addition to those recognized benefits, the effective tax rate differs from the statutory rate as a result of several factors, including state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2010 was lower than the rate for the same period in 2009, as a result of the same factors.

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As discussed above, during the quarter, the Company reached an agreement with the IRS in connection with several adjustments to its tax returns, and the Company adjusted its reserves accordingly. In addition, the IRS has given the Company notice of other proposed adjustments, including an intercompany transfer pricing adjustment that if not favorably settled with the IRS could have a significant impact on the Company's tax liability. The Company has not agreed to these proposed adjustments and currently believes that its existing reserves are adequate.

The Company's gross amount of unrecognized tax benefits as of March 31, 2010 is \$776 million, of which \$443 million is recorded on the condensed consolidated balance sheets. As discussed above, in the first quarter of 2010 the Company reached an agreement with the IRS in connection with several adjustments to prior years' tax returns and this agreement resulted in a reduction to the Company's gross unrecognized tax benefit of \$146 million. Of this \$146 million reduction in unrecognized tax benefits, \$81 million resulted in an effective tax rate benefit during the first quarter. These reductions to the gross unrecognized tax benefits have been offset by current year tax positions that increase unrecognized tax benefits. In total, the gross unrecognized tax benefits as of March 31, 2010 decreased by \$117 million from the recorded balance as of December 31, 2009.

### **Note 13 RESTRUCTURING CHARGES, NET**

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

	Three Months Ended	
	March 31, 2009	March 31, 2010
Employee severance pay and related costs	\$ 1,809	\$ 258
Non-cancelable lease, contract termination, and other charges	2,992	4,154
Restructuring charges, net	<u>\$ 4,801</u>	<u>\$ 4,412</u>

**Q4'08 Restructuring Plan.** During the fourth quarter of 2008, the Company implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities in the U.S. and internationally. During the three months ended March 31, 2009, the Company incurred total pre-tax cash charges of approximately \$5 million in severance, facility, and other restructuring costs related to the Q4'08 restructuring plan, consisting of \$6 million in charges related to the U.S. segment offset by a \$1 million reversal related to the International segment. During the three months ended March 31, 2010, the Company incurred total pre-tax cash charges of approximately \$4 million in facility and other restructuring costs related to the Q4'08 restructuring plan, consisting of \$5 million in charges related to the U.S. segment, offset by a \$1 million reversal related to the International segment.

**Q2'09 Restructuring Plan.** During the second quarter of 2009, the Company implemented new cost reduction initiatives to further reduce the Company's worldwide workforce by approximately 5 percent. During the three months ended March 31, 2010, the Company did not incur any charges related to the Q2'09 restructuring plan.

**Q4'09 Restructuring Charges.** During the fourth quarter of 2009, the Company decided to close one of its international facilities and began implementation of a workforce realignment at the facility to focus resources on its strategic initiatives. The Company plans to exit the facility in the third quarter of 2010. In connection with the strategic realignment efforts, an executive of one of the Company's acquired businesses departed. During the three months ended March 31, 2010, the Company incurred total pre-tax cash charges of less than \$1 million in severance and other related costs related to the Q4'09 restructuring charges, consisting of charges related to the International segment.

**Restructuring Accruals.** As of March 31, 2009 and 2010, the aggregate outstanding restructuring liability related to the cost reduction initiatives was \$37 million and \$72 million, respectively. Of the \$72 million restructuring liability as of March 31, 2010, \$17 million relates to employee severance pay expenses which the Company expects to substantially pay out by the end of the third quarter of 2010, and \$55 million relates to non-cancelable lease costs which the Company expects to pay over the terms of the related obligations, which extend to the second quarter of 2017.

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

	Q4'08 Restructuring Plan
Balance as of January 1, 2009	\$ 89,887
Employee severance pay and related costs	3,547
Non-cancelable lease, contract termination, and other charges	4,062
Reversal of previous charges	(2,808)
Restructuring charges, net for the quarter ended March 31, 2009	\$ 4,801
Cash paid	(58,010)
Non-cash adjustments	277
Balance as of March 31, 2009	<u>\$ 36,955</u>

The Company's restructuring accrual activity for the quarter ended March 31, 2010 is summarized as follows (in thousands):

	Q4'08 Restructuring Plan	Q2'09 Restructuring Plan	Q4'09 Restructuring Charges	Total
Balance as of January 1, 2010	\$ 59,965	\$ 4,302	\$ 14,765	\$ 79,032
Employee severance pay and related costs	183	17	431	631
Non-cancelable lease, contract termination, and other charges	5,251	—	—	5,251
Reversal of previous charges	(1,097)	(373)	—	(1,470)
Restructuring charges, net for the quarter ended March 31, 2010	\$ 4,337	\$ (356)	\$ 431	\$ 4,412
Cash paid	(9,140)	(531)	(1,181)	(10,852)
Non-cash adjustments	162	(350)	(685)	(873)
Balance as of March 31, 2010	<u>\$ 55,324</u>	<u>\$ 3,065</u>	<u>\$ 13,330</u>	<u>\$ 71,719</u>

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

	December 31, 2009	March 31, 2010
United States	\$ 52,802	\$ 50,247
International	26,230	21,472
Total restructuring accruals	<u>\$ 79,032</u>	<u>\$ 71,719</u>

### Note 14 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

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

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

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

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The global transition of the Company's algorithmic and paid search platforms to Microsoft and migration of its paid search advertisers and publishers is expected to take up to 24 months and will be done on a market by market basis. The Company began reflecting reimbursements from Microsoft for transition costs and the cost of running its algorithmic and paid search services during the quarter ended March 31, 2010. The Company expects search revenue sharing with Microsoft under the Search Agreement to begin in late 2010 and increase in 2011 and 2012 as it migrates its paid search advertisers and publishers to Microsoft's platforms by market. Based on the Company's current levels of revenue and operating expenses, it expects the Search Agreement, when fully implemented, to have a positive impact on its operating income and to result in capital expenditures savings.

The Company's operating expenses for the three months ended March 31, 2010 reflect cost reimbursements from Microsoft of \$43 million for transition costs incurred in 2009, \$24 million for transition costs incurred in the first quarter of 2010, \$35 million for search operating costs incurred in the first quarter of 2010, and \$15 million for employee retention costs incurred in the first quarter of 2010. The Company accrues for the reimbursements as costs are incurred and applies them against the operating expense categories in which the costs were incurred. As of March 31, 2010, the total reimbursements to be received from Microsoft of \$122 million (including \$5 million of reimbursements for employee retention costs incurred in 2009) were classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets. These reimbursements were subsequently received.

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

**Forward-Looking Statements**

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

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

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

**Overview**

Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!," the "Company," "we," "us," or "our"), attracts hundreds of millions of users every month through its innovative technology and engaging content and services, making it one of the most trafficked Internet destinations and a world class online media company. Yahoo!'s vision is to be the center of people's online lives by delivering personally relevant, meaningful Internet experiences. To users, we provide online properties and services ("Yahoo! Properties" or our "Owned and Operated sites"). To advertisers, we provide a range of marketing services designed to reach and connect with users of our Owned and Operated sites, as well as with Internet users beyond Yahoo! Properties, through a distribution network of third-party entities (our "Affiliates") that have integrated our advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. We believe that our marketing services enable advertisers to deliver highly relevant marketing messages to their target audiences.

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

Our offerings to users on Yahoo! Properties currently fall into four categories: Integrated Consumer Experiences, Applications (Communications and Communities), Search, and Media Products and Solutions. The majority of our offerings are available in more than 25 languages. We manage and measure our business geographically, principally the United States ("U.S.") and International.

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

[Table of Contents](#)**First Quarter Results**

<u>Operating Results</u>	<u>Three Months Ended March 31,</u>		<u>Dollar Change</u>
	<u>2009</u>	<u>2010</u> (In thousands)	
Revenues	\$ 1,580,042	\$ 1,596,960	\$ 16,918
Income from operations	\$ 100,685	\$ 188,021	\$ 87,336

  

<u>Cash Flow Results</u>	<u>Three Months Ended</u> <u>March 31,</u>		<u>Dollar Change</u>
	<u>2009</u>	<u>2010</u> (In thousands)	
Net cash provided by operating activities	\$ 262,349	\$ 143,597	\$(118,752)
Net cash (used in) provided by investing activities	\$ (216,331)	\$ 294,346	\$ 510,677
Net cash provided by (used in) financing activities	\$ 15,720	\$ (369,854)	\$(385,574)

Our revenues increased one percent for the three months ended March 31, 2010, compared to the same period in 2009. This can be attributed to an increase in our marketing services revenues, offset by a decrease in our fees revenues. The increase in income from operations for the three months ended March 31, 2010 reflects a slight increase in revenues and a decrease in operating expenses of \$76 million compared to the same period in 2009. The decrease in operating expenses is primarily attributable to the Microsoft reimbursements as well as decreased stock-based compensation and depreciation and amortization expense.

Cash generated by operating activities is a measure of the cash productivity of our business model. Our operating activities in the three months ended March 31, 2010 generated adequate cash to meet our operating needs. Cash provided by investing activities in the three months ended March 31, 2010 included net proceeds from sales and maturities of marketable debt securities of \$312 million and \$100 million from the sale of a divested business, offset by net capital expenditures of \$113 million. Cash used in financing activities included \$385 million used in the direct repurchase of common stock and \$30 million used for tax withholding payments related to the net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock, offset by \$13 million in proceeds from employee option exercises.

## Search Agreement with Microsoft Corporation

Our operating expenses for the three months ended March 31, 2010 reflect cost reimbursements from Microsoft Corporation (“Microsoft”) of \$43 million for transition costs incurred in 2009, \$24 million for transition costs incurred in the first quarter of 2010, \$35 million for search operating costs incurred in the first quarter of 2010, and \$15 million for employee retention costs incurred in the first quarter of 2010. We accrue for the reimbursements as costs are incurred and apply them against the operating expense categories in which the costs were incurred. As of March 31, 2010, the total reimbursements to be received from Microsoft of \$122 million (including \$5 million of reimbursements for employee retention costs incurred in 2009) were classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets. These reimbursements were subsequently received. In the future, quarterly transition cost reimbursements are expected to be roughly equivalent to the quarterly transition costs. Search operating cost reimbursements are expected to continue in each quarter of 2010 at an estimated rate of \$75 to \$85 million per quarter. Search operating cost reimbursements will continue until we have fully transitioned to Microsoft’s search platform. We view search operating cost reimbursements as an indicator of the long-term cost savings associated with the full implementation of the Search Agreement.

See Note 14 – “Search Agreement with Microsoft Corporation” in the Notes to the condensed consolidated financial statements elsewhere in this Report for additional information.

## Results of Operations

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

	Three Months Ended March 31,				Percent Change
	2009	(*)	2010	(*)	
Marketing services:					
Owned and Operated sites	\$ 871,764	55%	\$ 874,820	55%	0%
Affiliate sites	511,417	33%	547,698	34%	7%
Marketing services	1,383,181	88%	1,422,518	89%	3%
Fees	196,861	12%	174,442	11%	(11%)
Total revenues	<u>\$1,580,042</u>	<u>100%</u>	<u>\$1,596,960</u>	<u>100%</u>	1%

(\*) Percent of total revenues.

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

We currently expect revenues to increase for the three months ending June 30, 2010 compared to the three months ended June 30, 2009 provided global economic conditions continue to improve and advertising spending increases.

**Marketing Services Revenues from Owned and Operated Sites.** Marketing services revenues from Owned and Operated sites for the three months ended March 31, 2010 remained flat compared to the same period in 2009. The primary components of our marketing services revenues from Owned and Operated sites are search and display advertising. For the three months ended March 31, 2010, revenues from display advertising on Owned and Operated sites increased 20 percent and revenues from search advertising on Owned and Operated sites decreased 14 percent, compared to the same period in 2009. Increased advertising spending in display and a shift towards higher-yielding display inventory have resulted in increased display revenues. Search advertising revenues decreased primarily due to the impact of discontinuing our paid inclusion search product as part of our advertising quality initiatives and declines in revenues per search. While overall search queries on Yahoo! Properties increased, a shift in the mix of monetizable searches from the U.S. to International, which yielded lower revenue per search, resulted in decreased Owned and Operated search advertising revenues.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views to more accurately reflect the total number of Web pages viewed by users on Yahoo! Properties. Based on this process, from time to time we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to our Owned and Operated sites. For the three months ended March 31, 2010, Page Views remained flat, compared to the same period in 2009. Revenue per Page View increased one percent for the three months ended March 31, 2010, compared to the same period in 2009. The increase in revenue per Page View was due to the increase in revenues from the factors discussed above.

**Marketing Services Revenues from Affiliate Sites.** Marketing services revenues from Affiliate sites for the three months ended March 31, 2010 increased 7 percent, compared to the same period in 2009. The number of searches on Affiliate sites increased by



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approximately 3 percent for the three months ended March 31, 2010, compared to the same period in 2009. The increase in revenues can be attributed primarily to the impact of foreign exchange rate fluctuations, increased traffic on Affiliate sites, and a new International Affiliate partner. The average revenue per search on our Affiliate sites increased by 4 percent for the three months ended March 31, 2010, compared to the same period in 2009.

**Fees Revenues.** Our fees revenues include premium fee-based services such as services for small businesses, Internet broadband services, premium e-mail, sports, photos, games, personals, and music. Other fee-based revenues include royalties, licenses, and mobile services. Fees revenues for the three months ended March 31, 2010 decreased 11 percent, compared to the same period in 2009. The decrease in fees revenues for the three months ended March 31, 2010 are primarily attributed to changes in certain of our broadband access partnerships, from being fee-paying user based to an advertising revenue sharing model as well as declines in revenues from other premium services.

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

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

	Three Months Ended March 31,				Dollar Change	Percent Change
	2009	(*)	2010	(*)		
Cost of revenues	\$ 700,737	44%	\$ 706,382	44%	\$ 5,645	1%
Sales and marketing	\$ 321,112	20%	\$ 313,538	20%	\$ (7,574)	(2)%
Product development	\$ 306,043	19%	\$ 266,077	17%	\$ (39,966)	(13)%
General and administrative	\$ 136,997	9%	\$ 110,428	7%	\$ (26,569)	(19)%
Amortization of intangibles	\$ 9,667	1%	\$ 8,102	1%	\$ (1,565)	(16)%
Restructuring charges, net	\$ 4,801	0%	\$ 4,412	0%	\$ (389)	(8)%

(\*) Percent of total revenues.

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

	Three Months Ended March 31,	
	2009	2010
Cost of revenues	\$ 3,579	\$ 1,011
Sales and marketing	49,897	13,678
Product development	54,278	32,373
General and administrative	18,966	13,721
Total stock-based compensation expense	<u>\$ 126,720</u>	<u>\$ 60,783</u>

For additional information about stock-based compensation, see Note 9 — “Stock-Based Compensation” in the Notes to the condensed consolidated financial statements elsewhere in this Report as well as “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2009 under the caption Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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

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

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The changes in operating costs and expenses for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 are comprised of the following (in thousands):

	<u>Compensation</u>	<u>Information Technology</u>	<u>Depreciation and Amortization</u>	<u>Facilities</u>	<u>TAC</u>	<u>Other</u>	<u>Total</u>
Cost of revenues	\$ (7,015)	\$ (18,799)	\$ (18,890)	\$ (76)	\$42,735	\$ 7,690	\$ 5,645
Sales and marketing	(18,252)	(422)	688	(4,290)	—	14,702	(7,574)
Product development	(40,174)	7,478	2,962	(4,964)	—	(5,268)	(39,966)
General and administrative	(4,278)	147	476	5,159	—	(28,073)	(26,569)
Amortization of intangibles	—	—	(1,565)	—	—	—	(1,565)
Restructuring charges, net	—	—	—	—	—	(389)	(389)
<b>Total</b>	<b>\$ (69,719)</b>	<b>\$ (11,596)</b>	<b>\$ (16,329)</b>	<b>\$ (4,171)</b>	<b>\$42,735</b>	<b>\$ (11,338)</b>	<b>\$ (70,418)</b>

*Compensation Expense.* Total compensation expense decreased \$70 million for the three months ended March 31, 2010, compared to the same period in 2009. The decline was primarily due to a decrease in stock-based compensation expense. The decrease in stock-based compensation expense is due to recent grants having a lower grant date fair value than grants currently vesting. In addition, we received total cost reimbursements from Microsoft of \$75 million for employee costs, for which there were no similar reimbursements in the same period of 2009. The net impact of the Microsoft Agreement was a reduction in compensation expense of \$38 million compared to the same period of 2009.

*Information Technology.* Information technology expense decreased \$12 million for the three months ended March 31, 2010, compared to the same period in 2009. The decrease was due to decreased telecom usage related primarily to our datacenters. In addition, we received total cost reimbursements from Microsoft of \$15 million for information technology costs, for which there were no similar reimbursements in the same period of 2009. The net impact of the Microsoft Agreement was a reduction in information technology expenses of \$15 million compared to the same period of 2009.

*Depreciation and Amortization.* Depreciation and amortization expense decreased \$16 million for the three months ended March 31, 2010, compared to the same period in 2009. The decrease was due to decreased amortization expense for fully amortized intangible assets acquired in prior years slightly offset by increased depreciation expense related to additional investments in information technology equipment and server equipment.

*TAC.* TAC increased \$43 million for the three months ended March 31, 2010, compared to the same period in 2009. The increase was primarily driven by the impact of foreign exchange rate fluctuations, changes in Affiliate partner mix, a new International Affiliate partner, and increases in revenues from Affiliate sites.

*Facilities and Other Expenses.* Facilities and other expenses decreased \$15 million for the three months ended March 31, 2010, compared to the same period in 2009. The decline is mainly due to decreases in third-party service provider expenses of \$32 million, offset by increases in marketing-related expenses of \$25 million. Third-party service-provider expenses decreased primarily due to lower advisory and consulting costs. In addition, we received total cost reimbursements from Microsoft of \$32 million for other costs, for which there were no similar reimbursements in the same period of 2009. The net impact of the Microsoft Agreement was a reduction in facilities and other expenses of \$25 million compared to the same period of 2009. Marketing-related expenses increased due to additional marketing advertising campaigns including our global branding campaign during the three months ended March 31, 2010, compared to the same period in 2009.

We currently expect our operating costs to decrease for the three months ending June 30, 2010, compared to the same period of 2009, due to declines in stock-based compensation expense and intangible asset amortization expense.

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

	<u>Three Months Ended</u>	
	<u>March 31, 2009</u>	<u>March 31, 2010</u>
Employee severance pay and related costs	\$ 1,809	\$ 258
Non-cancelable lease, contract termination, and other charges	2,992	4,154
<b>Restructuring charges, net</b>	<b>\$ 4,801</b>	<b>\$ 4,412</b>

*Q4'08 Restructuring Plan.* During the fourth quarter of 2008, we implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities in the U.S. and internationally. During the three months ended March 31, 2009, we incurred total pre-tax cash charges of approximately \$5 million in severance, facility, and other restructuring costs related to the Q4'08 restructuring plan, consisting of \$6 million in charges related to the U.S. segment offset by a \$1 million reversal related to the International segment. During the three months ended March 31, 2010, we incurred total pre-tax cash charges of approximately \$4 million in facility and other restructuring costs related to the Q4'08 restructuring plan, consisting of \$5 million in charges related to the U.S. segment, offset by a \$1 million reversal related to the International segment. As of March 31, 2010, the aggregate outstanding restructuring liability related to the Q4'08 restructuring plan was \$55 million, most of which relates to non-cancelable lease costs that we expect to pay over the lease terms of the related obligations, which end by the second quarter of 2017.

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**Q2'09 Restructuring Plan.** During the second quarter of 2009, we implemented new cost reduction initiatives to further reduce our worldwide workforce by approximately 5 percent. During the three months ended March 31, 2010, we did not incur any charges related to the Q2'09 restructuring plan. As of March 31, 2010, the aggregate outstanding restructuring liability related to the Q2'09 restructuring plan was \$3 million, which we expect to pay out by the third quarter of 2010.

**Q4'09 Restructuring Charges.** During the fourth quarter of 2009, we decided to close one of our international facilities and began implementation of a workforce realignment at the facility to focus resources on our strategic initiatives. We plan to exit the facility in the third quarter of 2010. In connection with the strategic realignment efforts, an executive of one of our acquired businesses departed. During the three months ended March 31, 2010, we incurred total pre-tax cash charges of less than \$1 million in severance and other related costs related to the Q4'09 restructuring charges, consisting of charges related to the International segments. As of March 31, 2010, the aggregate outstanding restructuring liability related to the Q4'09 restructuring charges was \$13 million, which we expect to pay out by the third quarter of 2010.

In addition to the charges described above, we currently expect to incur future charges of approximately \$25 million to \$35 million for non-cancelable lease costs and relocation costs as we continue to exit facilities identified as part of the Q4'08 restructuring plan and Q4'09 restructuring charges, of which \$21 million to \$29 million relates to the U.S segment and \$4 million to \$6 million relates to the International segment. The future charges are expected to be recorded primarily in 2010 and 2011.

Our restructuring charges for excess lease facilities are highly dependent upon estimated amounts of sublease income. Time required to market and obtain a subtenant or to terminate lease obligations varies considerably with commercial real estate market conditions in certain geographies. Our restructuring charges represent the best estimate of the fair value of the obligations we expect to incur and could be subject to adjustment as market conditions change and sublease agreements are signed through fiscal 2017. Refer to Note 13 — “Restructuring charges, net” in the Notes to the condensed consolidated financial statements for additional information.

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

	Three Months Ended March 31,		Dollar Change
	2009	2010 (In thousands)	
Interest and investment income	\$ 6,848	\$ 6,343	\$ (505)
Investment gains, net	90	447	357
Gain on sale of Zimbra, Inc.	—	66,130	66,130
Other	(1,978)	13,408	15,386
Total other income, net	<u>\$ 4,960</u>	<u>\$86,328</u>	<u>\$81,368</u>

Interest and investment income for the three months ended March 31, 2010 decreased due to slightly lower average interest rates compared to the same periods in 2009. Average interest rates were 0.6 percent for the three months ended March 31, 2010, compared to 0.8 percent for the same period in 2009. In February 2010, we sold Zimbra, Inc., an acquisition we made in October 2007, for net proceeds of \$100 million and a pre-tax gain of \$66 million. Other consists of foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies and other non-operating items.

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

**Income Taxes.** The effective tax rate for the three months ended March 31, 2010 was 18 percent, compared to 34 percent for the same period in 2009. Our U.S. federal and California income tax returns for the years ended December 31, 2005 and 2006 are currently under examination by the Internal Revenue Service (“IRS”) and the California Franchise Tax Board. During the quarter, we reached an agreement with the IRS in connection with several adjustments to our tax returns, with a favorable outcome on certain of our reserves for tax uncertainties. As a result, the effective tax rate for the three months ended March 31, 2010 differs from the statutory federal income tax rate of 35 percent due to the reduction of our reserves for tax uncertainties and the usage of loss carryforwards to offset the tax on the gain on the sale of Zimbra, Inc. In addition to those recognized benefits, the effective tax rate differs from the statutory rate as a result of several factors, including state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2010 was lower than the rate for the same period in 2009, as a result of the same factors.

Our gross amount of unrecognized tax benefits as of March 31, 2010 is \$776 million, of which \$443 million is recorded on the condensed consolidated balance sheets. In the first quarter we reached an agreement with the IRS in connection with several adjustments to prior years’ tax returns, and this agreement resulted in a reduction to our gross unrecognized tax benefit of \$146 million. Of this \$146 million reduction in unrecognized tax benefits, \$81 million resulted in an effective tax rate benefit during the first quarter. These reductions to the gross unrecognized tax benefits have been offset by current year tax positions that increase unrecognized tax benefits. In total, the gross unrecognized tax benefits as of March 31, 2010 decreased by \$117 million from the recorded balance as of December 31, 2009.

As discussed above, during the quarter, we reached an agreement with the IRS in connection with several adjustments to our tax returns, and we adjusted our reserves accordingly. In addition, the IRS has given us

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notice of other proposed adjustments, including an intercompany transfer pricing adjustment that if not favorably settled with the IRS could have a significant impact on our tax liability. We have not agreed to these proposed adjustments and currently believe that our existing reserves are adequate.

**Earnings in Equity Interests.** Earnings in equity interests for the three months ended March 31, 2010 was \$87 million, as compared to \$49 million for the same period in 2009.

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

### Business Segment Results

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

Beginning in the second quarter of 2010, the business management structure will be redefined along three geographies: Americas, Asia Pacific, and EMEA (Europe, Middle East, and Africa), and as our internal reporting is aligned to the new structure, segment reporting will be updated accordingly.

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

	Three Months Ended		Percent Change
	March 31,		
	2009	2010	
Revenues by segment:			
United States	\$1,187,930	\$1,120,664	(6)%
International	392,112	476,296	21%
Total revenues	1,580,042	1,596,960	1%
Direct costs by segment <sup>(1)</sup> :			
United States	437,500	413,434	(6)%
International	205,661	263,240	28%
Global operating costs <sup>(2)</sup>	523,102	501,824	(4)%
Restructuring charges, net	4,801	4,412	(8)%
Depreciation and amortization	181,573	165,246	(9)%
Stock-based compensation expense	126,720	60,783	(52)%
Income from operations	\$ 100,685	\$ 188,021	87%

<sup>(1)</sup> Direct costs for each segment include TAC, other cost of revenues, and other operating expenses that are directly attributable to the segment such as employee compensation expense, local sales and marketing expenses, and facilities expenses.

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

Revenue is generally attributed to individual countries according to the sales force that generated the revenue. No single foreign country accounted for more than 10 percent of revenues for the three months ended March 31, 2009 or 2010.

**United States.** U.S. revenues for the three months ended March 31, 2010 decreased \$67 million, or 6 percent, compared to the same period in 2009. Our year-over-year decrease in revenues was a result of a decline in our search advertising business and our fee-based services, offset by an increase in our display advertising business. Search advertising revenues decreased primarily due to the impact of discontinuing our paid inclusion search product as part of our advertising quality initiatives, declines in Owned and Operated revenue per search, and changes in our Affiliate partner mix. These decreases were offset by an increase in display advertising as our

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customers shifted towards higher-yielding inventory. Direct costs attributable to the U.S. segment decreased \$24 million, or 6 percent, compared to the same period in 2009. The decline is primarily due to a decrease in TAC from the decline in Affiliate search revenues in the U.S.

U.S. revenues accounted for approximately 70 percent of total revenues in the three months ended March 31, 2010, compared to 75 percent in the same period in 2009.

The net cost reimbursements from Microsoft are primarily included in global operating costs for the three months ended March 31, 2010.

**International.** International revenues for the three months ended March 31, 2010 increased \$84 million, or 21 percent, as compared to the same periods in 2009. The increase in international revenues was primarily driven by a new International Affiliate partner and the effects of foreign currency exchange rate fluctuations. Direct costs attributable to the International segment increased \$58 million, or 28 percent, compared to the same period in 2009. The increase in direct costs was primarily driven by an increase in TAC associated with the increase in Affiliate revenues.

International revenues accounted for approximately 30 percent of total revenues in the three months ended March 31, 2010, compared to 25 percent in the same period in 2009.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Korean won, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three months ended March 31, 2009, our international revenues for the three months ended March 31, 2010 would have been lower than we reported by approximately \$50 million, and our International segment direct costs would have been lower than we reported by \$33 million.

### **Critical Accounting Policies and Estimates**

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

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

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

**Liquidity and Capital Resources**

	As of December 31, 2009	As of March 31, 2010
	(Dollars in thousands)	
Cash and cash equivalents	\$1,275,430	\$1,330,632
Short-term marketable debt securities	2,015,655	1,911,423
Long-term marketable debt securities	1,226,919	1,001,654
Total cash, cash equivalents, and marketable debt securities	<u>\$4,518,004</u>	<u>\$4,243,709</u>
Percentage of total assets	<u>30%</u>	<u>29%</u>

	Three Months Ended March 31,	
	2009	2010
	(In thousands)	
Net cash provided by operating activities	\$ 262,349	\$ 143,597
Net cash (used in) provided by investing activities	\$ (216,331)	\$ 294,346
Net cash provided by (used in) financing activities	\$ 15,720	\$ (369,854)

Our operating activities for the three months ended March 31, 2010 generated adequate cash to meet our operating needs. As of March 31, 2010, we had cash, cash equivalents, and marketable debt securities totaling \$4.2 billion, compared to \$4.5 billion at December 31, 2009. During the three months ended March 31, 2010, we repurchased 24.8 million shares for \$385 million.

During the three months ended March 31, 2010, we generated \$144 million of cash from operating activities, \$100 million of proceeds from the sale of a divested business, and \$13 million from the issuance of common stock as a result of the exercise of employee stock options. This was offset by a net \$113 million in capital expenditures, \$30 million in tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock, and \$385 million used in the direct repurchase of common stock. During the three months ended March 31, 2009, we invested a net \$70 million in capital expenditures. The cash used for these investments was offset by \$262 million of cash generated from operating activities and \$4 million from the issuance of common stock as a result of the exercise of employee stock options. In the three months ended March 31, 2009, \$10 million was used for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related related reacquisition of shares of restricted stock.

We expect to continue to generate positive cash flows from operations for the second quarter of 2010. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional debt securities or obtain credit facilities to further enhance our liquidity position, and the sale of additional equity securities could result in dilution to our stockholders.

See Note 8 — “Investments” in the Notes to the condensed consolidated financial statements for additional information.

**Cash flow changes**

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes, and non-operating gains from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense, non-cash restructuring charges, tax benefits from stock-based awards, excess tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. Cash provided by operating activities was lower than net income in the three months ended March 31, 2010 due to changes in working capital, including Microsoft reimbursements not yet received as cash.

Cash used in investing activities was primarily attributable to capital expenditures and purchases of intangible assets. In the three months ended March 31, 2010, we invested \$113 million in net capital expenditures and \$5 million to purchase intangible assets, which was offset by proceeds from the sale of a divested business of \$100 million and net proceeds from sales and maturities of marketable debt securities of \$312 million. During the three months ended March 31, 2009, we invested \$70 million in net capital expenditures and \$5 million to purchase intangible assets.

Cash used in financing activities is driven by stock repurchases offset by employee stock option exercises. Our cash proceeds from employee stock option exercises were \$13 million for the three months ended March 31, 2010, compared to \$4 million for the same period of 2009. During the three months ended March 31, 2010, we used \$385 million in the direct repurchase of 24.8 million shares of common stock at an average price of \$15.54 per share. We used \$30 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock. During the three months ended March 31, 2009, we did not repurchase any shares of common stock. We used \$10 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock.

### Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$113 million for the three months ended March 31, 2010, compared to \$70 million in the same period of 2009. Our capital expenditures for the nine months ending December 31, 2010 are expected to be higher compared to the same period of 2009 as we continue to invest in our infrastructure to support additional users and to increase performance to our users.

### Contractual obligations and commitments

**Leases.** We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 16 years, expiring between 2010 and 2026.

During the first quarter of 2010, we entered into a purchase agreement to acquire for \$73 million certain office space that we were occupying under an operating lease. Accordingly, the operating lease was re-classified to a capital lease and we recorded \$73 million as a capital lease obligation in our condensed consolidated balance sheets. The transaction is expected to close in the second quarter of 2010.

A summary of lease commitments as of March 31, 2010 is as follows (in millions):

	<u>Gross Operating Lease Commitments</u>	<u>Capital Lease Commitment</u>
Nine months ending December 31, 2010	\$ 117	\$ 16
Years ending December 31,		
2011	139	12
2012	110	13
2013	92	13
2014	79	14
2015	67	14
Due after 5 years	69	111
Total gross lease commitments	<u>\$ 673</u>	<u>\$ 193</u>
Less: interest	—	(79)
Net lease commitments	<u>\$ 673</u>	<u>\$ 114</u>

**Affiliate Commitments.** In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent traffic acquisition costs, to our Affiliates. As of March 31, 2010, these commitments totaled \$119 million, of which \$95 million will be payable in the remainder of 2010 and \$24 million will be payable in 2011.

**Intellectual Property Rights.** We are committed to make certain payments under various intellectual property arrangements of up to \$44 million through 2023.

**Income Taxes.** As of March 31, 2010, the unrecognized tax benefits that resulted in an accrued liability amounted to \$443 million and are recorded on our condensed consolidated balance sheets. As of March 31, 2010, the settlement period for our income tax liabilities cannot be determined.

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

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

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

**Interest Rate Risk.** Our exposure to market rate risk for changes in interest rates relates primarily to our cash and marketable debt securities portfolio. We invest excess cash in money market funds and liquid marketable debt instruments of the U.S. Government and its agencies, state municipalities, and in high-quality corporate issuers.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in an approximate \$20 million and \$25 million decrease in the fair value of our available-for-sale debt securities as of March 31, 2010 and December 31, 2009, respectively.

**Foreign Currency Risk.** Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Korean won, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three months ended March 31, 2009, our international revenues for the three months ended March 31, 2010 would have been lower than we reported by approximately \$50 million and our International segment direct costs would have been lower than we reported by \$33 million.

As mentioned above, we are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders' equity. In addition, we have certain assets and liabilities that are denominated in currencies other than the respective entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a gain or loss. We record these foreign currency transaction gains and losses, realized and unrealized, in other income, net on the condensed consolidated statements of income. During the three months ended March 31, 2010 and 2009, our net realized and unrealized foreign currency transaction losses were not material.

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

Our cash and marketable debt securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of March 31, 2010 and 2009, net unrealized gains and losses on these investments were not material.

**Item 4. Controls and Procedures**

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

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



## PART II — OTHER INFORMATION

### Item 1. *Legal Proceedings*

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

### Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission on February 26, 2010, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the 10-K for the year ended December 31, 2009.

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

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

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

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

Google, Microsoft and others offer products and services that directly compete for users with our offerings, including consumer e-mail, desktop search, local search, instant messaging, photos, maps, video sharing, content channels, mobile applications, and shopping. Similarly, the advertising networks operated by Google, Microsoft, AOL and others offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad serving technologies and sponsored search offerings. While under our Search Agreement with Microsoft, Yahoo! will become the exclusive worldwide relationship sales force for both companies' premium search advertisers and Microsoft will become Yahoo!'s exclusive platform technology provider for algorithmic and paid search services, Yahoo! and Microsoft will still continue to compete for users, advertisers, publishers and distribution partners as described above.

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

We also compete with traditional print and broadcast media companies to attract advertising dollars, both domestically and internationally. Currently many advertisers direct a portion, but only a portion, of their advertising budgets to Internet advertising. In response, traditional media companies are increasingly expanding their content offerings onto the Web and thus are competing not only to keep offline advertising dollars but also for a share of online advertising dollars.

Some of our existing competitors and possible additional entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. For example, Google and Microsoft have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions and research and development. In addition, emerging start-ups may be able to innovate and provide new products and services faster than we can.

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

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

For the three-months ended March 31, 2010, 89 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenues depends upon:

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

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- broadening our relationships with advertisers to small- and medium-sized businesses;
- the successful implementation of changes and improvements to our advertising management platforms and acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;
- continuing to innovate and improve users' search experiences;
- maintaining and expanding our Affiliate program for search and display marketing services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

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

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

Marketing services expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive most of our revenues from marketing services, the adverse economic conditions have caused, and a continuation of adverse economic conditions could cause, additional decreases in or delays in advertising spending, a reduction in our marketing services revenues and a negative impact on our short term ability to grow our revenues. Further, any decreased collectability of accounts receivable or early termination of agreements, whether resulting from customer bankruptcies or otherwise due to the current deterioration in economic conditions, could negatively impact our results of operations.

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

We have implemented cost reduction initiatives to better align our operating expenses with our revenues, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to manage costs to better and more efficiently manage our business. However, our operating expenses might also increase, from their reduced levels, as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo! brand, fund product development, and acquire and integrate complementary businesses and technologies. In addition, deteriorating economic conditions or other factors could cause our business to contract requiring us to implement additional cost cutting measures. If our expenses increase at a greater pace than our revenues, or if we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

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

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

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

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

Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We must continually invest in improving our users' search experience—presenting users with a search experience that is responsive to their needs and preferences—in order to continue to attract, retain, and expand our user base and paid search advertiser base. We currently deploy our own technology to provide search results on our network. Following implementation of our Search Agreement with Microsoft, Microsoft will become our algorithmic and paid search platform technology provider; however, we will continue to need to invest and innovate to improve our users' search experience.

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

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

We believe that maintaining and enhancing our brands is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry in the Internet market. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we anticipate spending increasing amounts of money on, and devoting greater resources to, advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors, including among other issues: service outages; product malfunctions; data privacy and security issues; exploitation of our trademarks by others without permission; and poor presentation or integration of our search marketing offerings by Affiliates on their sites or in their software and services.

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

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

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

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

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

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

In addition to patent claims, third parties have asserted, and are likely in the future to assert, claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition, violation of

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federal or state statutes or other claims, including alleged violation of international statutory and common law. In addition, third parties have made, and may continue to make, trademark infringement and related claims against us over the display of search results triggered by search terms that include trademark terms. Currently, we are engaged in lawsuits regarding such trademark issues.

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

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

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

A number of U.S. federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third-party content. Yahoo! relies on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections, or international jurisdictions’ refusal to apply similar provisions to foreign lawsuits, will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children’s Online Privacy Protection Act is intended to impose restrictions on the ability of online services to collect some types of information from children under the age of 13. In addition, Providing Resources, Officers, and Technology to Eradicate Cyber Threats to Our Children Act of 2008 (“PROTECT Act”) requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Other federal and state laws and legislative efforts designed to protect children on the Internet may impose additional requirements on the Company. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business. The cost of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failure on our part to comply with these regulations may subject us to significant liabilities.

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

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

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

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues which could adversely impact our business. The interpretation and

application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

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

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

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

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

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

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

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our on-going business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement claims against the acquired company;
- litigation or other claims in connection with the acquired company;
- the impairment of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;

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

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

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

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

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

***Any failure to scale and adapt our existing technology architecture to manage expansion of user-facing services and to respond to rapid technological change could adversely affect our business.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The number of individuals who access the Internet through devices other than a PC, such as mobile telephones, personal digital assistants, hand held computers, tablets, netbooks, televisions, and set-top box devices, has increased dramatically, and the trend is likely to continue. Our services were originally designed for rich, graphical environments such as those available on the desktop and PC. The different hardware and software, memory, operating systems, resolution, and other functionality associated with alternative devices currently available may make our desktop and PC services unusable or difficult to use on such devices. Similarly, the licenses we have negotiated to present third-party content to desktop and PC users may not extend to users of alternative devices. In those cases, we may need to enter into new or amended agreements with the content providers in order to present a similar user-experience on the new devices. The content providers may not be willing to enter into such new or amended agreements on reasonable terms or at all.

We offer versions of many of our popular services (such as sports, finance, and news) designed to be accessed on a number of models of alternative devices. We also offer versions of some of our services (such as instant messaging) designed for specific popular devices. As new devices are introduced, it is difficult to predict the problems we may encounter in developing versions of our services for use on those devices, and we may need to devote significant resources to the creation, support, and maintenance of such versions or risk loss of market share. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, content providers, and users to our services, or to capture a sufficient share of an increasingly important portion of the market for these services, we may be unsuccessful in attracting both advertisers and premium service subscribers to these services.

To the extent that an access provider or device manufacturer enters into a distribution arrangement with one of our competitors (or as our competitors design mobile devices and mobile device operating systems), we face an increased risk that our users will favor the services or properties of that competitor. The manufacturer or access provider might promote a competitor's services or might impair users' access to our services by blocking access through their devices or by not making our services available in a readily-discoverable manner on their devices. If competitive distributors impair access to our services, or if they simply are more successful than our distributors in developing compelling products that attract and retain users or advertisers, then our revenues could decline.

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

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

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



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

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

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

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

***New technologies could block display advertisements or search marketing advertisements, which could harm our operating results.***

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

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

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

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, power loss, telecommunications failures, cyber attacks, terrorist attacks, and similar events.
- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced as we roll out improvements and upgrades, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.

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

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

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

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

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

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

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

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

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

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

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

The trading price of our common stock has been and may continue to be subject to broad fluctuations. During the three months ended March 31, 2010, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from \$14.80 to \$17.23 per share and the closing sale price on April 30, 2010 was \$16.53 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results, announcements and implementations of technological innovations or new services by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; the operating performance of companies in which we have an equity investment, including Yahoo Japan Corporation (“Yahoo Japan”) and Alibaba Group Holding Limited (“Alibaba Group”); and news reports relating to us, trends in our markets, or general economic conditions.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options or other stock-based awards. A sustained decline in our stock price and market capitalization could lead to an impairment charge of our long-lived assets.

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

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

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

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

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

Share repurchase activity during the three months ended March 31, 2010 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased (*)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) (*)</u>
January 1 — January 31, 2010	—	—	—	\$ 973,400
February 1 — February 28, 2010	13,821,360	\$ 15.20	13,821,360	\$ 763,317
March 1 — March 31, 2010	10,961,400	\$ 15.97	10,961,400	\$ 588,229
Total	<u>24,782,760</u>	\$ 15.54	<u>24,782,760</u>	

(\*) The shares repurchased in the three months ended March 31, 2010 were under our stock repurchase program that was announced in October 2006 with an authorized level of \$3.0 billion. This program, according to its terms, will expire in October 2011. Repurchases may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

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

None.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

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

**SIGNATURES**

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

YAHOO! INC.

Dated: May 10, 2010

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

Dated: May 10, 2010

By: /s/ Timothy R. Morse  
Timothy R. Morse  
Chief Financial Officer  
(Principal Financial Officer)

**YAHOO! INC.**  
**Index to Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, filed as Exhibit 4.1 below).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed February 6, 2009 and incorporated herein by reference).
4.1	Amended and Restated Rights Agreement (including the form of Rights Certificate), dated as of April 1, 2005, by and between the Registrant and Equiserve Trust Company, N.A., as rights agent (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 4, 2005 and incorporated herein by reference).
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 10, 2010.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 10, 2010.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 10, 2010.
101.INS*‡	XBRL Instance
101.SCH*‡	XBRL Taxonomy Extension Schema
101.CAL*‡	XBRL Taxonomy Extension Calculation
101.DEF*‡	XBRL Taxonomy Extension Definition
101.LAB*‡	XBRL Taxonomy Extension Labels
101.PRE*‡	XBRL Taxonomy Extension Presentation

\* Filed herewith.

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

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

I, Carol Bartz, certify that:

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

Dated: May 10, 2010

By: /s/ CAROL BARTZ

Carol Bartz  
Chief Executive Officer

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

I, Timothy R. Morse, certify that:

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

Dated: May 10, 2010

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



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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the "Company") for the quarter ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Carol Bartz, as Chief Executive Officer of the Company, and Timothy R. Morse, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CAROL BARTZ

Name: Carol Bartz  
Title: Chief Executive Officer  
Dated: May 10, 2010

/s/ TIMOTHY R. MORSE

Name: Timothy R. Morse  
Title: Chief Financial Officer  
Dated: May 10, 2010

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