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

Form 10-Q

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

For the quarterly period ended September 30, 2012

Or

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

For the transition period from to

Commission file number 000-28018

Yahoo! Inc.
(Exact name of Registrant as specified in its charter)

Delaware	**77-0398689**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

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

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

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

Class	Outstanding at October 31, 2012
Common Stock, $0.001 par value	1,182,688,258

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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 Balance Sheets

	December 31, 2011	September 30, 2012
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,562,390	$ 7,560,400
Short-term marketable debt securities	493,189	852,816
Accounts receivable, net	1,037,474	953,671
Prepaid expenses and other current assets	359,483	318,892
Total current assets	3,452,536	9,685,779
Long-term marketable debt securities	474,338	1,013,555
Other long-term investments	—	802,609
Property and equipment, net	1,730,888	1,671,234
Goodwill	3,900,752	3,910,245
Intangible assets, net	254,600	173,918
Other long-term assets	220,628	548,182
Investments in equity interests	4,749,044	2,608,605
Total assets	$14,782,786	$20,414,127
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 166,595	$ 147,943
Accrued expenses and other current liabilities	846,044	3,049,074
Deferred revenue	194,722	309,265
Total current liabilities	1,207,361	3,506,282
Long-term deferred revenue	43,639	444,415
Capital lease and other long-term liabilities	134,905	127,531
Deferred and other long-term tax liabilities, net	815,534	730,378
Total liabilities	2,201,439	4,808,606
Commitments and contingencies (Note 11)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,244,956 shares issued and 1,217,481 shares outstanding as of December 31, 2011 and 1,259,876 shares issued and 1,185,965 shares outstanding as of September 30, 2012	1,242	1,257
Additional paid-in capital	9,825,899	10,067,211
Treasury stock at cost, 27,475 shares as of December 31, 2011 and 73,911 shares as of September 30, 2012	(416,237)	(1,132,615)
Retained earnings	2,432,294	6,105,506
Accumulated other comprehensive income	697,869	520,144
Total Yahoo! Inc. stockholders' equity	12,541,067	15,561,503
Noncontrolling interests	40,280	44,018
Total equity	12,581,347	15,605,521
Total liabilities and equity	$14,782,786	$20,414,127

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

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YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
	(Unaudited, in thousands except per share amounts)			
Revenue	$ 1,216,665	$ 1,201,732	$ 3,660,046	$ 3,640,759
Operating expenses:				
Cost of revenue — Traffic acquisition costs	144,991	112,829	447,918	393,945
Cost of revenue — Other	239,002	282,081	720,017	814,513
Sales and marketing	290,520	269,272	832,827	827,450
Product development	229,230	217,301	683,558	645,407
General and administrative	129,954	135,249	384,674	395,637
Amortization of intangibles	8,435	8,084	25,067	27,893
Restructuring charges, net	(2,721)	24,727	8,091	159,536
Total operating expenses	1,039,411	1,049,543	3,102,152	3,264,381
Income from operations	177,254	152,189	557,894	376,378
Other income, net	18,046	4,607,656	17,407	4,630,109
Income before income taxes and earnings in equity interests	195,300	4,759,845	575,301	5,006,487
Provision for income taxes	(55,731)	(1,774,094)	(163,480)	(1,857,036)
Earnings in equity interests	158,775	175,265	349,857	527,499
Net income	298,344	3,161,016	761,678	3,676,950
Less: net income attributable to noncontrolling interests	(5,053)	(778)	(8,423)	(3,738)
Net income attributable to Yahoo! Inc.	$ 293,291	$ 3,160,238	$ 753,255	$ 3,673,212
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.23	$ 2.66	$ 0.59	$ 3.05
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.23	$ 2.64	$ 0.58	$ 3.02
Shares used in per share calculation — basic	1,253,044	1,186,046	1,287,352	1,205,050
Shares used in per share calculation — diluted	1,259,576	1,195,085	1,296,040	1,214,430
Stock-based compensation expense by function:				
Cost of revenue — Other	$ 956	$ 2,363	$ 2,479	$ 7,871
Sales and marketing	$ 16,759	$ 19,876	$ 42,829	$ 59,954
Product development	$ 21,093	$ 17,050	$ 64,296	$ 54,329
General and administrative	$ 12,139	$ 22,077	$ 35,507	$ 44,749
Restructuring expense reversals, net	$ —	$ —	$ (1,278)	$ (3,429)

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

YAHOO! INC.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
	(Unaudited, in thousands)			
Net Income	$ 298,344	$ 3,161,016	$ 761,678	$ 3,676,950
Other comprehensive income:				
Unrealized gains (losses) on available-for-sale securities, net of taxes of $2,384 and $(246) for the three months ended September 30, 2011 and 2012, respectively, and $1,582 and $(41) for the nine months ended September 30, 2011 and 2012, respectively	(5,900)	463	(3,129)	6,143
Reclassification adjustment for realized (gains) losses included in net income, net of taxes of $190 and $57 for the three months ended September 30, 2011 and 2012, respectively, and $2,002 and $(5,298) for the nine months ended September 30, 2011 and 2012, respectively	(285)	(98)	(3,280)	9,260
Net change in unrealized gains (losses) on available-for-sale securities, net of taxes	(6,185)	365	(6,409)	15,403
Foreign currency translation adjustment, net of tax	(44,689)	28,009	127,156	(193,128)
Total other comprehensive income, net of tax	(50,874)	28,374	120,747	(177,725)
Comprehensive income	247,470	3,189,390	882,425	3,499,225
Less: comprehensive income attributable to noncontrolling interests	(5,053)	(778)	(8,423)	(3,738)
Comprehensive income attributable to Yahoo! Inc.	$ 242,417	$ 3,188,612	$ 874,002	$ 3,495,487

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

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YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30, 2011	September 30, 2012
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 761,678	$ 3,676,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	404,823	401,022
Amortization of intangible assets	87,784	84,087
Stock-based compensation expense, net	143,833	163,474
Noncash restructuring charges, net	—	40,462
Tax benefits from stock-based awards	9,974	(9,471)
Excess tax benefits from stock-based awards	(44,715)	(30,751)
Deferred income taxes	68,740	(891,288)
Earnings in equity interests	(349,857)	(527,499)
Dividends received from Yahoo Japan	75,391	83,648
Gain from sale of Alibaba Group Shares	—	(4,603,322)
Gain from sales of investments, assets, and other, net	12,822	(18,308)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	156,092	86,942
Prepaid expenses and other	10,407	41,059
Accounts payable	(27,316)	(22,457)
Accrued expenses and other liabilities	(351,081)	2,628,962
Deferred revenue	(66,103)	514,811
Net cash provided by operating activities	892,472	1,618,321
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(463,006)	(355,787)
Purchases of marketable debt securities	(1,613,298)	(1,838,860)
Proceeds from sales of marketable debt securities	1,067,229	684,979
Proceeds from maturities of marketable debt securities	1,226,892	250,653
Proceeds related to sale of Alibaba Group Shares, net	—	6,247,728
Proceeds from the sale of investments	21,271	26,132
Acquisitions, net of cash acquired	(68,812)	—
Purchases of intangible assets	(11,020)	(3,088)
Other investing activities, net	(5,763)	(9,421)
Net cash provided by investing activities	153,493	5,002,336
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	106,697	116,420
Repurchases of common stock	(1,202,504)	(716,379)
Excess tax benefits from stock-based awards	44,715	30,751
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(36,049)	(48,097)
Other financing activities, net	(8,333)	(3,519)
Net cash used in financing activities	(1,095,474)	(620,824)
Effect of exchange rate changes on cash and cash equivalents	(12,699)	(1,823)
Net change in cash and cash equivalents	(62,208)	5,998,010
Cash and cash equivalents at beginning of period	1,526,427	1,562,390
Cash and cash equivalents at end of period	$ 1,464,219	$ 7,560,400

See Note 4 — “Investments in Equity Interests” for information about the non-cash proceeds of $800 million in Alibaba Group Preference Shares.

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!" or the "Company"), is focused on creating deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. Yahoo!'s unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses. The Company provides online properties and services ("Yahoo! Properties") to users as well as a range of marketing services designed to reach and connect with those users on Yahoo! Properties and through a distribution network of third-party entities ("Affiliates"). These Affiliates integrate the Company's advertising offerings into their Websites or other offerings (those Websites and other offerings, "Affiliate sites").

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation. To conform to the current period presentation, the Company corrected the classification of $25 million and $60 million of costs principally included in product development expenses to cost of revenue—other for the three and nine months ended September 30, 2011, respectively.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2011 was derived from the Company's audited financial statements for the year ended December 31, 2011, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

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

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

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

Potentially dilutive securities representing approximately 37 million and 44 million shares of common stock for the three and nine months ended September 30, 2012, respectively, and 58 million shares of common stock for both the three and nine months ended September 30, 2011 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):

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Basic:				
Numerator:				
Net income attributable to Yahoo! Inc.	$ 293,291	$ 3,160,238	$ 753,255	$ 3,673,212
Less: Net income allocated to participating securities	(3)	(35)	(11)	(47)
Net income attributable to Yahoo! Inc. common stockholders — basic	$ 293,288	$ 3,160,203	$ 753,244	$ 3,673,165
Denominator:				
Weighted average common shares	1,253,044	1,186,046	1,287,352	1,205,050
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.23	$ 2.66	$ 0.59	$ 3.05
Diluted:				
Numerator:				
Net income attributable to Yahoo! Inc.	$ 293,291	$ 3,160,238	$ 753,255	$ 3,673,212
Less: Net income allocated to participating securities	(3)	(34)	(11)	(46)
Less: Effect of dilutive securities issued by equity investees	(661)	(1,334)	(1,963)	(3,846)
Net income attributable to Yahoo! Inc. common stockholders — diluted	$ 292,627	$ 3,158,870	$ 751,281	$ 3,669,320
Denominator:				
Denominator for basic calculation	1,253,044	1,186,046	1,287,352	1,205,050
Weighted average effect of Yahoo! Inc. dilutive securities:				
Restricted stock and restricted stock units	4,333	7,587	5,768	7,776
Stock options and employee stock purchase plan	2,199	1,452	2,920	1,604
Denominator for diluted calculation	1,259,576	1,195,085	1,296,040	1,214,430
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.23	$ 2.64	$ 0.58	$ 3.02

Note 3 ACQUISITIONS

During the nine months ended September 30, 2011, the Company acquired three companies in transactions that were accounted for as business combinations. The total purchase price for these acquisitions was $72 million. The total cash consideration of $72 million less cash acquired of $3 million resulted in a net cash outlay of $69 million. Of the purchase price, $52 million was allocated to goodwill, $26 million to amortizable intangible assets, $3 million to cash acquired, and $9 million to net assumed liabilities. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

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

The Company did not make any acquisitions during the nine months ended September 30, 2012.

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2011	September 30, 2012	Percent Ownership of Common Stock as of September 30, 2012
Alibaba Group	$2,521,825	$ 225,152	24%
Yahoo Japan	2,219,946	2,373,219	35%
Other	7,273	10,234	25%
Total	$4,749,044	$ 2,608,605	

Equity Investment in Alibaba Group. The investment in Alibaba Group Holding Limited ("Alibaba Group") is being accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of the investments in equity interests balance on the Company's condensed consolidated balance sheets.

The Company's accounting policy is to record 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. However, due to the materiality of the Initial Repurchase (as defined and described below), the Company accounted for the impact of the Initial Repurchase and related transactions on Alibaba Group's financial information in the quarter ended September 30, 2012 instead of one quarter in arrears. As of September 30, 2012, Alibaba Group's common shareholders' equity is a net deficit as a result of the repurchase of its ordinary shares from the Company at fair value, which was significantly in excess of the book value per share. The Company's remaining investment balance represents excess cost largely attributable to goodwill.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Operating data(*):				
Revenue	$631,216	$1,077,045	$ 1,666,663	$2,905,752
Gross profit	$421,173	$ 739,914	$ 1,108,482	$1,967,290
Income from operations	$132,403	$ 371,854	$ 205,654	$ 861,775
Net income	$137,253	$ 292,928	$ 233,887	$ 781,701
Net income attributable to Alibaba Group	$118,947	$ 273,043	$ 180,890	$ 730,438

	September 30, 2011	June 30, 2012
Balance sheet data(*):		
Current assets	$ 3,491,753	$4,437,224
Long-term assets	$ 2,993,329	$3,067,122
Current liabilities	$ 1,562,840	$2,210,545
Long-term liabilities	$ 134,160	$1,943,131
Non-voting participating redeemable securities	$ 1,415	$ 4,520
Noncontrolling interests	$ 406,805	$ 65,374

(*) The comparative summary financial information disclosed above is as of June 30, 2012 and, accordingly, does not include the effects of the Initial Repurchase and related transactions. In addition, in the period ended June 30, 2012, Alibaba Group purchased the remaining noncontrolling interest in Alibaba.com, for total consideration of approximately $2.5 billion. The purchase was primarily financed by the issuance of debt. The excess of consideration over book value of the noncontrolling interest was recorded as a reduction to the shareholders' equity of Alibaba Group, which increased the Company's excess cost related to its investment in Alibaba Group.

Framework Agreement with Alibaba Group regarding Alipay. Alibaba Group restructured the ownership of Alipay.com Co., Ltd. (“Alipay”) and deconsolidated Alipay in the first quarter of 2011. The impact of the deconsolidation of Alipay was not material to the Company’s financial statements. On July 29, 2011, the Company entered into a Framework Agreement (the “Framework Agreement”) with Alibaba Group, Softbank Corp., a Japanese corporation, Alipay, APN Ltd., a company organized under the laws of the Cayman Islands (“IPCo”), Zhejiang Alibaba E-Commerce Co., Ltd., a limited liability company organized under the laws of the People’s Republic of China (“HoldCo”), Jack Ma Yun, Joseph C. Tsai and certain security holders of Alipay or HoldCo as joinder parties. The Framework Agreement establishes the ongoing financial and other arrangements between Alibaba Group and Alipay. The transactions under the Framework Agreement closed on December 14, 2011.

Pursuant to the terms of the Framework Agreement (1) Alibaba Group will receive certain payments (“Liquidity Event Payment”) upon a liquidity event related to Alipay, such as an initial public offering or sale of Alipay; (2) Alibaba Group received a non-interest bearing promissory note in the principal amount of $500 million with a seven year maturity (the “IPCo Promissory Note”); (3) upon payment in full of the Liquidity Event Payment certain assets used in the Alipay business that were retained by Alibaba Group will be transferred to Alipay; (4) Alibaba Group and Alipay entered into a long-term agreement pursuant to which Alibaba Group will receive payment processing services on preferential terms from Alipay and its subsidiaries; and (5) Alibaba Group licensed to Alipay certain intellectual property and technology and performs certain software technology services for Alipay and in return Alipay pays to Alibaba Group a royalty and software technology services fee.

The royalty and software technology services fee and the payment processing services fees discussed above approximate the estimated fair values of such services and are recognized in Alibaba Group’s financial statements as income or expense, as applicable, as the services are rendered. The Company will record its share, if any, of the results of these transactions as they are recorded by Alibaba Group within Yahoo!’s earnings in equity interests in the condensed consolidated statements of income. Alibaba Group will recognize the Liquidity Event Payment, the payment of the IPCo Promissory Note, and any impact from the transfer of assets, described above, if and when such payments or transfers occur. The Company will record its share, if any, of the results of these transactions as they are recorded by Alibaba Group within the Company’s earnings in equity interests in the condensed consolidated statements of income.

Initial Repurchase by Alibaba Group. On September 18, 2012 (the “Repurchase Closing Date”), Alibaba Group repurchased 523 million of the 1,047 million ordinary shares of Alibaba Group (“Shares”) owned by the Company (the “Initial Repurchase”). The Initial Repurchase was made pursuant to the terms of the Share Repurchase and Preference Share Sale Agreement entered into by Yahoo! Inc., Alibaba Group and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo! Inc. (“YHK”) on May 20, 2012 (as amended on September 11, 2012, the “Repurchase Agreement”). Yahoo! received $13.54 per Share, or approximately $7.1 billion in total consideration, for the 523 million Shares sold to Alibaba Group. Approximately $6.3 billion of the consideration was received in cash and $800 million was received in Alibaba Group preference shares (the “Alibaba Group Preference Shares”). The Initial Repurchase resulted in a pre-tax gain of approximately $4.6 billion for the three months ended September 30, 2012. The Company will continue to account for its remaining approximately 24 percent ownership interest in Alibaba Group under the equity method.

The Alibaba Group Preference Shares yield semi-annual dividends at a rate per annum of up to 10 percent, with at least 3 percent payable in cash and the remainder accruing and resulting in an increase to the liquidation preference. The dividend rate is subject to certain adjustments. The Alibaba Group Preference Shares will be freely transferable by Yahoo! after 18 months from the Repurchase Closing Date, are callable by Alibaba Group at any time at the liquidation preference, will not be convertible, and are mandatorily redeemable at the liquidation preference (including accrued dividends) by Alibaba Group on the earlier of the tenth anniversary of the Repurchase Closing Date and the occurrence of certain specified events. The Alibaba Group Preference Shares are classified as available for sale securities and included within other long-term investments on the condensed consolidated balance sheets.

The Repurchase Agreement provides that at the time Alibaba Group completes an initial public offering meeting certain specified criteria (a “Qualified IPO”), Yahoo! and YHK will sell, at Alibaba Group’s election (either directly to Alibaba Group or in the Qualified IPO), up to 261.5 million of their remaining Shares. If Shares are sold back to Alibaba Group in the Qualified IPO, the purchase price per Share will be equal to the per share price in the Qualified IPO less specified fees and underwriter discounts.

On the Repurchase Closing Date, the Company and Alibaba Group entered into an amendment of their existing Technology and Intellectual Property License Agreement (the “TIPLA”) pursuant to which Alibaba Group made a payment to the Company of $550 million in satisfaction of certain future royalty payments under the existing TIPLA. The Company will recognize this revenue over the remaining four-year term. For the three months ended September 30, 2012, the Company recognized approximately $5 million in revenue related to the TIPLA. Alibaba Group will continue making royalty payments until the earlier of the fourth anniversary of the effective date of the amendment and a Qualified IPO. Pursuant to the terms of the TIPLA, prior to being amended on the Repurchase Closing Date, the Company recognized revenue of approximately $11 million and $30 million for the three and nine months ended September 30, 2011, respectively, and $19 million and $51 million for the three and nine months ended September 30, 2012, respectively.

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

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

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

The fair value of the Company's ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately $7.7 billion as of September 30, 2012.

During the nine months ended September 30, 2011 and 2012, the Company received cash dividends from Yahoo Japan in the amounts of $75 million and $84 million, net of taxes, respectively, which were recorded as reductions to the Company's investment in Yahoo Japan.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Operating data:				
Revenue	$958,927	$1,036,650	$2,959,085	$3,175,951
Gross profit	$797,008	$877,116	$2,452,776	$2,693,956
Income from operations	$446,945	$512,994	$1,442,131	$1,640,935
Net income	$284,111	$315,949	$799,995	$966,646
Net income attributable to Yahoo Japan	$282,820	$314,726	$795,103	$962,818

	September 30, 2011	June 30, 2012
Balance sheet data:		
Current assets	$3,622,833	$5,136,958
Long-term assets	$2,907,062	$1,738,683
Current liabilities	$1,117,773	$950,823
Long-term liabilities	$36,009	$55,517
Noncontrolling interests	$31,102	$29,148

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately $74 million and $75 million for the three months ended September 30, 2011 and 2012, respectively, and revenue of approximately $211 million for the nine months ended September 30, 2011 and 2012. As of December 31, 2011 and September 30, 2012, the Company had net receivable balances from Yahoo Japan of approximately $42 million and $47 million, respectively.

Note 5 GOODWILL

The Company's goodwill balance was $3.9 billion as of December 31, 2011 and September 30, 2012, of which $2.9 billion was recorded in the Americas segment, $0.6 billion in the EMEA (Europe, Middle East, and Africa) segment, and $0.4 billion in the Asia Pacific segment. The change in the carrying amount of goodwill of $9 million reflected on the Company's condensed consolidated balance sheets during the nine months ended September 30, 2012 was primarily due to foreign exchange gain of $8 million.

Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2011	September 30, 2012		
	Net	Gross Carrying Amount	Accumulated Amortization[(*)]	Net
Customer and advertiser-related relationships	$ 93,683	$ 162,389	$ (92,527)	$ 69,862
Developed technology and patents	137,668	274,950	(191,233)	83,717
Trade names, trademarks, and domain names	23,249	50,982	(30,643)	20,339
Total intangible assets, net	$ 254,600	$ 488,321	$ (314,403)	$ 173,918

(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, increased total intangible assets by approximately $19 million as of September 30, 2012.

The Company recognized amortization expense for intangible assets of $29 million and $24 million for the three months ended September 30, 2011 and 2012, respectively, including $20 million and $16 million, respectively, in cost of revenue — other. For the nine months ended September 30, 2011 and 2012, the Company recognized amortization expense for intangible assets of $88 million and $84 million, respectively, including $62 million and $56 million in cost of revenue — other, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2012 and each of the succeeding years is as follows: three months ending December 31, 2012: $21 million; 2013: $62 million; 2014: $42 million; 2015: $22 million; 2016: $5 million; and 2017: $5 million.

Note 7 OTHER INCOME, NET

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Interest and investment income	$ 3,955	$ 6,402	$ 14,399	$ 15,682
Gain related to sale of Alibaba Group Shares	—	4,603,322	—	4,603,322
Other	14,091	(2,068)	3,008	11,105
Total other income, net	$ 18,046	$ 4,607,656	$ 17,407	$ 4,630,109

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

The Company recorded a pre-tax gain of approximately $4.6 billion in the three months ended September 30, 2012 related to the sale of Alibaba Group Shares. See Note 4 — "Investments in Equity Interests" for additional information.

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

Note 8 ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	December 31, 2011	September 30, 2012
Unrealized (losses) gains on available-for-sale securities, net of tax	$ (7,538)	$ 7,865
Foreign currency translation, net of tax	705,407	512,279
Accumulated other comprehensive income	$ 697,869	$ 520,144

Note 9 INVESTMENTS

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

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

	September 30, 2012			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$ 779,715	$ 785	$ (3)	$ 780,497
Corporate debt securities, commercial paper, and bank certificates of deposit	1,084,570	1,476	(172)	1,085,874
Corporate equity securities	230	—	(28)	202
Other long-term investments	802,609	—	—	802,609
Total investments in available-for-sale securities	$2,667,124	$ 2,261	$ (203)	$2,669,182

	December 31, 2011	September 30, 2012
Reported as:		
Short-term marketable debt securities	$ 493,189	$ 852,816
Long-term marketable debt securities	474,338	1,013,555
Other long-term investments	—	802,609
Other assets	783	202
Total	$ 968,310	$ 2,669,182

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial as of December 31, 2011 and September 30, 2012 as the carrying value approximates fair value because of the short maturity of those instruments. Realized gains and losses from sales of marketable securities were not material for the nine months ended September 30, 2011 and 2012.

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

	December 31, 2011	September 30, 2012
Due within one year	$ 493,189	$ 852,816
Due after one year through five years	474,338	1,013,555
Total available-for-sale marketable debt securities	$ 967,527	$ 1,866,371

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

	December 31, 2011					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$138,755	$ (172)	$ —	$ —	$138,755	$ (172)
Corporate debt securities, commercial paper, and bank certificates of deposit	123,574	(226)	—	—	123,574	(226)
Corporate equity securities	—	—	783	(1,978)	783	(1,978)
Total investments in available-for-sale securities	$262,329	$ (398)	$ 783	$ (1,978)	$263,112	$ (2,376)

	September 30, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$ 27,790	$ (3)	$ —	$ —	$ 27,790	$ (3)
Corporate debt securities, commercial paper, and bank certificates of deposit	219,045	(172)	—	—	219,045	(172)
Corporate equity securities	202	(28)	—	—	202	(28)
Total investments in available-for-sale securities	$247,037	$ (203)	$ —	$ —	$247,037	$ (203)

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

The Company's investment in the Alibaba Group Preference Shares is recorded as other long-term investments on the condensed consolidated balance sheets. To estimate the fair value, the Company performed benchmarking by comparing the terms and conditions of the Alibaba Group Preference Shares to dividend rates, subordination terms, and credit ratings of those of similar type instruments. The fair value of $800 million approximates the notional value of the Alibaba Group Preference Shares as of September 30, 2012. For the three and nine months ended September 30, 2012, the Company has recorded approximately $3 million in dividend income related to the Alibaba Group Preference Shares within other income, net on the condensed consolidated statements of income.

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of December 31, 2011 (in thousands):

Assets:	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds[1]	$ 418,338	$ —	$ 418,338
Available-for-sale securities:			
Government and agency securities[1]	—	617,316	617,316
Commercial paper and bank certificates of deposit[1]	—	47,904	47,904
Corporate debt securities[1]	—	318,805	318,805
Time deposits	—	216,505	216,505
Corporate equity securities[2]	783	—	783
Available-for-sale securities at fair value	$ 419,121	$ 1,200,530	$ 1,619,651
Liabilities:			
Foreign currency derivative contract[3]	—	(2,817)	(2,817)
Total assets and liabilities at fair value	$ 419,121	$ 1,197,713	$ 1,616,834

(1) The money market funds, government and agency securities, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

(3) Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the condensed consolidated balance sheets. The notional amount of the foreign currency derivative contract was $92 million as of December 31, 2011.

The amount of cash and cash equivalents as of December 31, 2011 includes $911 million in cash deposited with commercial banks.

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

Assets:	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Money market funds[1]	$3,060,367	$ —	$ —	$3,060,367
Available-for-sale securities:				
Government and agency securities[1]	—	4,067,770	—	4,067,770
Commercial paper and bank certificates of deposit[1]	—	404,729	—	404,729
Corporate debt securities[1]	—	689,150	—	689,150
Time deposits	—	534,704	—	534,704
Other long-term investments	—	—	802,609	802,609
Corporate equity securities[2]	202	—	—	202
Available-for-sale securities at fair value	$3,060,569	$5,696,353	$802,609	$9,559,531
Foreign currency derivative contracts[3]	—	16,737	—	16,737
Total assets at fair value	$3,060,569	$5,713,090	$802,609	$9,576,268

(1) The money market funds, government and agency securities, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

(3) Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the condensed consolidated balance sheets. The notional amounts of the foreign currency derivative contracts were $476 million as of September 30, 2012.

The amount of cash and cash equivalents as of September 30, 2012 includes $670 million in cash deposited with commercial banks.

The fair values of the Company's Level 1 financial assets and liabilities are based on quoted market prices of the identical underlying security. The fair values of the Company's Level 2 financial assets and liabilities are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company classifies its investment in the Alibaba Group Preference Shares in other long-term investments within Level 3 because it is valued using significant unobservable inputs. To estimate the fair value, the Company performed benchmarking by comparing the terms and conditions of the Alibaba Group Preference Shares to dividend rates, subordination terms, and credit ratings of those of similar type instruments. The credit rating of Alibaba Group, general business conditions, and market rates could materially affect the fair value of the Alibaba Group Preference Shares. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During the nine months ended September 30, 2012, the Company did not make any transfers between Level 1, Level 2, or Level 3 assets or liabilities. As of December 31, 2011, the Company did not have any significant Level 3 financial assets or liabilities.

Note 10 STOCKHOLDERS' EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of September 30, 2012, there was $30 million of unamortized stock-based compensation expense related to the Company's Employee Stock Purchase Plan which will be recognized over a weighted average period of 1.2 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 nine months ended September 30, 2012 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price per Share
Outstanding at December 31, 2011	62,439	$ 21.94
Options granted	8,854	$ 14.92
Options exercised(*)	(5,796)	$ 12.09
Options expired	(12,608)	$ 28.51
Options cancelled/forfeited	(9,228)	$ 14.81
Outstanding at September 30, 2012	43,661	$ 21.43

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

As of September 30, 2012, there was $42 million of unrecognized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.8 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. The following weighted average assumptions were used in determining the fair value of option grants using the Black-Scholes option pricing model:

	Stock Options		Purchase Plan (*)	
	Three Months Ended		Three Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.2%	0.6%	1.4%	0.8%
Expected volatility	40.2%	31.2%	36.1%	31.2%
Expected life (in years)	4.25	4.00	0.82	1.86

	Stock Options		Purchase Plan (*)	
	Nine Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.5%	0.7%	1.4%	1.1%
Expected volatility	36.6%	31.9%	36.1%	33.1%
Expected life (in years)	4.15	4.03	0.96	1.46

(*) Assumptions for the Employee Stock Purchase Plan relate to the annual average of the enrollment periods.

Restricted stock awards and restricted stock units activity for the nine months ended September 30, 2012 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share
Awarded and unvested at December 31, 2011(*)	38,775	$ 17.28
Granted(*)	21,202	$ 15.26
Vested	(8,775)	$ 15.94
Forfeited	(17,014)	$ 15.34
Awarded and unvested at September 30, 2012(*)	34,188	$ 17.34

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

As of September 30, 2012, there was $296 million of unrecognized stock-based compensation expense related to unvested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted average period of 2.5 years.

During the nine months ended September 30, 2011 and September 30, 2012, 6.3 million shares and 8.8 million shares, respectively, that were subject to previously granted restricted stock awards and restricted stock units vested. These vested restricted stock awards and restricted stock units were net share settled. During the nine months ended September 30, 2011 and September 30, 2012, the Company withheld 2.2 million shares and 3.2 million shares, respectively, based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were $36 million and $48 million for the nine months ended September 30, 2011 and September 30, 2012, respectively, and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units and tax withholding related to the reacquisition of shares of restricted stock awards. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

CEO 2012 Annual Equity Awards. Marissa A. Mayer, the Company's Chief Executive Officer, received an equity award for 2012 that will vest over three years. A total of $6 million of this equity award was granted as restricted stock units on July 26, 2012 and will vest over three years. A total of $6 million will be in the form of a performance-based stock option that is expected to be granted in November 2012. The stock option will vest over the two and a half years after July 26, 2012, subject to satisfaction of performance criteria.

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

CEO One-Time Retention Award. Ms. Mayer received a one-time retention equity award that will vest over five years. A total of $15 million of this equity award was granted as restricted stock units on July 26, 2012 and will vest over five years. A total of $15 million of this equity award will be in the form of a performance-based stock option that is expected to be granted in November 2012. The stock option will vest over the four and a half years after July 26, 2012, subject to satisfaction of performance criteria.

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

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

The Company recorded total stock-based compensation expense of $6 million for the nine months ended September 30, 2012 in connection with the equity grants made to Mr. Thompson pursuant to the terms of his employment letter agreement with the Company.

Stock Repurchases. In June 2010, the Board authorized a stock repurchase program allowing the Company to repurchase up to $3 billion of its outstanding shares of common stock from time to time. That repurchase program, which by its terms would have expired in June 2013, was exhausted during the third quarter of 2012. In May 2012, the Board authorized a stock repurchase program allowing the Company to repurchase up to an additional $5 billion of its outstanding shares of common stock from time to time. The May 2012 repurchase program, according to its terms, will expire in June 2015 unless revoked earlier by the Board of Directors. The aggregate amount available under the May 2012 repurchase program was approximately $4.9 billion at September 30, 2012. Repurchases under the repurchase programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. During the nine months ended September 30, 2012, the Company repurchased approximately 46 million shares of its common stock under the June 2010 and May 2012 stock repurchase programs at an average price of $15.43 per share for a total of $716 million.

Note 11 COMMITMENTS AND CONTINGENCIES

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

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

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Three months ending December 31, 2012	$ 38,072	$ (3,275)	$ 34,797
Years ending December 31,			
2013	131,530	(12,937)	118,593
2014	105,238	(11,165)	94,073
2015	81,226	(6,751)	74,475
2016	45,812	(1,335)	44,477
2017	31,233	(213)	31,020
Due after 5 years	37,882	—	37,882
Total gross and net lease commitments	$ 470,993	$ (35,676)	$ 435,317

	Capital Lease Commitment
Three months ending December 31, 2012	$ 2,177
Years ending December 31,	
2013	8,570
2014	8,099
2015	8,031
2016	8,272
2017	8,520
Due after 5 years	13,984
Gross lease commitment	$ 57,653
Less: interest	(19,430)
Net lease commitment	$ 38,223

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 September 30, 2012, these commitments totaled $97 million, of which $22 million will be payable in the remainder of 2012, and $75 million will be payable in 2013.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to $32 million through 2023.

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

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

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

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

On June 14, 2007, a stockholder derivative action was filed in the United States District Court for the Central District of California by Jill Watkins against members of the Board and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in a former class action relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a stockholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment. On September 19, 2011, the Court sustained Yahoo!'s demurrer to plaintiff's third amended complaint without leave to amend. On December 21, 2011, plaintiff filed a notice of appeal.

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

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

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

Note 12 SEGMENTS

The Company continues to manage its business geographically. The primary areas of measurement and decision-making are currently Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company's segments.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Revenue by segment:				
Americas	$ 791,240	$ 843,731	$ 2,418,209	$ 2,501,515
EMEA	148,494	96,473	465,145	358,534
Asia Pacific	276,931	261,528	776,692	780,710
Total Revenue	$ 1,216,665	$ 1,201,732	$ 3,660,046	$ 3,640,759
TAC by segment:				
Americas	$ 37,493	$ 41,289	$ 115,038	$ 130,154
EMEA	52,197	17,399	167,357	97,248
Asia Pacific	55,301	54,141	165,523	166,543
Total TAC	$ 144,991	$ 112,829	$ 447,918	$ 393,945
Revenue ex-TAC by segment:				
Americas	$ 753,747	$ 802,442	$ 2,303,171	$ 2,371,361
EMEA	96,297	79,074	297,788	261,286
Asia Pacific	221,630	207,387	611,169	614,167
Total Revenue ex-TAC	$ 1,071,674	$ 1,088,903	$ 3,212,128	$ 3,246,814
Direct costs by segment[(1)]:				
Americas	174,697	189,345	508,637	550,080
EMEA	42,761	39,167	124,135	120,665
Asia Pacific	61,006	56,329	170,057	164,068
Global operating costs[(2)(3)]	415,507	396,269	1,224,169	1,228,686
Restructuring charges, net	(2,721)	24,727	8,091	159,536
Depreciation and amortization	152,223	169,511	474,034	480,498
Stock-based compensation expense	50,947	61,366	145,111	166,903
Income from operations	$ 177,254	$ 152,189	$ 557,894	$ 376,378

(1) Direct costs for each segment include cost of revenue—other, as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Beginning in 2012, marketing and customer advocacy costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

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

(3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Capital expenditures, net:				
Americas	$ 90,381	$ 122,812	$ 336,918	$ 302,139
EMEA	18,224	9,238	45,445	22,599
Asia Pacific	15,337	7,815	80,643	31,049
Total capital expenditures, net	$ 123,942	$ 139,865	$ 463,006	$ 355,787

	December 31, 2011	September 30, 2012
Property and equipment, net:		
Americas:		
U.S	$1,486,596	$ 1,460,528
Other	2,500	2,064
Total Americas	$1,489,096	$ 1,462,592
EMEA	79,955	60,788
Asia Pacific	161,837	147,854
Total property and equipment, net	$1,730,888	$ 1,671,234

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

Enterprise Wide Disclosures:

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Display	$ 502,102	$ 506,002	$ 1,548,262	$ 1,552,191
Search	466,785	472,537	1,388,580	1,403,903
Other	247,778	223,193	723,204	684,665
Total revenue	$ 1,216,665	$ 1,201,732	$ 3,660,046	$ 3,640,759

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Revenue:				
U.S.	$ 744,526	$ 800,984	$ 2,282,537	$ 2,379,955
International	472,139	400,748	1,377,509	1,260,804
Total revenue	$ 1,216,665	$ 1,201,732	$ 3,660,046	$ 3,640,759

Note 13 INCOME TAXES

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

The effective tax rate reported for the three months ended September 30, 2012 was 37 percent compared to 29 percent for the same period in 2011. The effective tax rate for the three months ended September 30, 2012 was higher than in 2011 primarily due to the U.S. taxes on the sale of Alibaba Group Shares. In connection with a review of the Company's cash position and anticipated cash needs for investment in the Company's core business, including potential acquisitions and capital expenditures, and stock repurchases, the Company is undertaking a one-time repatriation of cash from certain of its consolidated foreign subsidiaries. This distribution will be completed by the end of the fourth quarter of 2012 and resulted in a net tax benefit of approximately $135 million during the three months ended September 30, 2012 since the foreign tax credits associated with the distribution are greater than the tax due on the distribution of the foreign earnings. Taxes have not been provided on the remaining undistributed foreign earnings, principally $1.9 billion related to the Company's corporate joint venture with Yahoo Japan, as they will continue to be indefinitely reinvested going forward. If such earnings were to be remitted in the future, any additional U.S. tax cost incurred by the Company would be offset by at least an equivalent amount of foreign tax credits.

The effective tax rate reported for the nine months ended September 30, 2012 was 37 percent compared to 28 percent for the same period in 2011. The rate in 2011 was lower than the U.S. federal statutory rate primarily due to tax reserve reductions attributed to favorably settled tax audits and a shift of the geographic mix of earnings. The effective tax rate for the nine months ended September 30, 2012 was higher than in 2011 primarily due to the U.S. taxes on the gain on the sale of Alibaba Group Shares.

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

The Company's gross amount of unrecognized tax benefits as of September 30, 2012 is $715 million, of which $709 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2012 increased by $182 million from the recorded balance as of December 31, 2011. While it is difficult to determine when the examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the unrecognized tax benefits could be reduced by up to approximately $90 million in the next twelve months.

Note 14 RESTRUCTURING CHARGES, NET

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Employee severance pay and related costs, net	$ (2,571)	$ 11,467	$ 6,340	$ 106,194
Non-cancelable lease, contract termination, and other charges, net	(150)	11,436	3,029	16,309
Other non-cash charges	—	1,824	—	40,462
Sub-total before reversal of stock-based compensation expense	(2,721)	24,727	9,369	162,965
Reversal of stock-based compensation expense for forfeitures	—	—	(1,278)	(3,429)
Restructuring charges, net	$ (2,721)	$ 24,727	$ 8,091	$ 159,536

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

2011 and Prior Restructuring Plans. Prior to and into 2011, the Company implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers to reduce its cost structure, align resources with its product strategy, and improve efficiency. During the three months ended September 30, 2011, the Company recorded total pre-tax cash charges of $2 million in severance, facility, and other related costs. The pre-tax cash charges were offset by a reversal of $5 million for adjustments to original estimates. Of the $3 million in net reversals recorded in the three months ended September 30, 2011, $1 million related to the Americas segment and $2 million related to the EMEA segment. During the nine months ended September 30, 2011, the Company recorded total pre-tax cash charges of $19 million in severance, facility, and other related costs. The pre-tax cash charges were offset by a reversal of $11 million for adjustments to original estimates. Of the $8 million in restructuring charges, net recorded in the nine months ended September 30, 2011, $9 million related to net charges in the Americas segment and $1 million related to net reversals in the EMEA segment.

During the three and nine months ended September 30, 2012, the Company recorded total pre-tax cash charges of $2 million and $10 million, respectively, in severance, facility, and other related costs, the majority of which related to the Americas segment.

Q2'12 Restructuring Plan. During the second quarter of 2012, the Company began implementing a plan to reduce its worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities (the "Q2'12 Restructuring Plan"). During the three months ended September 30, 2012, the Company recorded total pre-tax cash charges of $35 million in severance and facility related costs and $2 million in non-cash facility and other asset impairment charges. Those total pre-tax charges were offset by a reversal of $14 million for adjustments to original estimates in severance related costs, primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $23 million in restructuring charges, net recorded in the three months ended September 30, 2012, $11 million related to the Americas segment and $12 million related to the EMEA segment.

During the nine months ended September 30, 2012, the Company recorded total pre-tax cash charges of $127 million in severance and facility related costs and $40 million in non-cash facility and other asset impairment charges. The total pre-tax charges during the nine months ended September 30, 2012 were offset by a reversal of $17 million for adjustments to original estimates. Of the $150 million in restructuring charges, net, recorded in the nine months ended September 30, 2012, $97 million related to the Americas segment, $47 million related to the EMEA segment, and $6 million related to the Asia Pacific segment.

Restructuring Accruals. The $85 million restructuring liability as of September 30, 2012 consists of $53 million for employee severance pay expenses, which the Company expects to pay out by the fourth quarter of 2013, and $32 million for non-cancelable lease costs that the Company expects to pay over the terms of the related obligations, which extend to the fourth quarter of 2021.

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

	2011 and Prior Restructuring Plans	Q2'12 Restructuring Plan	Total
Balance as of January 1, 2012	$ 49,127	$ —	$ 49,127
Employee severance pay and related costs	5,924	116,874	122,798
Non-cash reversals of stock-based compensation expense	—	(3,429)	(3,429)
Non-cancelable lease, contract termination, and other charges	6,662	9,948	16,610
Other non-cash charges	—	40,462	40,462
Reversals of previous charges	(2,609)	(14,296)	(16,905)
Restructuring charges, net for the nine months ended September 30, 2012	$ 9,977	$ 149,559	$ 159,536
Cash paid	(25,963)	(57,309)	(83,272)
Non-cash reversals of stock-based compensation expense	—	3,429	3,429
Other non-cash charges	(232)	(40,148)	(40,380)
Foreign currency	(100)	(3,034)	(3,134)
Payments/reductions, net for the nine months ended September 30, 2012	$ (26,295)	$ (97,062)	$(123,357)
Balance as of September 30, 2012	$ 32,809	$ 52,497	$ 85,306

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

	December 31, 2011	September 30, 2012
Americas	$ 41,199	$ 58,486
EMEA	6,948	23,230
Asia Pacific	980	3,590
Total restructuring accruals	$ 49,127	$ 85,306

Note 15 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

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

During the first five years of the term of the Search Agreement, in the transitioned markets, the Company is entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties (the "Revenue Share Rate") and the Company is also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue. On the fifth anniversary of February 23, 2010, the date implementation of the Search Agreement commenced, Microsoft will have the option to terminate the Company's sales exclusivity for premium search advertisers. If Microsoft exercises this option, the Revenue Share Rate will increase to 93 percent for the remainder of the term of the Search Agreement, unless the Company exercises its option to retain the Company's sales exclusivity, in which case the Revenue Share Rate would be reduced to 83 percent for the remainder of the term. If Microsoft does not exercise such option, the Revenue Share Rate will be 90 percent for the remainder of the term of the Search Agreement. In the transitioned markets, the Company reports as revenue the 88 percent revenue share as the Company is not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft.

As of December 31, 2011 and September 30, 2012, the Company had collected a total amount of $66 million and $70 million, respectively, on behalf of Microsoft and Affiliates, which was included in cash and cash equivalents with a corresponding liability in accrued expenses and other current liabilities. The Company's uncollected 88 percent share in connection with the Search Agreement was $203 million and $237 million as of December 31, 2011 and September 30, 2012, respectively, which is included in accounts receivable, net.

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

The Company completed the transition of its algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, the Company completed the transition of algorithmic search in all other markets and the transition of paid search in India. In the second quarter of 2012, the Company completed the transition of paid search in certain EMEA markets, including the United Kingdom, France, and Germany. During October 2012, the Company transitioned paid search in several additional markets. The Company has recently determined to re-evaluate the schedule for the transition of paid search in the remaining markets in order to work with Microsoft on improving the RPS in the transitioned markets. The market-by-market transition of the Company's paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013, and possibly into 2014.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results reflect search operating cost reimbursements from Microsoft under the Search Agreement of $53 million and $164 million for the three and nine months ended September 30, 2011, and $17 million and $51 million for the three and nine months ended September 30, 2012, respectively. Search operating cost reimbursements began during the quarter ended March 31, 2010 and will, subject to specified exclusions and limitations, continue until the Company has fully transitioned to Microsoft's platform.

The Company's results for the three and nine months ended September 30, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement that were equal to the transition costs of $4 million and $27 million, respectively, incurred by Yahoo! related to the Search Agreement in the three and nine months ended September 30, 2011. During the third quarter of 2011, the Company's cumulative transition costs exceeded Microsoft's $150 million reimbursement cap under the Search Agreement. Transition costs the Company incurs in excess of the $150 million reimbursement cap are not subject to reimbursement.

Reimbursement receivables are recorded as the reimbursable costs are incurred and are applied against the operating expense categories in which the costs were incurred. As of December 31, 2011, a total of $238 million of reimbursable expenses related to 2011 had been incurred by the Company related to the Search Agreement. Of that amount, $16 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of December 31, 2011. For the third quarter of 2012, a total of $17 million of search operating cost reimbursements had been incurred by the Company related to the Search Agreement. Of that amount, $6 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of September 30, 2012.

Note 16 SUBSEQUENT EVENTS

Closure of Korea Business. On October 18, 2012, the Company began notifying employees whose employment will be terminated as a result of the Company's plan to close its Korean business by December 31, 2012. The decision is part of the Company's effort to streamline its operations and focus its resources. Approximately 200 employees will be terminated as part of the closure of the Korean business.

The Company expects to incur pre-tax cash charges related to its plan to close its Korean business for severance pay expenses, lease and other contract termination charges. Total charges are expected to include these cash charges and also non-cash charges related to the write-off of goodwill and other assets related to its Korea business. The Company expects it will incur pre-tax cash charges of approximately $5 million related to severance pay expenses and approximately $2 million related to lease termination charges. The Company also expects to recognize pre-tax non-cash charges related to goodwill and other asset impairments totaling approximately $87 million. The Company expects to recognize the majority of the total pre-tax charges in the quarter ending December 31, 2012. The Company is unable at this time to estimate the other contract termination charges, the amount of total cash charges or the total charges it will incur.

Credit Facility. On October 19, 2012, the Company entered into a credit agreement (the "Credit Agreement") with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time. The Credit Agreement provides for a $750 million unsecured revolving credit facility for a term of 364 days, subject to extension for additional 364-day periods in accordance with the terms and conditions of the Credit Agreement. The Company may elect to increase the revolving credit facility by up to $250 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. There are no borrowings outstanding under the Credit Agreement as of the date of this filing. The proceeds from borrowings under the Credit Agreement, if any, are expected to be used for general corporate purposes. Borrowings under the Credit Agreement will bear interest at a rate equal to, at the Company's option, either (a) a customary London interbank offered rate (a "Eurodollar Rate"), or (b) a customary base rate (a "Base Rate"), in each case plus an applicable margin. The applicable margin for borrowings under the Credit Agreement will be based upon the leverage ratio of the Company and range from 1.25 percent to 1.50 percent with respect to Eurodollar Rate borrowings and 0.25 percent to 0.50 percent with respect to Base Rate borrowings.

Stock Repurchase Transactions. From October 1, 2012 through November 8, 2012, the Company repurchased approximately 13 million shares of its common stock at an average price of $16.87 per share, for a total of $212 million.

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

Forward-Looking Statements

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

- expectations about revenue, including display, search, and other revenue;
- expectations about growth in users;
- expectations about operating expenses;
- anticipated capital expenditures;
- expectations about the implementation and the financial and operational impacts of our Search Agreement with Microsoft;
- impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies;
- projections and estimates with respect to our restructuring activities and changes to our organizational structure;
- expectations about the closure of our Korean operations;
- expectations about the amount of unrecognized tax benefits, the adequacy of our existing tax reserves and future tax expenditures; and
- expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements.

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

Overview

Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!", the "Company", "we", or "us"), is focused on creating deeply personal digital experiences that keep more than half a billion people connected to what matters most to them, across devices and around the globe. Our unique combination of Science + Art + Scale connects advertisers to the consumers who build their businesses. We provide online properties and services ("Yahoo! Properties") to users as well as a range of marketing services designed to reach and connect with those users on Yahoo! Properties and through a distribution network of third-party entities ("Affiliates"). These Affiliates integrate our advertising offerings into their Websites or other offerings (those Websites and other offerings, "Affiliate sites").

Initial Repurchase of Alibaba Group Holding Limited Ordinary Shares

On September 18, 2012 (the "Repurchase Closing Date"), Alibaba Group repurchased (the "Initial Repurchase") 523 million of the 1,047 million ordinary shares of Alibaba Group ("Shares") owned by us. The Initial Repurchase was made pursuant to the terms of the Share Repurchase and Preference Share Sale Agreement entered into by Yahoo! Inc., Alibaba Group and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo! Inc. ("YHK") on May 20, 2012 (as amended on September 11, 2012, the "Repurchase Agreement"). We received $13.54 per Share, or approximately $7.1 billion in total consideration, for the 523 million Shares sold to Alibaba Group. Approximately $6.3 billion of the consideration was received in cash and $800 million was received in Alibaba Group preference shares (the "Alibaba Group Preference Shares"). This Initial Repurchase resulted in a pre-tax gain of approximately $4.6 billion for the three months ended September 30, 2012 which is included in other income, net on the condensed consolidated statements of income.

On the Repurchase Closing Date, Alibaba Group paid us $550 million in satisfaction of certain future royalty payments under our existing Technology and Intellectual Property License Agreement ("TIPLA") with Alibaba Group. In addition, certain existing contractual limitations on our ability to compete in the People's Republic of China were terminated.

Net cash proceeds after the payment of taxes and fees from the Initial Repurchase and the $550 million TIPLA payment were approximately $4.3 billion. We intend to return $3 billion of the after-tax proceeds to shareholders. This amount is in addition to the $646 million we have already returned to shareholders through share repurchases since the announcement of the Repurchase Agreement on May 20, 2012 through September 30, 2012.

At the time of an initial public offering of Alibaba Group meeting certain specified criteria ("Qualified IPO"), Yahoo! and YHK will sell, at Alibaba Group's election (either directly to Alibaba Group or in the Qualified IPO), up to an additional 261.5 million of our remaining Shares. If Shares are sold back to Alibaba Group in the Qualified IPO, the purchase price per Share will be equal to the per share price in the Qualified IPO less specified fees and underwriter discounts.

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

Closure of Korea Business. On October 18, 2012, we began notifying employees whose employment will be terminated as a result of our plan to close our Korean business by December 31, 2012. The decision is part of our effort to streamline our operations and focus our resources. Approximately 200 employees will be terminated as part of the closure of the Korean business.

We expect to incur pre-tax cash charges related to our plan to close our Korean business for severance pay expenses, lease and other contract termination charges. Total charges are expected to include these cash charges and also non-cash charges related to the write-off of goodwill and other assets related to our Korea business. We expect we will incur pre-tax cash charges of approximately $5 million related to severance pay expenses and approximately $2 million related to lease termination charges. We also expect to recognize pre-tax non-cash charges related to goodwill and other asset impairments totaling approximately $87 million. We expect to recognize the majority of the total pre-tax charges in the quarter ending December 31, 2012. We are unable at this time to estimate the other contract termination charges, the amount of total cash charges or the total charges we will incur.

Third Quarter Highlights

Operating Highlights	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Dollar Change	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Dollar Change
			(In thousands)			
Revenue	$1,216,665	$1,201,732	$(14,933)	$3,660,046	$3,640,759	$ (19,287)
Income from operations	$ 177,254	$ 152,189	$(25,065)	$ 557,894	$ 376,378	$(181,516)

Cash Flow Results	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Dollar Change
		(In thousands)	
Net cash provided by operating activities	$ 892,472	$1,618,321	$ 725,849
Net cash provided by investing activities	$ 153,493	$5,002,336	$4,848,843
Net cash used in financing activities	$(1,095,474)	$ (620,824)	$ 474,650

Our revenue decreased one percent for both the three and nine months ended September 30, 2012 compared to the same periods in 2011. This can be attributed primarily to a decrease in other revenue, which was partially offset by an increase in search revenue. Income from operations decreased 14 percent and 33 percent for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011. The decrease in income from operations is due to the decline in revenue as well as an increase in operating expenses primarily driven by an increase in restructuring charges of $27 million and $151 million for the three and nine months ended September 30, 2012, respectively.

Cash generated by operating activities is a measure of the cash productivity of our business model. Our operating activities in the nine months ended September 30, 2012 generated adequate cash to meet our operating needs. Cash, cash equivalents, and investments in marketable debt securities were $9.4 billion at September 30, 2012 compared to $2.5 billion at December 31, 2011, an increase of $6.9 billion. The increase is due to cash proceeds, net of fees, of $6.2 billion received from the sale of Alibaba Group Shares and $550 million from the TIPLA payment. This was partially offset by the repurchase of approximately 46 million shares of our outstanding common stock for $716 million during the nine months ended September 30, 2012.

Search Agreement with Microsoft Corporation

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

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

Under the Search Agreement, for each market, Microsoft generally guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties only for 18 months after the transition of paid search services to Microsoft's platform in that market. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013. The RPS Guarantee is calculated based on the difference in revenue per search ("RPS") between the pre-transition and post-transition periods and certain other factors. We record the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred. If the RPS Guarantee is not renewed prior to its expiration on March 31, 2013, we currently anticipate that our revenue, cash flows and income will be negatively impacted.

Under the Search Agreement, Microsoft agreed to reimburse us for certain transition costs up to an aggregate total of $150 million during the first three years of the Search Agreement. Our results for the three and nine months ended September 30, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement that were equal to transition costs of $4 million and $27 million, respectively, incurred by Yahoo! related to the Search Agreement in the those periods. During the third quarter of 2011, our cumulative transition costs exceeded Microsoft's $150 million reimbursement cap under the Search Agreement. Transition costs we incur in excess of the $150 million reimbursement cap are not subject to reimbursement.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results reflect search operating cost reimbursements from Microsoft under the Search Agreement of $53 million and $164 million for the three and nine months ended September 30, 2011, and $17 million and $51 million for the three and nine months ended September 30, 2012, respectively. The global transition of the algorithmic and paid search platforms to Microsoft's platform and the migration of the paid search advertisers and publishers to Microsoft's platform are being done on a market by market basis. Search operating cost reimbursements are expected to decline as we fully transition all markets and, in the long term, the underlying expenses are not expected to be incurred under our cost structure.

We completed the transition of our algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, we completed the transition of algorithmic search in all other markets and the transition of paid search in India. In the second quarter of 2012, we completed the transition of paid search in certain EMEA (Europe, Middle East, and Africa) markets, including the United Kingdom, France, and Germany. During October 2012, we transitioned paid search in several additional markets. We have recently determined to re-evaluate the schedule for the transition of paid search in the remaining markets in order to work with Microsoft on improving the RPS in the transitioned markets. The market-by-market transition of our paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013, and possibly into 2014.

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

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

Results of Operations

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

	Three Months Ended September 30,				Percent	Nine Months Ended September 30,				Percent
	2011	(*)	2012	(*)	Change	2011	(*)	2012	(*)	Change
Display	$ 502,102	42%	$ 506,002	42%	1%	$1,548,262	42%	$1,552,191	43%	0%
Search	466,785	38%	472,537	39%	1%	1,388,580	38%	1,403,903	38%	1%
Other	247,778	20%	223,193	19%	(10)%	723,204	20%	684,665	19%	(5)%
Total revenue	$1,216,665	100%	$1,201,732	100%	(1)%	$3,660,046	100%	$3,640,759	100%	(1)%

(*) Percent of total revenue.

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

	Three Months Ended September 30, 2011	(*)	2012	(*)	Dollar Change	Percent Change
Cost of revenue — TAC	$144,991	12%	$112,829	9%	$(32,162)	(22)%
Cost of revenue — Other	$239,002	20%	$282,081	23%	$ 43,079	18%
Sales and marketing	$290,520	24%	$269,272	22%	$(21,248)	(7)%
Product development	$229,230	19%	$217,301	18%	$(11,929)	(5)%
General and administrative	$129,954	11%	$135,249	11%	$ 5,295	4%
Amortization of intangibles	$ 8,435	1%	$ 8,084	1%	$ (351)	(4)%
Restructuring charges, net	$ (2,721)	0%	$ 24,727	2%	$ 27,448	N/M

	Nine Months Ended September 30, 2011	(*)	2012	(*)	Dollar Change	Percent Change
Cost of revenue — TAC	$447,918	12%	$393,945	11%	$ (53,973)	(12)%
Cost of revenue — Other	$720,017	20%	$814,513	22%	$ 94,496	13%
Sales and marketing	$832,827	23%	$827,450	23%	$ (5,377)	(1)%
Product development	$683,558	19%	$645,407	18%	$ (38,151)	(6)%
General and administrative	$384,674	11%	$395,637	11%	$ 10,963	3%
Amortization of intangibles	$ 25,067	1%	$ 27,893	1%	$ 2,826	11%
Restructuring charges, net	$ 8,091	0%	$159,536	4%	$151,445	N/M

(*) Percent of total revenue.

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

	Three Months Ended September 30, 2011	2012	Nine Months Ended September 30, 2011	2012
Cost of revenue — Other	$ 956	$ 2,363	$ 2,479	$ 7,871
Sales and marketing	16,759	19,876	42,829	59,954
Product development	21,093	17,050	64,296	54,329
General and administrative	12,139	22,077	35,507	44,749
Restructuring expense reversals, net	—	—	(1,278)	(3,429)
Total stock-based compensation expense	$50,947	$61,366	$143,833	$163,474

For additional information about stock-based compensation, see Note 10 — “Stockholders’ Equity and Employee Benefits” in the Notes to the condensed consolidated financial statements included elsewhere in this Report as well as “Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2011 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

We continue to manage our business geographically. The primary areas of measurement and decision-making are currently Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments.

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

	Three Months Ended September 30, 2011	September 30, 2012	Percent Change	Nine Months Ended September 30, 2011	September 30, 2012	Percent Change
Revenue by segment:						
Americas	$ 791,240	$ 843,731	7%	$ 2,418,209	$ 2,501,515	3%
EMEA	148,494	96,473	(35)%	465,145	358,534	(23)%
Asia Pacific	276,931	261,528	(6)%	776,692	780,710	1%
Total revenue	$ 1,216,665	$ 1,201,732	(1)%	$ 3,660,046	$ 3,640,759	(1)%

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2012	Percent Change	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Percent Change
TAC by segment:						
Americas	$ 37,493	$ 41,289	10%	$ 115,038	$ 130,154	13%
EMEA	52,197	17,399	(67)%	167,357	97,248	(42)%
Asia Pacific	55,301	54,141	(2)%	165,523	166,543	1%
Total TAC	$ 144,991	$ 112,829	(22)%	$ 447,918	$ 393,945	(12)%
Revenue ex-TAC by segment:						
Americas	$ 753,747	$ 802,442	6%	$ 2,303,171	$ 2,371,361	3%
EMEA	96,297	79,074	(18)%	297,788	261,286	(12)%
Asia Pacific	221,630	207,387	(6)%	611,169	614,167	0%
Total revenue ex-TAC	$ 1,071,674	$ 1,088,903	2%	$ 3,212,128	$ 3,246,814	1%
Direct costs by segment[1]:						
Americas	174,697	189,345	8%	508,637	550,080	8%
EMEA	42,761	39,167	(8)%	124,135	120,665	(3)%
Asia Pacific	61,006	56,329	(8)%	170,057	164,068	(4)%
Global operating costs[2][3]	415,507	396,269	(5)%	1,224,169	1,228,686	0%
Restructuring charges, net	(2,721)	24,727	N/M	8,091	159,536	N/M
Depreciation and amortization	152,223	169,511	11%	474,034	480,498	1%
Stock-based compensation expense	50,947	61,366	20%	145,111	166,903	15%
Income from operations	$ 177,254	$ 152,189	(14)%	$ 557,894	$ 376,378	(33)%

N/M = Not meaningful

(1) Direct costs for each segment include cost of revenue—other, as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Beginning in 2012, marketing and customer advocacy costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

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

(3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

Revenue

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

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

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views on Yahoo! Properties. Based on this process, from time to time, we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to Yahoo! Properties.

Display Revenue. Display revenue for the three months ended September 30, 2012 increased by one percent compared to the same period in 2011. Display revenue for the nine months ended September 30, 2012 was flat compared to the same period in 2011. For the three months ended September 30, 2012, our year-over-year increase can be attributed to the inclusion of display revenue from an acquisition in the fourth quarter of 2011 in the Americas region. This increase was partially offset by a decline in display revenue due to a continued downturn in the economy in the EMEA region. For the three and nine months ended September 30, 2012, Display

Page Views decreased 7 percent and 5 percent, respectively, and revenue per Display Page View increased 3 percent and 5 percent, respectively, compared to the same periods in 2011 due to the increase in display revenue and decrease in Display Page Views as discussed above.

Search Revenue. Search revenue for both the three and nine months ended September 30, 2012 increased by one percent compared to the same periods in 2011. Search revenue increased in both periods due to increased search revenue in the Americas region which resulted from an increase in sponsored search on Yahoo! Properties, as well as a higher RPS Guarantee payment. The increase was partially offset by decreased Affiliate search revenue in the EMEA region as well as the required change in GAAP revenue presentation for transitioned markets from a gross to a net (after TAC) basis. For the three and nine months ended September 30, 2012, Search Page Views decreased 16 percent and 13 percent, respectively, compared to the same periods in 2011. For the three and nine months ended September 30, 2012, revenue per Search Page View increased 20 percent and 17 percent, respectively, compared to the same periods in 2011, due to the factors discussed above.

Other Revenue. Other revenue includes listings-based services revenue, transaction revenue, and fees revenue. Other revenue for the three and nine months ended September 30, 2012 decreased by 10 percent and 5 percent, respectively, compared to the same periods in 2011. The decreases, for the three and nine months ended September 30, 2012, are primarily attributable to a decline in revenue from certain of our broadband access partnerships in the Americas region. This decline is partially offset by an increase in the Americas region due to new and amended partner deals, as well as an increase in royalty revenue.

Revenue ex-TAC by Segment

Americas. Americas revenue ex-TAC for the three and nine months ended September 30, 2012 increased $49 million, or 6 percent, and $68 million, or 3 percent, respectively, as compared to the same periods in 2011. For the three and nine months ended September 30, 2012, our year-over-year increase in Americas revenue ex-TAC was primarily attributable to increases in search revenue ex-TAC offset by decreases in other revenue ex-TAC. Search revenue ex-TAC increased due to increases in sponsored search on Yahoo! Properties. Other revenue ex-TAC decreased primarily due to a decline in revenue from certain of our broadband access partnerships. This decline is partially offset by an increase in the Americas region due to new and amended partner deals, as well as an increase in royalty revenue.

Revenue ex-TAC in the Americas accounted for approximately 74 percent and 73 percent of total revenue ex-TAC for the three and nine months ended September 30, 2012, respectively, compared to 70 percent and 72 percent for the three and nine month ended September 30, 2011, respectively.

EMEA. EMEA revenue ex-TAC for the three and nine months ended September 30, 2012 decreased $17 million, or 18 percent, and $37 million, or 12 percent, respectively, as compared to the same periods in 2011. For the three and nine months ended September 30, 2012, the year-over-year declines in EMEA revenue ex-TAC were primarily related to decreased search and display revenue ex-TAC. Search revenue ex-TAC declined due to loss of Affiliates in the region and traffic quality initiatives conducted by Yahoo!. Display revenue ex-TAC on Yahoo! Properties also declined in the region.

Revenue ex-TAC in EMEA accounted for approximately 7 percent and 8 percent of total revenue ex-TAC for the three and nine months ended September 30, 2012, respectively, compared to 9 percent for both the three and nine months ended September 30, 2011.

Asia Pacific. Asia Pacific revenue ex-TAC for the three months ended September 30, 2012 decreased $14 million, or 6 percent, as compared to the same period in 2011. The decrease was primarily due to a decline in fees revenue in Australia and New Zealand. Revenue ex-TAC for the nine months ended September 30, 2012, remained flat as compared to the same period in 2011.

Revenue ex-TAC in Asia Pacific accounted for approximately 19 percent of total revenue ex-TAC for both the three and nine months ended September 30, 2012, compared to 21 percent and 19 percent for the three and nine months ended September 30, 2011, respectively.

Operating Costs and Expenses

Operating costs and expenses consist of cost of revenue — traffic acquisition costs (“TAC”); cost of revenue — other; sales and marketing; product development; general and administrative; amortization of intangible assets; and restructuring charges, net.

Traffic Acquisition Costs for Non-transitioned Search Markets and All Markets for Display. TAC consists of payments made to third-party entities that have integrated our advertising offerings into their Websites or other offerings and payments made to companies that direct consumer and business traffic to Yahoo! Properties. We enter into agreements of varying duration that involve TAC. There are generally two economic structures of the Affiliate agreements: fixed payments based on a guaranteed minimum amount of traffic delivered, which often carry reciprocal performance guarantees from the Affiliate, or variable payments based on a percentage of our revenue or based on a certain metric, such as number of searches or paid clicks. We expense TAC under two different methods. Agreements with fixed payments are expensed ratably over the term the fixed payment covers, and agreements based on a percentage of revenue, number of searches, or other metrics are expensed based on the volume of the underlying activity or revenue multiplied by the agreed-upon price or rate.

Cost of revenue — other consists of Internet connection charges, and other expenses associated with the production and usage of Yahoo! Properties, including amortization of acquired intellectual property rights and developed technology.

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

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

	Compensation	Information Technology	Depreciation and Amortization	TAC	Facilities	Other	Total
Cost of revenue — TAC	$ —	$ —	$ —	$(32,162)	$ —	$ —	$(32,162)
Cost of revenue — Other	4,139	14,621	7,458	—	(11)	16,872	43,079
Sales and marketing	(312)	206	43	—	1,434	(22,619)	(21,248)
Product development	(20,194)	(3,638)	10,366	—	1,786	(249)	(11,929)
General and administrative	9,793	68	(228)	—	(3,015)	(1,323)	5,295
Amortization of intangibles	—	—	(351)	—	—	—	(351)
Restructuring charges, net	—	—	—	—	—	27,448	27,448
Total	$ (6,574)	$ 11,257	$ 17,288	$(32,162)	$ 194	$ 20,129	$ 10,132

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

	Compensation	Information Technology	Depreciation and Amortization	TAC	Facilities	Other	Total
Cost of revenue — TAC	$ —	$ —	$ —	$(53,973)	$ —	$ —	$ (53,973)
Cost of revenue — Other	16,298	51,696	4,860	—	951	20,691	94,496
Sales and marketing	47,193	56	(797)	—	2,415	(54,244)	(5,377)
Product development	(25,595)	(8,940)	5,100	—	(4,838)	(3,878)	(38,151)
General and administrative	618	1,445	(5,526)	—	1,352	13,074	10,963
Amortization of intangibles	—	—	2,826	—	—	—	2,826
Restructuring charges, net	—	—	—	—	—	151,445	151,445
Total	$ 38,514	$ 44,257	$ 6,463	$(53,973)	$ (120)	$127,088	$162,229

Compensation Expense. Total compensation expense decreased $7 million and increased $39 million for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. For the three months ended September 30, 2012, the decrease is primarily attributable to lower salaries in the product development function as a result of reduced headcount related to the Q2'12 Restructuring Plan. This is offset by an increase in stock-based compensation expense due to charges recorded for executive separations. For the nine months ended September 30, 2012, the increase is primarily attributable to higher stock-based compensation expense related to charges for executive separations, the impact of awards granted in the second half of 2011 offset by lower Employee Stock Purchase Plan expense due to lower estimated contributions as well as lower salaries in the product development function as a result of reduced headcount related to the Q2'12 Restructuring Plan. Excluding the impact of Microsoft reimbursements, compensation expense for the three and nine months ended September 30, 2012 decreased $20 million and increased $2 million, respectively, compared to the same periods of 2011. Microsoft reimbursements decreased $13 million and $37 million, respectively, during the three and nine months ended September 30, 2012, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and nine months ended September 30, 2012 was due to the transition of paid search to the Microsoft platform in additional countries.

Information Technology. Information technology expense increased $11 million and $44 million for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase in information technology expense for the three and nine months ended September 30, 2012 was primarily attributable to decreased Microsoft reimbursements of $16 million and $51 million, respectively, compared to the same periods of 2011. Excluding the impact of Microsoft reimbursements, information technology expense for the three and nine months ended September 30, 2012 decreased $5 million and $7 million, respectively, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and nine months ended September 30, 2012 was due to the transition of paid search to the Microsoft platform in additional countries.

Depreciation and Amortization. Depreciation and amortization expense increased $17 million and $6 million for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. The increase for the three and nine months ended September 30, 2012 is primarily attributable to an increase in write-offs of fixed assets, an increase in depreciation related to fixed asset additions, and increased amortization of intangibles related to an acquisition we completed in the fourth quarter of 2011. This increase was partially offset by a decrease in depreciation expense for fully depreciated assets acquired in prior years. Excluding the impact of Microsoft reimbursements, depreciation and amortization expense for the three and nine months ended September 30, 2012 increased $12 million and decreased $10 million, respectively, compared to the same periods of 2011. Microsoft reimbursements decreased $5 million and $16 million, respectively, during the three and nine months ended September 30, 2012, compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and nine months ended September 30, 2012 was due to the transition of paid search to the Microsoft platform in additional countries.

TAC. TAC decreased $32 million and $54 million for the three and nine months ended September 30, 2012, respectively, as compared to the same periods in 2011. For the three and nine months ended September 30, 2012, the decrease in TAC is primarily attributable to the change in the recording of TAC associated with the transition of paid search in the EMEA region to Microsoft's search platform. This decline is partially offset by an increase in display TAC in the Americas region resulting from an acquisition we completed in the fourth quarter of 2011.

Facilities and Other Expenses. Facilities and other expenses increased $20 million and $127 million for the three and nine months ended September 30, 2012, compared to the same periods in 2011. Excluding the impact of Microsoft reimbursements, facilities and other expenses for the three and nine months ended September 30, 2012 increased $18 million and $118 million, respectively, primarily due to increases in restructuring charges of $27 million and $151 million for the three and nine months ended September 30, 2012, respectively. These increases were offset by decreased marketing expenses of $18 million and $40 million for the three and nine months ended September 30, 2012, respectively. The increase in facilities and other expenses for the three and nine months ended September 30, 2012 was also attributable to decreased Microsoft reimbursements of $2 million and $9 million compared to the same periods of 2011. The decrease in Microsoft reimbursements for the three and nine months ended September 30, 2012 was due to the transition of paid search to the Microsoft platform in additional countries.

Direct Costs by Segment

Americas. For the three and nine months ended September 30, 2012, direct costs attributable to the Americas segment increased $15 million, or 8 percent, and $41 million, or 8 percent, respectively, compared to the same periods in 2011. For the three and nine months ended September 30, 2012, the year-over-year increases in direct costs were primarily due to higher compensation and content costs offset by lower marketing costs.

EMEA. For the three and nine months ended September 30, 2012, direct costs attributable to the EMEA segment decreased $4 million, or 8 percent, and $3 million, or 3 percent, respectively, as compared to the same periods in 2011. For the three months ended September 30, 2012, the decline was primarily due to decreased compensation costs in the region. For the nine months ended September 30, 2012, the decline was primarily due to decreased compensation costs and marketing expenses in the region.

Asia Pacific. For the three and nine months ended September 30, 2012, direct costs attributable to the Asia Pacific segment decreased $5 million, or 8 percent, and $6 million, or 4 percent, respectively, compared to the same periods in 2011. For the three and nine months ended September 30, 2012, the year-over-year decreases were primarily due to decreased marketing expenses.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2012	September 30, 2011	September 30, 2012
Employee severance pay and related costs, net	$ (2,571)	$ 11,467	$ 6,340	$ 106,194
Non-cancelable lease, contract termination, and other charges, net	(150)	11,436	3,029	16,309
Other non-cash charges	—	1,824	—	40,462
Sub-total before reversal of stock-based compensation expense	(2,721)	24,727	9,369	162,965
Reversal of stock-based compensation expense for forfeitures	—	—	(1,278)	(3,429)
Restructuring charges, net	$ (2,721)	$ 24,727	$ 8,091	$ 159,536

2011 and Prior Restructuring Plans. Prior to and into 2011, we implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers to reduce our cost structure, align resources with our product strategy and improve efficiency. During the three months ended September 30, 2011, we recorded total pre-tax cash charges of $2 million in severance, facility, and other related costs. The pre-tax cash charges were offset by a reversal of $5 million for adjustments to original estimates. Of the $3 million in net reversals recorded in the three months ended September 30, 2011, $1 million related to the Americas segment and $2 million related to the EMEA segment. During the nine months ended September 30, 2011, we recorded total pre-tax cash charges of $19 million in severance, facility, and other related costs. The pre-tax cash charges were offset by a reversal of $11 million for adjustments to original estimates. Of the $8 million in restructuring charges, net recorded in the nine months ended September 30, 2011, $9 million related to net charges in the Americas segment and $1 million related to net reversals in the EMEA segment.

During the three and nine months ended September 30, 2012, we recorded total pre-tax cash charges of $2 million and $10 million, respectively, in severance, facility, and other related costs, the majority of which related to the Americas segment.

As of September 30, 2012, the aggregate outstanding restructuring liability related to the 2011 and prior restructuring plans was approximately $33 million, most of which relate to non-cancelable lease costs that we expect to pay over the terms of the related obligations, which extend to the second quarter of 2017.

Q2'12 Restructuring Plan. During the second quarter of 2012, we began implementing the Q2'12 Restructuring Plan. During the three months ended September 30, 2012, we recorded total pre-tax cash charges of $35 million in severance and facility related costs and $2 million in non-cash facility and other asset impairment charges. Those total pre-tax charges were offset by a reversal of $14 million for adjustments to original estimates in severance related costs primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $23 million in restructuring charges, net recorded in the three months ended September 30, 2012, $11 million related to the Americas segment and $12 million related to the EMEA segment.

During the nine months ended September 30, 2012, we recorded total pre-tax cash charges of $127 million in severance and facility related costs and $40 million in non-cash facility and other asset impairment charges. The total pre-tax charges during the nine months ended September 30, 2012 were offset by a reversal of $17 million for adjustments to original estimates. Of the $150 million in restructuring charges, net recorded in the nine months ended September 30, 2012, $97 million related to the Americas segment, $47 million related to the EMEA segment, and $6 million related to the Asia Pacific segment.

As of September 30, 2012, the aggregate outstanding restructuring liability related to the Q2'12 Restructuring Plan was $52 million, most of which relates to severance related costs that we expect will be substantially paid by the fourth quarter of 2013. The remaining liability relates to non-cancelable lease costs that we expect to pay over the terms of the related obligations, which extend to the fourth quarter of 2021.

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

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

The effective tax rate reported for the three months ended September 30, 2012 was 37 percent compared to 29 percent for the same period in 2011. The effective tax rate for the three months ended September 30, 2012 was higher than in 2011 primarily due to the U.S. taxes on the sale of Alibaba Group Shares. In connection with a review of our cash position and anticipated cash needs for investment in our core business, including potential acquisitions and capital expenditures, and stock repurchases, we are undertaking a one-time repatriation of cash from certain of our consolidated foreign subsidiaries. This distribution will be completed by the end of the fourth quarter of 2012 and resulted in a net tax benefit of approximately $135 million during the three months ended September 30, 2012 since the foreign tax credits associated with the distribution are greater than the tax due on the distribution of the foreign earnings. Taxes have not been provided on the remaining undistributed foreign earnings, principally $1.9 billion related to our corporate joint venture with Yahoo Japan, as they will continue to be indefinitely reinvested going forward. If such earnings were to be remitted in the future, any additional U.S. tax cost incurred by us would be offset by at least an equivalent amount of foreign tax credits.

The effective tax rate reported for the nine months ended September 30, 2012 was 37 percent compared to 28 percent for the same period in 2011. The rate in 2011 was lower than the U.S. federal statutory rate primarily due to tax reserve reductions attributed to favorably settled tax audits and a shift of the geographic mix of earnings. The effective tax rate for the nine months ended September 30, 2012 was higher than in 2011 primarily due to the U.S. taxes on the gain on the sale of Alibaba Group Shares.

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

Our gross amount of unrecognized tax benefits as of September 30, 2012 is $715 million, of which $709 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2012 increased by $182 million from the recorded balance as of December 31, 2011. While it is difficult to determine when the examinations will be settled or their final outcomes, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the unrecognized tax benefits could be reduced by up to approximately $90 million in the next twelve months.

Earnings in Equity Interests. Earnings in equity interests for the three and nine months ended September 30, 2012 was $175 million and $527 million, respectively, compared to $159 million and $350 million for the same periods in 2011. The increases for the three and nine months ended September 30, 2012 were primarily due to improved financial performance for Alibaba Group. We expect the amounts recognized as earnings in equity interests to decline in the fourth quarter of 2012 and beyond due to the reduction of our ownership interest in Alibaba Group from approximately 42 percent to approximately 24 percent in the quarter ended September 30, 2012. See Note 4 — "Investments in Equity Interests" in the Notes to the condensed consolidated financial statements for additional information.

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

Critical Accounting Policies and Estimates

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

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

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

Liquidity and Capital Resources

	December 31, 2011	September 30, 2012
	(Dollars in thousands)	
Cash and cash equivalents	$1,562,390	$ 7,560,400
Short-term marketable debt securities	493,189	852,816
Long-term marketable debt securities	474,338	1,013,555
Total cash, cash equivalents, and marketable debt securities	$2,529,917	$ 9,426,771
Percentage of total assets	17%	46%

Cash Flow Highlights	Nine Months Ended September 30, 2011	2012
	(In thousands)	
Net cash provided by operating activities	$ 892,472	$1,618,321
Net cash provided by investing activities	$ 153,493	$5,002,336
Net cash used in financing activities	$(1,095,474)	$ (620,824)

Our operating activities for the nine months ended September 30, 2012 generated adequate cash to meet our operating needs. As of September 30, 2012, we had cash, cash equivalents, and marketable debt securities totaling $9.4 billion, compared to $2.5 billion at December 31, 2011. The increase is due to cash proceeds, net of fees, of $6.2 billion received from the sale of Alibaba Group Shares and $550 million from the TIPLA payment. This was partially offset by the repurchase of approximately 46 million shares of our outstanding common stock for $716 million during the nine months ended September 30, 2012. We estimate that we will pay approximately $2.5 billion in taxes related to the Initial Repurchase by Alibaba Group, the majority of which will be paid in the fourth quarter of 2012.

Net cash proceeds after the payment of taxes and fees from the Initial Repurchase and the $550 million TIPLA payment were approximately $4.3 billion. We intend to return $3 billion of the after-tax proceeds to shareholders. This amount is in addition to the $646 million we have already returned to shareholders through share repurchases since the announcement of the Repurchase Agreement on May 20, 2012 through September 30, 2012.

Our foreign subsidiaries held $799 million of our total $9.4 billion of cash and cash equivalents and marketable debt securities as of September 30, 2012. During the three months ended September 30, 2012, we recorded the tax effect of a one-time distribution of earnings from certain foreign subsidiaries. After this distribution, cumulative earnings remaining in our consolidated foreign subsidiaries and the related potential tax effect of repatriation is not material to the financial statements.

On October 19, 2012, we entered into a credit agreement (the “Credit Agreement”) with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time. The Credit Agreement provides for a $750 million unsecured revolving credit facility for a term of 364 days, subject to extension for additional 364-day periods in accordance with the terms and conditions of the Credit Agreement. We may elect to increase the revolving credit facility by up to $250 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. There are no borrowings outstanding under the Credit Agreement as of the date of this filing. The proceeds from borrowings under the Credit Agreement, if any, are expected to be used for general corporate purposes. Borrowings under the Credit Agreement will bear interest at a rate equal to, at our option, either (a) a customary London interbank offered rate (a “Eurodollar Rate”), or (b) a customary base rate (a “Base Rate”), in each case plus an applicable margin. The applicable margin for borrowings under the Credit Agreement will be based upon the leverage ratio of the Company and range from 1.25 percent to 1.50 percent with respect to Eurodollar Rate borrowings and 0.25 percent to 0.50 percent with respect to Base Rate borrowings.

We expect to continue to generate positive cash flows from operations for the fourth quarter of 2012. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations and borrowings under the Credit Agreement, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months.

See Note 9 — “Investments” in the Notes to the condensed consolidated financial statements for additional information.

Cash flow changes

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes, and non-operating gains from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense, non-cash restructuring charges, tax benefits from stock-based awards, excess tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. Cash provided by operating activities was lower than net income in the nine months ended September 30, 2012 due to non-cash items included in net income and changes in working capital.

During the nine months ended September 30, 2012, cash provided by investing activities was primarily attributable to the sale of Alibaba Group Shares. In the nine months ended September 30, 2012, we received proceeds from sales and maturities of marketable debt securities of $936 million and cash proceeds, net of fees, of $6.2 billion received from the sale of Alibaba Group Shares which was offset by purchases of marketable debt securities of $1.8 billion and the investment of $356 million in net capital expenditures. During the nine months ended September 30, 2011, cash used in investing activities was primarily attributable to cash used for net capital expenditures and net acquisitions, offset by net proceeds from the sales and maturities of marketable debt securities. In the nine months ended September 30, 2011, we received net proceeds from sales, maturities, and purchases of marketable debt securities of $681 million and proceeds from sale of investments of $21 million, which was offset by the investment of $463 million in net capital expenditures, $69 million for net acquisitions, and $11 million to purchase intangible assets.

Cash used in financing activities is driven by stock repurchases offset by employee stock option exercises and employee stock purchases. Our cash proceeds from employee stock option exercises and employee stock purchases were $116 million for the nine months ended September 30, 2012, compared to $107 million for the same period of 2011. During the nine months ended September 30, 2012, we used $716 million in the direct repurchase of approximately 46 million shares of common stock at an average price of $15.43 per share. We used $48 million for tax withholding payments related to net share settlements of restricted stock units. During the nine months ended September 30, 2011, we used $1.2 billion in the direct repurchase of approximately 82 million shares of common stock at an average price of $14.62 per share. We used $36 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding related reacquisitions of shares of restricted stock.

Capital expenditures

Capital expenditures have generally been comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were $356 million for the nine months ended September 30, 2012, compared to $463 million in the same period of 2011.

Contractual obligations and commitments

Leases. We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 13 years, expiring between 2012 and 2022.

A summary of lease commitments as of September 30, 2012 is as follows (in thousands):

	Gross Operating Lease Commitments	Capital Lease Commitment
Three months ending December 31, 2012	$ 38,072	$ 2,177
Years ending December 31,		
2013	131,530	8,570
2014	105,238	8,099
2015	81,226	8,031
2016	45,812	8,272
2017	31,233	8,520
Due after 5 years	37,882	13,984
Total gross lease commitments	$ 470,993	$ 57,653
Less: interest	—	(19,430)
Net lease commitments	$ 470,993	$ 38,223

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of September 30, 2012, these commitments totaled $97 million, of which $22 million will be payable in the remainder of 2012 and $75 million will be payable in 2013.

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

Income Taxes. As of September 30, 2012, unrecognized tax benefits of $709 million, including interest and penalties, are recorded on our condensed consolidated balance sheets. As of September 30, 2012, the settlement period for our income tax liabilities cannot be determined.

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

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

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

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

Interest Rate Exposure

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

Investments in fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in a $7 million and $20 million decrease in the fair value of our available-for-sale debt securities as of December 31, 2011 and September 30, 2012, respectively.

Foreign Currency Exposure

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

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

Transaction Exposure. Our exposure to foreign currency transaction gains and losses is the result of assets and liabilities (including intercompany transactions) that are denominated in currencies other than the relevant entity’s functional currency. In certain circumstances, changes in the functional currency value of these assets and liabilities create fluctuations in our reported condensed consolidated financial position, cash flows and results of operations. We may enter into derivative instruments, such as foreign currency forward contracts or other instruments to minimize the impact of the short-term foreign currency fluctuations on such assets and liabilities. The gains and losses on the forward contracts may not offset any or more than a portion of the transaction gains and losses on certain foreign currency receivables, investments and payables recognized in earnings. Transaction gains and losses on these foreign exchange contracts are recognized each period in other income, net included on the condensed consolidated statements of income. We had a net realized and unrealized foreign currency transaction loss of $1 million for the three months ended September 30, 2012 and a gain of $3 million for the nine months ended September 30, 2012. Our net realized and unrealized foreign currency transaction gains were $2 million and $3 million for the three and nine months ended September 30, 2011. As of September 30, 2012, we had two outstanding forward contracts with notional value equivalents of approximately $76 million and $400 million, respectively, which will mature on October 31, 2012 and March 28, 2013, respectively. On October 31, 2012, we entered into a new forward contract with a notional value equivalent to approximately $70 million, which will mature on January 31, 2013.

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

Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese yen, Korean won, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced consolidated revenue and operating expenses. Conversely, our consolidated revenue and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and nine months ended September 30, 2011, revenue ex-TAC for the Americas segment for the three and nine months ended September 30, 2012 would have been higher than we reported by $4 million and $8 million, respectively; revenue ex-TAC for the EMEA segment would have been higher than we reported by $7 million and $15 million, respectively; and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by $7 million and $8 million, respectively. Using the foreign currency exchange rates from the three and nine months ended September 30, 2011, direct costs for the Americas segment for the three and nine months ended September 30, 2012 would have been higher than we reported by $2 million and $4 million, respectively; direct costs for the EMEA segment would have been higher than we reported by $4 million and $7 million, respectively; and direct costs for the Asia Pacific segment would have been higher than we reported by $2 million and $3 million respectively.

Investment Exposure

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

Our cash and marketable debt securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of September 30, 2011 and 2012, net unrealized gains and losses on these investments were not material.

Alibaba Group Preference Shares Exposure. To estimate the fair value, we performed benchmarking by comparing the terms and conditions of the Alibaba Group Preference Shares to dividend rates, subordination terms, and credit ratings of those of similar type instruments. The credit rating of Alibaba Group, general business conditions, and market rates could materially affect the fair value of the Alibaba Group Preference Shares.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see the section captioned "Contingencies" included in Note 11 — "Commitments and Contingencies" in the Notes to the condensed consolidated financial statements, which is incorporated by reference herein.

Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed with the Securities and Exchange Commission on February 29, 2012, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011, as updated in our subsequent Quarterly Reports on Form 10-Q.

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

We face significant competition from integrated online media companies as well as from social networking sites, traditional print and broadcast media, general purpose and vertical search engines and various e-commerce sites. In a number of international markets, especially those in Asia, Europe, the Middle East and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services.

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

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

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

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

For the three months ended September 30, 2012, 81 percent of our total revenue came from display and search advertising. Our ability to continue to retain and grow display and search revenue depends upon:

- maintaining and growing our user base;
- maintaining and growing our popularity as an Internet destination site;
- maintaining and expanding our advertiser base on PCs and mobile devices;
- broadening our relationships with advertisers to small- and medium-sized businesses;
- successfully implementing changes and improvements to our advertising management platforms and obtaining the acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;
- successfully acquiring, investing in, and implementing new technologies and strategic partnerships;
- successfully implementing changes in our sales force, sales development teams, and sales strategy;

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

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

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

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

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

We have implemented cost reduction initiatives to better align our operating expenses with our revenue, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to manage costs to better and more efficiently manage our business. However, our operating expenses might also increase from their reduced levels as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo! brand, fund product development, build data centers or acquire real property, and acquire and integrate complementary businesses and technologies. Our operating costs might also increase if we do not effectively manage costs as we transition markets under the Search Agreement and reimbursements from Microsoft under the Search Agreement decline or cease. In addition, weak economic conditions or other factors could cause our business to contract, requiring us to implement additional cost cutting measures. If our expenses increase at a greater pace than our revenue, or if we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

Risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. The parties commenced implementation of the Search Agreement on February 23, 2010. The transition process is complex and requires the expenditure of significant time and resources by us. We have completed the transition of our algorithmic search platform to the Microsoft platform in all markets, and have completed transition of paid search in several markets. We have recently determined to re-evaluate the schedule for the transition of paid search in the remaining markets in order to work with Microsoft on improving the RPS in the transitioned markets. The market-by-market transition of our paid search platform to Microsoft's platform and the migration of paid search advertisers and publishers to Microsoft's platform are expected to continue through 2013, and possibly into 2014. 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.

Under the Search Agreement, Microsoft generally guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties for 18 months after the transition of paid search services to Microsoft's platform in a particular market. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. To date, there has been a gap in revenue per search between pre-transition and post-transition periods and Microsoft has been making payments under the RPS Guarantee to compensate for the difference. To the extent the RPS Guarantee payments we receive do not fully offset any shortfall relating to revenue per search in transitioned markets or the RPS Guarantee in transitioned markets expires before the gap in revenue per search is closed, our search revenue and profitability would decline. Notwithstanding any RPS Guarantee payments that we may receive, our competitors may increase revenue, profitability and market share at a higher rate than us.

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

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

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

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

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

Recent changes to our executive management team, including the appointment of a new Chief Executive Officer and Chief Financial Officer, and the potential for additional changes to our management, organizational structure, and strategic business plan may cause speculation and uncertainty regarding our future business strategy and direction. These changes may cause or result in:

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

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

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

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

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

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

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

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

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

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

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

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

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

Internet, technology, media, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other Internet-related technologies, as well as a variety of online business models and methods.

We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As a result, disputes regarding the ownership of technologies and rights associated with online businesses are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in a number of lawsuits regarding patent issues and have been notified of a number of other potential disputes.

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

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

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

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

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

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

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

The use of consumer data by online service providers and advertising networks is a topic of active interest among federal, state, and international regulatory bodies, and the regulatory environment is unsettled. Federal, state, and international laws and regulations govern the collection, use, retention, disclosure, sharing and security of data that we receive from and about our users. Our privacy policies and practices concerning the collection, use, and disclosure of user data are posted on our and many of our Affiliates’ Websites. Any failure, or perceived failure, by us to comply with our posted privacy policies, to make effective modifications to our privacy policies, or to comply with any data-related consent orders, Federal Trade Commission requirements or orders, or other federal, state, or international privacy or data-protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business.

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

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, making it difficult to make long-range business planning decisions regarding data use, notice, storage, access, or retention. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

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

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

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

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

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

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

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

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

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

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;
- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

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

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

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

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

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

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

In addition, widespread adoption of new Internet, networking or telecommunications technologies, or other technological changes, could require substantial expenditures to modify or adapt our services or infrastructure. The technology architectures and platforms utilized for our services are highly complex and may not provide satisfactory security features or support in the future, as usage increases and products and services expand, change, and become more complex. In the future, we may make additional changes to our, or move to completely new, architectures, platforms and systems, or our users may increasingly access our sites through devices that compel us to invest in new architectures, platforms and systems. Such changes may be technologically challenging to develop and implement, may take time to test and deploy, may cause us to incur substantial costs or data loss, and may cause changes, delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising platform participants to become dissatisfied with our service or to move to competing providers or seek remedial actions or compensation. Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store, and integrate data that will enable us to track each user’s preferences. Any difficulties experienced in adapting our architectures, platforms and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

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

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

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

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

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

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

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

In some markets, we depend on a limited number of distribution arrangements for a significant percentage of our user activity. A failure by our distributors to attract or retain their user bases would negatively impact our user activity and, in turn, would reduce our revenue. In some cases, device manufacturers may be unwilling to pay Yahoo! fees in order to distribute Yahoo! services.

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

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

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

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

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

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

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

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

In addition to uncertainty about our ability to continue to generate revenue from our foreign operations and expand our international market position, there are additional risks inherent in doing business internationally (including through our international joint ventures), including:

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

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

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

On September 18, 2012, we closed the initial share repurchase transaction contemplated by our May 20, 2012 Repurchase Agreement with Alibaba Group and YHK. See Note 4—"Investments in Equity Interests" in the Notes to the condensed consolidated financial statements. The anticipated future benefits of the Repurchase Agreement may not be realized as a result of uncertainty regarding the future valuation of Alibaba Group and uncertainty regarding if and when there will be an initial public offering of Alibaba Group's ordinary shares.

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

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

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

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

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

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, tsunami, other natural disasters, power loss, equipment or telecommunications failures, cyber attacks, terrorist attacks, political or social unrest, and other events over which we have little or no control. We distribute servers among data centers around the world to create redundancies; however, we do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of delays or disruptions to service. As not all of our systems are fully redundant, some data or systems may not be fully recoverable after such events.
- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced as we roll out improvements and upgrades, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.
- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, hacking, physical and electronic break-ins, router disruption, sabotage or espionage, and other disruptions from unauthorized access and tampering, as well as coordinated denial-of-service attacks. We may not be in a position to promptly address attacks or to implement adequate preventative measures if we are unable to immediately detect such attacks. Such events could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, including changes to security measures, to deploy additional personnel, to defend litigation or to protect against similar future events, and may cause damage to our reputation or loss of revenue.
- We rely on third-party providers for our principal Internet connections and co-location of a significant portion of our data servers, as well as for our payment processing capabilities and key components or features of our search, e-mail and VOIP services, news, stock quote and other content delivery, chat services, mapping, streaming, geo-targeting, music, games, and other services. We have little or no control over these third-party providers. Any disruption of the services they provide us or any failure of these third-party providers to handle higher volumes of use could, in turn, cause delays or disruptions in our services and loss of revenue. In addition, if our agreements with these third-party providers are terminated for any reason, we might not have a readily available alternative.

Prolonged delays or disruptions to our service could result in a loss of users, damage to our brands, legal costs or liability, and harm to our operating results.

If we or our third-party service provider fail to prevent click fraud or choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability may decline.

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

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

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

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

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

We use derivative instruments, such as foreign currency forward contracts, to partially offset certain exposures to fluctuations in foreign currency exchange rates. The use of such instruments may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign currency exchange rates over the limited time the instruments are in place.

We may be required to record a significant charge to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity method investees, or other investments become impaired.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets and investments in equity interests, including investments held by our equity method investees, for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate (affecting our company as a whole or affecting any particular segment) and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, the companies in which we invested or the investments held by those companies. Factors that could lead to an impairment of U.S. government securities, which constitute a significant portion of our assets, include any downgrade of U.S. government debt or concern about the creditworthiness of the U.S. government. We have recorded and may be required in the future to record additional charges to earnings if our goodwill, amortizable intangible assets, investments in equity interests, including investments held by our equity investees, or other investments become impaired. Any such charge would adversely impact our financial results.

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

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for us. In the past there have been proposals to change U.S. tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax expense and cash flow. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination and settlement is made.

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

The trading price of our common stock has been and may continue to be subject to broad fluctuations. During the three months ended September 30, 2012, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $14.65 to $16.22 per share and the closing sale price on October 31, 2012 was $16.84 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results, announcements and implementations of technological innovations or new services by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; trends in our industry; general economic conditions; and the current and anticipated future operating performance and valuation of Alibaba Group and Yahoo Japan Corporation in which we have equity investments.

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

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

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

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

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

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

Period	Total Number of Shares Purchased (*)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) (*)
July 1 — July 31, 2012	11,245,369	$ 15.61	11,245,369	$ 4,903,792
August 1 — August 31, 2012	942,708	$ 15.72	942,708	$ 4,888,968
September 1 — September 30, 2012	—	$ —	—	$ 4,888,968
Total	12,188,077	$ 15.62	12,188,077	

(*) During the three months ended September 30, 2012 shares were repurchased under both the June 2010 and May 2012 repurchase programs. In June 2010, our Board authorized a stock repurchase program with an authorized level of $3 billion. The June 2010 repurchase program, which by its terms would have expired in June 2013, was exhausted during the third quarter of 2012. In May 2012, our Board of Directors authorized an additional stock repurchase program with an authorized level of $5 billion. The May 2012 program, according to its terms, will expire in June 2015 unless revoked earlier by the Board of Directors. Repurchases under the programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

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

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

SIGNATURES

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

	YAHOO! INC.
Dated: November 8, 2012	By: /s/ MARISSA A. MAYER **Marissa A. Mayer** **Chief Executive Officer** **(Principal Executive Officer)**
Dated: November 8, 2012	By: /s/ KEN GOLDMAN **Ken Goldman** **Chief Financial Officer** **(Principal Financial Officer)**

EXHIBIT INDEX

Exhibit Number	Description
2.7	First Amendment to Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of September 11, 2012 (previously filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed September 19, 2012 and incorporated herein by reference).
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, dated as of April 1, 2005, by and between the Registrant and Equiserve Trust Company, N.A., as rights agent (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 4, 2005 and incorporated herein by reference)).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K/A filed December 20, 2010 and incorporated herein by reference).
4.1*	Form of the Registrant's Common Stock certificate.
10.3(A)+*	Yahoo! Inc. 1996 Employee Stock Purchase Plan.
10.3(B)+*	Form of Enrollment Agreement under the Yahoo! Inc. 1996 Employee Stock Purchase Plan.
10.10+*	Summary of Compensation Payable to Named Executive Officers.
10.18(B)+	Notice of Stock Option Grant and Stock Option Award Agreement, dated July 26, 2012, between the Registrant and Ross B. Levinsohn (previously filed as Exhibit 10.18(B) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012).
10.18(C)+	Restricted Stock Unit Award Agreement, dated July 26, 2012, between the Registrant and Ross B. Levinsohn (previously filed as Exhibit 10.18(C) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012).
10.18(D)+	Separation Agreement, dated July 30, 2012, between the Registrant and Ross B. Levinsohn (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 30, 2012 and incorporated herein by reference).
10.22(A)+	Employment Offer Letter, dated July 16, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 19, 2012 and incorporated herein by reference).
10.22(B)+	Restricted Stock Unit Award Agreement (CEO Make-Whole Grant), dated July 26, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.22(B) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012).
10.22(C)+	Form of Restricted Stock Unit Award Agreement (CEO Retention and Annual Grants), between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.22(C) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012).
10.23+	Employment Offer Letter, dated September 23, 2012, between the Registrant and Kenneth Goldman (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 25, 2012 and incorporated herein by reference).
10.24+	Employment Offer Letter, dated October 15, 2012, between the Registrant and Henrique de Castro (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 15, 2012 and incorporated herein by reference).
10.25+	Separation Agreement, dated October 16, 2012, between Yahoo! Inc. and Timothy R. Morse (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 17, 2012 and incorporated herein by reference).
10.26	Credit Agreement, dated as of October 19, 2012, by and among the Registrant, the initial lenders named therein, Citibank, N.A., as Administrative Agent, HSBC Bank USA, National Association as Syndication Agent and Citigroup Global Markets Inc. and HSBC Securities (USA) Inc., as Joint Lead Arrangers and Joint Bookrunners (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 22, 2012 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 November 8, 2012.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition

Exhibit Number	Description
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

* Filed herewith.
\+ Indicates a management contract or compensatory plan or arrangement.

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COMMON STOCK

PAR VALUE $0.001 PER SHARE

COMMON STOCK

THIS CERTIFICATE IS TRANSFERABLE IN CANTON, MA AND NEW YORK, NY

YAHOO!®

Certificate Number

ZQ 000000

Shares

000000****
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****000000****
*****000000***
******000000**

YAHOO! INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

THIS CERTIFIES THAT MR. SAMPLE & MRS. SAMPLE & MR. SAMPLE & MRS. SAMPLE

CUSIP 984332 10 6

SEE REVERSE FOR CERTAIN DEFINITIONS

is the record holder of ***ZERO HUNDRED THOUSAND ZERO HUNDRED AND ZERO***

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, $0.001 PAR VALUE, OF

Yahoo! Inc. (the "Corporation") transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Marissa A. Mayer

Chief Executive Officer and President

Ronald S. Bell

General Counsel and Secretary

YAHOO! INC. INCORPORATED MARCH 24, 1999 DELAWARE

DATED <<Month Day, Year>>

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR,

By ______________________________
AUTHORIZED SIGNATURE

SECURITY INSTRUCTIONS ON REVERSE

Printed by DATA BUSINESS FORMS

1234567

YAHOO! INC.

A statement of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes or series of shares and upon the holders thereof as established, from time to time, by the Certificate of Incorporation of the Corporation and by any certificate of determination or designations, and the number of shares constituting each class and series and the designations thereof, may be obtained by the holder hereof upon written request and without charge from the Secretary of the Corporation at its corporate headquarters.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	- ____________ Custodian ____________ (Cust) (Minor) under Uniform Gifts to Minors Act ____________ (State)
TEN ENT	- as tenants by the entireties		
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	- ____________ Custodian (until age ________) (Cust) ________ under Uniform Transfers to Minors Act ____________ (Minor) (State)

Additional abbreviations may also be used though not in the above list.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

For value received, ____________ hereby sell, assign and transfer unto [ ]

____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

____

____

____ shares

of the capital stock represented by the within certificate, and do hereby irrevocably constitute and appoint

____ attorney

to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated: ____________________ 20 ________

Signature: ____________________

Signature: ____________________

Notice: The signature(s) to this assignment must correspond with the name(s) as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER. DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

The IRS requires that we report the cost basis of certain shares acquired after January 1, 2011. If your shares were covered by the legislation and you have sold or transferred the shares and requested a specific cost basis calculation method, we have processed as requested. If you did not specify a cost basis calculation method, we have defaulted to the first in, first out (FIFO) method. Please visit our website or consult your tax advisor if you need additional information about cost basis.

If you do not keep in contact with us or do not have any activity in your account for the time periods specified by state law, your property could become subject to state unclaimed property laws and transferred to the appropriate state.

1234567

YAHOO! INC.

1996 EMPLOYEE STOCK PURCHASE PLAN

(as amended and restated effective November 11, 2012)

The following constitute the provisions of the 1996 Employee Stock Purchase Plan of Yahoo! Inc., as amended and restated effective November 11, 2012. This version of the Plan is effective for Offering Periods (as defined below) under the Plan commencing on and after November 11, 2012. The Offering Period that commenced May 11, 2012 terminated on the November 9, 2012 Purchase Date.

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986, as amended. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company or a committee thereof designated by the Board of Directors to administer the Plan.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Common Stock" shall mean the Common Stock of the Company.

(d) "Company" shall mean Yahoo! Inc., a Delaware corporation.

(e) "Compensation" shall mean the total compensation paid to an Employee, including all salary, wages (including amounts elected to be deferred by the Employee, that would otherwise have been paid, under any cash or deferred arrangement or other deferred compensation program established by the Company or the Employer), overtime pay, commissions, bonuses, and other remuneration paid directly to the Employee, but excluding referral and hiring bonuses, profit sharing, the cost of employee benefits paid for by the Company or the Employer, education, tuition or other similar reimbursements, imputed income arising under any Company group insurance or benefit program, traveling expenses, business and moving expense reimbursements, income received in connection with stock options, restricted stock or restricted stock unit grants, or other equity based awards, contributions made by the Company or the Employer under any employee benefit plan, and similar items of compensation.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Company or the Employer, provided that such leave is for a period of not more than three months, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or as a matter of local law, or unless otherwise provided pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between or among the Company and its Designated Subsidiaries.

(g) "Contributions" shall mean all amounts credited to the account of a participant pursuant to the Plan.

(h) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(i) "Employee" shall mean any person, including an Officer, who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries, provided that, in certain jurisdictions outside the United States, the term "Employee" may, if so provided by the Company in writing, also include a person employed for less than twenty (20) hours per week or less than five (5) months in a calendar year if such person must be permitted to participate in the Plan pursuant to local laws (as determined by the Company).

(j) "Employer" shall mean the Designated Subsidiary that employs a participant, if the employer is not the Company.

(k) "ESPP Broker" shall have the meaning set forth in Section 9.

(l) "ESPP Stock Account" shall have the meaning set forth in Section 9.

(m) "Exchange Act" shall mean the U.S. Securities Exchange Act of 1934, as amended.

(n) "Fair Market Value" shall have the meaning set forth in Section 7(b).

(o) "Offering Date" shall mean the first business day of each Offering Period of the Plan.

(p) "Offering Period" shall have the meaning set forth in Section 4(a).

(q) "Officer" shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(r) "Parent" shall mean any corporation (other than the Company), domestic or foreign, in an unbroken chain of corporations ending with the Company if, on an Offering Date, each corporation (other than the Company) owns stock possessing 50% or more of the total combined voting power or all classes of stock in one or more of the other corporations in the chain, as described in Section 424(e) of the Code.

(s) "Plan" shall mean this 1996 Employee Stock Purchase Plan, as amended from time to time.

(t) "Purchase Date" shall mean the last business day of each Offering Period.

(u) "Purchase Price" shall mean, with respect to any Offering Period, an amount equal to 90% (or such other percentage, not less than 85%, as the Board may prescribe prior to the applicable Offering Period) of the Fair Market Value of a Share of Common Stock on the Offering Date of the Offering Period or on the Purchase Date of the Offering Period, whichever is lower; provided however that in the event (i) of any increase in the number of Shares available for issuance under the Plan as a result of a stockholder-approved amendment to the Plan, and (ii) all or a portion of such additional Shares are to be issued with respect to an Offering Period that is underway at the time of such increase ("Additional Shares"), and (iii) the Fair Market Value of a Share of Common Stock on the date of such stockholder approval (the "Approval Date Fair Market Value") is higher than the Fair Market Value on the Offering Date for any such Offering Period, then in such instance the Purchase Price with respect to Additional Shares shall be 90% (or such other percentage, not less than 85%, as the Board may prescribe prior to the applicable Offering Period) of the Approval Date Fair Market Value or the Fair Market Value of a Share of Common Stock on the Purchase Date, whichever is lower.

(v) "Share" shall mean a share of Common Stock, as adjusted in accordance with Section 18 of the Plan.

(w) "Subsidiary" shall mean any corporation (other than the Company), domestic or foreign, that is in an unbroken chain of corporations beginning with the Company if, on an Offering Date, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain, as described in Section 424(f) of the Code.

3. Eligibility.

(a) Any person who is an Employee as of the beginning of any Offering Period shall be eligible to participate in such Offering Period under the Plan, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code; provided, however, that the Board may impose a requirement, prior to the start of an Offering Period, that an individual be employed with the Company or a Designated Subsidiary for a specified period of time (which shall be less than two years) prior to the applicable Offering Date to be eligible to participate in that Offering Period.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, any Subsidiary or any Parent, or (ii) if such option would permit his or her rights to purchase stock under all employee stock purchase plans (described in Section 423 of the Code) of the Company, any Subsidiary or any Parent to accrue at a rate which exceeds Twenty-Five Thousand Dollars ($25,000) of Fair Market Value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods.

(a) Effective November 11, 2012, the Plan shall be implemented by a series of Offering Periods of approximately three (3) months duration, with the first such Offering Period to commence on November 11, 2012 and end on February 10, 2013. Thereafter, a new Offering Period shall commence on February 11, May 11, August 11, and November 11 of each year and shall end on the following May 10, August 10, November 10, and February 10, respectively.

(b) The Plan shall continue until terminated in accordance with Section 19 hereof. The Board shall have the power to change the duration and/or the frequency of Offering Periods with respect to future offerings without shareholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected; provided, however, that in no event shall any Offering Period exceed twenty-seven (27) months in duration. The Board shall also have the power to provide that Offering Periods shall be comprised of two or more purchase periods, and thereafter to alter the duration and/or frequency of purchase periods with respect to future purchases without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected.

5. Participation.

(a) An eligible Employee may become a participant in the Plan as of an Offering Date by accepting the terms of an enrollment agreement on the form provided by the Company (which may be in written or electronic form, as prescribed by the Company) at such times and in accordance with such procedures as may be established by the Board (or its delegate) for the Offering Period commencing with that Offering Date. The enrollment agreement shall set forth the percentage of the participant's Compensation (subject to Section 6(a) below) to be paid as Contributions pursuant to the Plan (or shall otherwise provide for the participant to elect such percentage).

(b) An eligible Employee may contribute to the Plan by means of payroll deductions, unless payroll deductions are not permitted under local law, as determined by the Company, in which case eligible Employees may be permitted to contribute to the Plan by an alternative method, as determined by the Company. Payroll deductions, or, if payroll deductions are not permitted under local law, payments made under an alternative method, shall commence as of the first payday following the Offering Date and shall end on the last payday paid on or prior to the Purchase Date of the Offering Period to which the enrollment agreement is applicable, unless the Employee's participation is sooner terminated as provided in Section 10.

(c) Except as provided below in this paragraph, a participant in an Offering Period shall be automatically re-enrolled in each succeeding Offering Period at the same applicable rate of Contributions, provided that the participant remains an eligible Employee through the start of the applicable Offering Period and subject to changes in the participant's rate of Contributions as provided for in Section 6. If a participant timely withdraws from the Plan for an Offering Period, or has a termination of Continuous Status as an Employee during an Offering Period, the participant shall not be automatically re-enrolled in the succeeding Offering Period. The Board may terminate automatic re-enrollment at any time with respect to any Offering Period that has not yet commenced at the time of such termination.

6. Method of Payment of Contributions.

(a) Where permitted under local law, the participant shall elect to have payroll deductions made on each payday during the Offering Period in an amount not less than one percent (1%) and not more than fifteen percent (15%) of such participant's Compensation on each such payday (or such other maximum percentage as the Board may establish from time to time before an Offering Date). Where payroll deductions are not permitted under local law, the participant may be permitted to contribute to the Plan by an alternative method, as determined by the Company. All payroll deductions or other payments made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(b) A participant may, on one occasion only during an Offering Period, elect to decrease the rate of his or her Contributions (but not below one percent (1%) of such participant's Compensation) by submitting such election to the Company (or its delegate) on such form and in such manner (which may be online) as is provided by the Company (or its delegate). The change in rate shall be effective as soon as administratively practicable following the submission date of the new election; provided that the Board may establish in advance of a particular Offering Period a deadline by which any such change must be submitted before the end of that Offering Period, in which case any such change election submitted thereafter but before the end of that Offering Period shall not take effect during the Offering Period then in progress, shall be treated by the Company as a new election for the first new Offering Period to commence after the submission date and shall be subject to any deadlines and procedures established by the Board for that new Offering Period. A participant may change the rate of his or her Contributions effective as of the beginning of any Offering Period by submitting a new contribution rate election to the Company (or its delegate) at such times and in accordance with such procedures as may be established by the Board prior to the beginning of such Offering Period. Unless otherwise provided by the Board, any election by a participant pursuant to this Section 6(b) to reduce his or her Contributions to zero shall be deemed to be a withdrawal by that participant from the Plan for that Offering Period pursuant to Section 10(a).

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, a participant's payroll deductions or other payments may be decreased to 0% at any time during an Offering Period. Payroll deductions or other payments shall re-commence at the rate provided in (or pursuant to) such participant's enrollment agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless the participant's participation is terminated as provided in Section 10. In addition, a participant's payroll deductions or other payments may be decreased by the Company to 0% at any time during an Offering Period in order to avoid unnecessary contributions as a result of application of the maximum Share limit set forth in Section 7(a), or as a result of the limitations set forth in Section 3(b), in which case payroll deductions or payments shall re-commence at the rate provided in (or pursuant to) such participant's enrollment agreement at the beginning of the next Offering Period, unless terminated by the participant as provided in Section 10.

(d) As may be further specified in the enrollment agreement, at the time the option is exercised, in whole or in part, or at the time some or all of the Company's Common Stock issued under the Plan is disposed of, the participant must make adequate provision for the Company's and/or the Employer's federal, state, or other tax and social insurance withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company and the Employer may, but shall not be obligated to, withhold from the participant's compensation the amount necessary for the Company and/or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the participant.

7. Grant of Option.

(a) On the Offering Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on the Purchase Date for that Offering Period a number of Shares determined by dividing such Employee's Contributions accumulated prior to such Purchase Date and retained in the participant's account as of the Purchase Date by the applicable Purchase Price; provided however, that the maximum number of Shares an Employee may purchase during any one Offering Period shall be 10,000 Shares, subject to adjustment as provided in Section 18, and provided further that such purchase shall be subject to the limitations set forth in Sections 3(b) and 12.

(b) The fair market value of the Company's Common Stock on a given date (the "Fair Market Value") means, as of any date, the value of Common Stock determined by the Board in its discretion, provided that, to the extent the Common Stock is listed or admitted to trade on a national securities exchange at the relevant time, (A) the Fair Market Value as of an Offering Date shall be the closing sales price of the Common Stock as reported on such exchange for the last business day immediately preceding the Offering Date on which the sales of the Common Stock are reported, and (B) the Fair Market Value of the Common Stock as of a Purchase Date shall be the closing sales price of the Common Stock as reported on such exchange for the Purchase Date (or if there is no trading of the Common Stock on the Purchase Date, the closing sales price of the Common Stock as reported on such exchange on the next preceding date on which there was trading in the Common Stock), in each case as reported in *The Wall Street Journal* or by such other source as the Board deems reliable.

8. Exercise of Option.

(a) Unless a participant's participation is terminated as provided in Section 10, his or her option for the purchase of Shares will be exercised automatically on the applicable Purchase Date of an Offering Period, and the maximum number of full Shares subject to the option will be purchased at the applicable Purchase Price with the accumulated Contributions in his or her account (subject to such limitations as are specified in the Plan). The Shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Purchase Date. During his or her lifetime, a participant's option to purchase Shares hereunder is exercisable only by him or her.

(b) No fractional Shares shall be purchased. Any payroll deductions or other payments accumulated in a participant's account which are not sufficient to purchase a full Share shall be retained in the participant's account for the subsequent Offering Period, subject to earlier withdrawal by the participant or termination of such participant's participation as provided in Section 10 below. Any other amounts left over in a participant's account after a Purchase Date shall be returned to the participant.

9. Delivery. As promptly as practicable after the Purchase Date of an Offering Period, the Company shall arrange the delivery to each participant (by electronic or other means), as appropriate, of a certificate representing the Shares purchased upon exercise of his or her option. Notwithstanding the foregoing, the Board may require that all Shares purchased under the Plan be held in an account (the participant's "ESPP Stock Account") established in the name of the participant (or in the name of the participant and his or her spouse, as designated by the participant on his or her enrollment agreement or pursuant to procedures established by the Company or its delegate), subject to such rules as determined by the Board and uniformly applied to all participants, including designation of a brokerage or other financial services firm (an "ESPP Broker") to hold such Shares for the participant's ESPP Stock Account with registration of such Shares in the name of such ESPP Broker for the benefit of the participant (or for the benefit of the participant and his or her spouse, as designated by the participant on his or her enrollment agreement or pursuant to procedures established by the Company or its delegate).

10. Voluntary Withdrawal: Termination of Employment.

(a) A participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan, by giving notice of withdrawal from the Plan in accordance with the withdrawal procedures established by the Board for the Offering Period for which such election is to be given effect. All of the participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her option for that Offering Period will be automatically terminated, and no further Contributions for the purchase of Shares may be made by the participant with respect to that option.

(b) Upon termination of the participant's Continuous Status as an Employee prior to the last day of an Offering Period for any reason, including retirement or death, the Contributions credited to his or her account will be promptly returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Section 14, if any, his or her option for that Offering Period will be automatically terminated, and no further Contributions for the purchase of Shares may be made by the participant with respect to that option. If a Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have terminated employment for purposes of the Plan, unless the person continues as an employee of the Company or another Subsidiary.

(c) In the event an Employee fails to remain in Continuous Status as an Employee for at least twenty (20) hours per week during an Offering Period in which the Employee is a participant, unless such Employee is on an approved leave of absence or a temporary reduction of hours, or unless otherwise required by local law, he or she will be deemed to have elected to withdraw from the Plan, the Contributions credited to his or her account will be returned to him or her, his or her option for that Offering Period will be automatically terminated, and no further Contributions for the purchase of Shares may be made by the participant with respect to that option.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

11. Interest. No interest shall accrue on the Contributions of a participant in the Plan, unless required by local law.

12. Stock.

(a) Subject to adjustment as provided in Section 18, the maximum number of Shares of the Company's Common Stock which shall be made available for sale under the Plan shall be 75,000,000 Shares.

(b) If the Board determines that, on a given Purchase Date, the number of Shares with respect to which options are to be exercised may exceed (i) the number of Shares that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of Shares available for sale under the Plan on such Purchase Date, the Board may in its sole discretion provide (x) that the Company shall make a pro rata allocation of the Shares of Common Stock available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date, or (y) that the Company shall make a pro rata allocation of the Shares available for purchase on such Offering Date or Purchase Date, as applicable, in as uniform a manner as shall be practicable and as it shall determine in its sole discretion to be equitable among all participants exercising options to purchase Common Stock on such Purchase Date. The Company may make pro rata allocation of the Shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional Shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

(c) The participant will have no interest or voting right in Shares covered by his or her option until such option has been exercised and such Shares have actually been delivered to and held of record by the participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

(d) Shares to be delivered (by electronic or other means) to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse, as designated by the participant in his or her enrollment agreement or pursuant to procedures established by the Company or its delegate; provided that if the Board has determined that Shares shall be held in an ESPP Stock Account held by an ESPP Broker in accordance with Section 9, Shares shall be registered in the name of such ESPP Broker for the benefit of the participant or the participant and his or her spouse, as designated by the participant in his or her enrollment agreement or pursuant to procedures established by the Company or its delegate.

13. Administration.

(a) The Board shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. Any action taken by, or inaction of, the Company, any Subsidiary, or the Board relating or pursuant to the Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

(b) The Board has discretion to adopt any rules regarding administration of the Plan to conform to local laws. Without limiting the generality of the foregoing, the Board is specifically authorized to adopt rules and procedures regarding handling of payroll deductions, payment of interest and handling of stock certificates which vary according to local requirements. The Board has the authority to suspend or limit participation in the Plan by employees of any particular Subsidiary for any reason, including administrative or economic reasons. The Board may also designate separate offerings under the Plan and adopt rules, procedures or sub-plans applicable to particular Subsidiaries or locations, which separate offerings or sub-plans may be designed to be outside the scope of Section 423 of the Code.

(c) In making any determination or in taking or not taking any action under the Plan, the Board may obtain and may rely upon the advice of experts, including professional advisors to the Company. No director, officer or agent of the Company or any Subsidiary shall be liable for any such action or determination taken or made or omitted in good faith. The Board may delegate ministerial, non-discretionary functions relating to the Plan to individuals who are officers or employees of the Company or a Subsidiary.

(d) Neither the Board nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

14. Designation of Beneficiary.

(a) Unless otherwise determined by the Company, a participant may file a written designation of a beneficiary who is to receive any Shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of an Offering Period but prior to delivery to him or her of such Shares and/or cash. In addition, unless otherwise determined by the Company, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Purchase Date of an Offering Period. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective.

(b) Unless otherwise determined by the Company, such designation of beneficiary may be changed by the participant (and his or her spouse, if any) at any time by written notice to the Company in a manner acceptable to the Company. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate or determine to be the appropriate recipient of the Shares and/or cash under applicable local law.

15. Transferability. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive Shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 14) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

16. Use of Funds. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions, unless required by local law.

17. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees as promptly as practically feasible following the Purchase Date, which statements will set forth the amounts of Contributions, the per Share Purchase Price, the number of Shares purchased and the remaining cash balance, if any.

18. Adjustments Upon Changes in Capitalization: Corporate Transactions.

(a) Adjustment. Subject to any required action by the stockholders of the Company, the number of Shares covered by each option under the Plan which has not yet been exercised and the number of Shares which have been authorized for issuance under the Plan but have not yet been placed under option, the maximum number of Shares an Employee may purchase during each Offering Period, as well as the price per Share covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any dividend of stock or other property (other than cash) by the Company, any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of Shares effected without receipt of consideration; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an option.

(b) Corporate Transactions. In the event of the proposed dissolution or liquidation of the Company, the Plan, any Offering Period then in progress, and any outstanding option granted with respect to such Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. If a participant's option is terminated pursuant to the preceding sentence, the Contributions then credited to such participant's account will be paid to him or her in cash without interest. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, unless otherwise determined by the Board, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, or, if not so assumed or substituted, the Offering Period then in progress shall be shortened and the Board shall set a new Purchase Date (the "New Purchase Date"). The New Purchase Date shall be on or before the date of consummation of the transaction and the Board shall notify each participant in writing, at least ten (10) days prior to the New Purchase Date, that the Purchase Date for his or her option (including for purposes of determining the Purchase Price of such option) has been changed to the New Purchase Date and that his or her option will be exercised automatically on the New Purchase Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Section 10. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets or merger, the option confers the right to purchase, for each Share subject to the option immediately prior to the sale of assets or merger, the consideration (whether stock, cash or other securities or property) received in the sale of assets or merger by holders of Common Stock for each Share held on the effective date of the transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares of Common Stock); provided, however, that if such consideration received in the sale of assets or merger was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation and the participant, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in Fair Market Value to the per Share consideration received by holders of Common Stock and the sale of assets or merger.

19. Amendment or Termination.

(a) The Board may at any time and for any reason terminate or amend the Plan. Except as provided in Sections 13(b) and 18, no such termination of the Plan may affect options previously granted, provided that the Plan or an Offering Period may be terminated by the Board on a Purchase Date or by the Board's setting a new Purchase Date with respect to an Offering Period then in progress if the Board determines that termination of the Plan and/or the Offering Period is in the best interests of the Company and the stockholders or if continuation of the Plan and/or the Offering Period would cause the Company to incur adverse accounting charges as a result of a change after the effective date of the Plan in the generally accepted accounting rules applicable to the Plan. Except as provided in Section 18 and in this Section 19, no amendment to the Plan shall make any change in any option previously granted which adversely affects the rights of any participant without such participant's written consent. In addition, to the extent necessary to comply with the requirements of Rule 16b-3 under the Exchange Act, Section 423 of the Code (or any successor rule or provision or any applicable law or regulation) or any stock exchange on which the Shares are then listed, the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Shares for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board determines in its sole discretion advisable which are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. The Company shall have no obligation to issue Shares with respect to an option unless the exercise of such option and the issuance and delivery of such Shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the U.S. Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

    As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Term of Plan. Subject to earlier termination under Section 19, no new Offering Period shall commence after May 10, 2029.

23. Additional Restrictions of Rule 16b-3. The terms and conditions of options granted hereunder to, and the purchase of Shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the Shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

24. No Employment Rights. Nothing in the Plan (or in any enrollment agreement or other document related to this Plan) will confer upon any Employee or participant any right to continue in the employ or other service of the Company or any Subsidiary, constitute any contract or agreement of employment or other service or effect an employee’s status as an employee at will, nor shall interfere in any way with the right of the Company or any Subsidiary to change such person’s compensation or other benefits or to terminate his or her employment or other service, with or without cause. Nothing contained in this Section 24, however, is intended to adversely affect any express independent right of any such person under a separate employment or service contract other than an enrollment agreement.

25. No Right to Assets of the Company. No participant or other person will have any right, title or interest in any fund or in any specific asset (including Shares) of the Company or any Subsidiary by reason of any option hereunder. Neither the provisions of the Plan (or of any enrollment agreement or other document related to the Plan), nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any Subsidiary and any participant, beneficiary or other person. To the extent that a participant, beneficiary or other person acquires a right to receive payment pursuant to the Plan, such right will be no greater than the right of any unsecured general creditor of the Company.

26. Miscellaneous.

(a) The Plan, the options, enrollment agreements and other documents related to the Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware. If any provision of the Plan shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan shall continue in effect.

(b) Captions and headings are given to the sections of the Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction of interpretation of the Plan or any provision hereof.

(c) The adoption of the Plan shall not affect any other Company or Subsidiary compensation or incentive plans in effect. Nothing in the Plan will limit or be deemed to limit the authority of the Board (1) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary (with or without reference to the Common Stock), or (2) to grant or assume options (outside the scope of and in addition to those contemplated by the Plan) in connection with any proper corporate purpose, to the extent consistent with any other plan or authority. Benefits received by a participant under an option granted pursuant to the Plan shall not be deemed a part of the participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary, except where the Board (or the Board of Directors of the Subsidiary that sponsors such plan or arrangement, as applicable) expressly otherwise provides or authorizes in writing.

YAHOO! INC.
1996 EMPLOYEE STOCK PURCHASE PLAN
ENROLLMENT AGREEMENT

1. I hereby elect to participate in the Yahoo! Inc. 1996 Employee Stock Purchase Plan, as amended from time to time (the "Plan"), and subscribe to purchase Shares of the Company's Common Stock, subject to the terms of this Enrollment Agreement and the Plan. Capitalized terms not defined herein shall have the meanings ascribed to them in the Plan and the ESPP Administrative Rules adopted pursuant to the Plan (the "ESPP Rules"). I understand that my participation in the Plan will commence with the first Offering Period that begins after the date I enroll in the Plan.

2. By enrolling in the Plan and making my online enrollment elections, I agree to have Contributions in the amount of the elected percentage of my Compensation applied to this purchase. I understand that this amount must not be less than 1% and not more than 15% of my Compensation during an Offering Period. (Please note that no fractional percentages are permitted).

3. By enrolling in the Plan and making my online enrollment elections, I authorize payroll deductions from each paycheck during the Offering Periods in the amount of the elected percentage of my Compensation. I understand that all payroll deductions authorized by me shall be credited to my account under the Plan and that I may not make any additional payments into such account. I understand that all payments made by me shall be accumulated for the purchase of Shares at the applicable Purchase Price determined in accordance with the Plan. I further understand that, except as otherwise set forth in the Plan, Shares will be purchased for me automatically on each applicable Purchase Date unless I otherwise withdraw from the Plan in accordance with the withdrawal procedures in effect at the time of my withdrawal.

4. I understand that I may discontinue participation in the Plan during a Offering Period only as provided in Section 10 of the Plan and the ESPP Rules. I also understand that I can decrease the rate of my Contributions on one occasion only during any Offering Period, or increase the rate of my Contributions for any subsequent Offering Period during its Open Enrollment Period, by making a new online election in my account at the ESPP Broker's internet site. Any such change will be effective as provided in the Plan and the ESPP Rules. In addition, I acknowledge that, unless I discontinue my participation in the Plan in accordance with the withdrawal procedures in effect at such time, change my election as described above, or cease to be eligible (as provided in the Plan and the ESPP Rules), my election will continue to be effective for each successive Offering Period.

5. In addition to this Enrollment Agreement and the Plan and ESPP Rules (both of which are hereby incorporated by reference in this Enrollment Agreement), I acknowledge that I have reviewed and understand the Company's most recent prospectus. The Plan, the ESPP Rules and such prospectus are available free of charge on the Yahoo! Inc. corporate intranet site ("Backyard") at http://backyard.yahoo.com/resources/forms/stock/ESPP/ESPP_PlanDocuments.html.
I understand that my participation in the Plan is in all respects subject to the terms of the Plan, the ESPP Rules and this Enrollment Agreement.

6. Shares purchased for me under the Plan should be deposited into my account at the brokerage firm designated by the Company from time to time as the broker to receive Shares under the Plan.

7. I understand that if I dispose of any Shares received by me pursuant to the Plan within two (2) years after the Offering Date (the first day of the Offering Period during which I purchased such Shares) or within one (1) year after the Purchase Date, and at a price in excess of the discounted purchase price I paid for the shares, I will be treated for United States federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the Fair Market Value of the Shares on the Purchase Date over the price which I paid for the Shares, regardless of whether I disposed of the Shares at a price less than their Fair Market Value at the Purchase Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

By enrolling in the Plan and making my online enrollment elections, I agree to notify the Company in writing within thirty (30) days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon such disposition of the Shares. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Shares by me.

I understand that the Prospectus for the Plan includes a more general discussion of the United States tax consequences of the Plan and that, in any event, I should consult my own tax advisor for specific advice concerning the tax implications of participation in the Plan and the sale of stock acquired under the Plan.

8. The Company may, in its sole discretion, decide to deliver any documents related to the purchase rights and participation in the Plan or future purchase rights that may be granted under the Plan by electronic means or to request my consent to participate in the Plan by electronic means. I hereby consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

9. If I relocate to another country while I am participating in the Plan or holding Shares acquired under the Plan, the Company reserves the right to impose other requirements on my participation in the Plan and/or on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require me to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

10. The provisions of this Enrollment Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

11. By making my online enrollment elections, I hereby enroll in the Plan and agree to be bound by the terms of the Plan, the ESPP Rules and this Enrollment Agreement. I understand and acknowledge that the effectiveness of this Enrollment Agreement and my participation in the Plan are dependent upon my eligibility to participate in the Plan.

Exhibit 10.10

Summary of Compensation Payable to Named Executive Officers

Base Salary. The Compensation and Leadership Development Committee (the "Committee") of the Board of Directors of Yahoo! Inc. ("Yahoo!") has approved the 2012 base salaries of Yahoo!'s principal executive officer and principal financial officer (the "Named Executive Officers"). The following table shows for each of the Named Executive Officers the annual base salary for 2012:

Name and Principal Position	2012 Annual Base Salary ($)
Marissa A. Mayer Chief Executive Officer	1,000,000
Ken Goldman Chief Financial Officer	600,000

Bonus. In addition to receiving a base salary, Yahoo!'s Named Executive Officers are also eligible to receive an annual bonus.

Yahoo!'s Named Executive Officer bonuses for 2012 will be determined under Yahoo!'s Executive Incentive Plan. The Named Executive Officers' respective target bonus opportunities (expressed as a percentage of annual base salary) under the Executive Incentive Plan for 2012 are as follows: Ms. Mayer – 200% and Mr. Goldman – 90%. The Committee also has the ability to award discretionary bonuses from time to time in circumstances the Committee determines to be appropriate.

Long-Term Incentives. The Named Executive Officers are also eligible to receive equity-based incentives and other awards from time to time at the discretion of the Committee. To the extent required by SEC regulations, equity-based incentives granted by Yahoo! to the Named Executive Officers are reported on Form 4 filings with the Securities and Exchange Commission.

EXHIBIT 31.1

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

I, Marissa A. Mayer, certify that:

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

Dated: November 8, 2012

By: /s/ MARISSA A. MAYER
Marissa A. Mayer
Chief Executive Officer

EXHIBIT 31.2

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

I, Ken Goldman, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

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

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

Dated: November 8, 2012

By: /s/ KEN GOLDMAN
Ken Goldman
Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the “Company”) for the quarter ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Marissa A. Mayer, as Chief Executive Officer of the Company, and Ken Goldman, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

	/s/ MARISSA A. MAYER
Name:	Marissa A. Mayer
Title:	Chief Executive Officer
Dated:	November 8, 2012

	/s/ KEN GOLDMAN
Name:	Ken Goldman
Title:	Chief Financial Officer
Dated:	November 8, 2012

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