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

Form 10-Q

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

For the quarterly period ended June 30, 2009

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 July 31, 2009
Common Stock, $0.001 par value	1,403,390,107

YAHOO! INC.

Table of Contents

Table of Contents

PART I — FINANCIAL INFORMATION

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

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
	(Unaudited, in thousands except per share amounts)			
Revenues	$1,798,085	$1,572,897	$3,615,687	$3,152,939
Cost of revenues	765,911	712,453	1,520,994	1,413,190
Gross profit	1,032,174	860,444	2,094,693	1,739,749
Operating expenses:				
Sales and marketing	404,899	280,386	829,490	601,498
Product development	314,719	291,398	620,325	597,441
General and administrative	188,811	138,652	359,891	275,649
Amortization of intangibles	23,224	9,253	46,964	18,920
Restructuring charges, net	—	65,002	16,885	69,803
Total operating expenses	931,653	784,691	1,873,555	1,563,311
Income from operations	100,521	75,753	221,138	176,438
Other income, net	24,583	72,010	39,248	76,970
Income before income taxes and earnings in equity interests	125,104	147,763	260,386	253,408
Provision for income taxes	(47,656)	(68,879)	(100,955)	(104,763)
Earnings in equity interests	54,927	64,156	509,709	113,090
Net income	132,375	143,040	669,140	261,735
Less: Net income attributable to noncontrolling interests	(1,214)	(1,653)	(1,139)	(2,790)
Net income attributable to Yahoo! Inc.	$ 131,161	$ 141,387	$ 668,001	$ 258,945
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.10	$ 0.10	$ 0.49	$ 0.19
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.09	$ 0.10	$ 0.46	$ 0.18
Shares used in per share calculation — basic	1,372,629	1,394,783	1,353,180	1,393,155
Shares used in per share calculation — diluted	1,397,839	1,414,295	1,391,930	1,410,348
Stock-based compensation expense by function:				
Cost of revenues	$ 3,549	$ 2,663	$ 6,829	$ 6,242
Sales and marketing	$ 56,306	$ 35,651	$ 121,844	$ 85,548
Product development	$ 46,442	$ 51,647	$ 94,524	$ 105,925
General and administrative	$ 16,871	$ 22,565	$ 37,260	$ 41,531
Restructuring expense reversals	$ —	$ (7,600)	$ (12,284)	$ (7,600)

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

YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2008	June 30, 2009
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,292,296	$ 2,284,086
Short-term marketable debt securities	1,159,691	1,594,226
Accounts receivable, net	1,060,450	907,276
Prepaid expenses and other current assets	233,061	243,263
Total current assets	4,745,498	5,028,851
Long-term marketable debt securities	69,986	319,137
Property and equipment, net	1,536,181	1,430,377
Goodwill	3,440,889	3,461,604
Intangible assets, net	485,860	396,128
Other long-term assets	233,989	131,730
Investments in equity interests	3,177,445	3,308,402
Total assets	$13,689,848	$14,076,229
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 151,897	$ 81,803
Accrued expenses and other current liabilities	1,139,894	964,422
Deferred revenue	413,224	416,659
Total current liabilities	1,705,015	1,462,884
Long-term deferred revenue	218,438	167,685
Capital lease and other long-term liabilities	77,062	87,197
Deferred and other long-term tax liabilities, net	420,372	438,014
Total liabilities	2,420,887	2,155,780
Commitments and contingencies (Note 11)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,600,220 shares issued and 1,391,560 shares outstanding as of December 31, 2008 and 1,403,074 shares issued and 1,402,992 shares outstanding as of June 30, 2009	1,595	1,397
Additional paid-in capital	11,643,635	10,428,298
Treasury stock at cost, 208,660 shares as of December 31, 2008 and 82 shares as of June 30, 2009	(5,267,484)	(1,290)
Retained earnings	4,752,920	1,260,592
Accumulated other comprehensive income	120,276	210,644
Total Yahoo! Inc. stockholders' equity	11,250,942	11,899,641
Noncontrolling interests	18,019	20,808
Total equity	11,268,961	11,920,449
Total liabilities and equity	$13,689,848	$14,076,229

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 669,140	$ 261,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	243,470	273,502
Amortization of intangible assets	147,398	105,811
Stock-based compensation expense	248,173	231,646
Non-cash restructuring charges	—	6,467
Tax benefits from stock-based awards	31,133	16,536
Excess tax benefits from stock-based awards	—	(67,186)
Deferred income taxes	37,527	24,741
Earnings in equity interests	(509,709)	(113,090)
Dividends received from equity investee	18,942	26,145
(Gain)/loss from sale of investments, assets, and other, net	5,365	(72,243)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	23,636	163,262
Prepaid expenses and other	(5,647)	4,618
Accounts payable	(39,452)	(69,621)
Accrued expenses and other liabilities	54,616	(139,378)
Deferred revenue	287,551	(48,802)
Net cash provided by operating activities	1,212,143	604,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(315,690)	(165,155)
Purchases of marketable debt securities	(889,467)	(2,173,606)
Proceeds from sales of marketable debt securities	199,301	56,159
Proceeds from maturities of marketable debt securities	370,977	1,439,837
Proceeds from sales of marketable equity securities	—	119,987
Acquisitions, net of cash acquired	(179,609)	—
Purchases of intangible assets	(51,160)	(21,751)
Other investing activities, net	(7,877)	(86)
Net cash used in investing activities	(873,525)	(744,615)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	317,445	71,052
Repurchases of common stock	(79,236)	—
Excess tax benefits from stock-based awards	—	67,186
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(56,612)	(26,618)
Other financing activities, net	(74)	—
Net cash provided by financing activities	181,523	111,620
Effect of exchange rate changes on cash and cash equivalents	17,299	20,642
Net change in cash and cash equivalents	537,440	(8,210)
Cash and cash equivalents at beginning of period	1,513,930	2,292,296
Cash and cash equivalents at end of period	$2,051,370	$ 2,284,086

Table of Contents

Supplemental cash flow disclosures:

During the six months ended June 30, 2008, the holders of the Company's zero coupon senior convertible notes (the "Notes") converted $750 million of the Notes into 36.6 million shares of Yahoo! common stock. See Note 9 — "Debt" for additional information.

	June 30, 2008	June 30, 2009
	(Unaudited, in thousands)	
Acquisition-related activities:		
Cash paid for acquisitions	$ 180,104	$ —
Cash acquired in acquisitions	(495)	—
	$ 179,609	$ —

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!" or the "Company") is a leading global consumer brand and one of the most trafficked Internet destinations worldwide. Yahoo! is where millions of people go every day to see what is happening with the people and things that matter to them most. Yahoo! helps marketers reach that audience with its unique and compelling advertiser proposition. Together with the Company's owned and operated online properties and services ("Yahoo! Properties" or "Owned and Operated sites"), Yahoo! also provides its advertising offerings and access to Internet users beyond Yahoo! through its distribution network of third-party entities ("Affiliates"), who have integrated the Company's advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. The Company generates revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services the Company provides to users are free, Yahoo! does charge fees for a range of premium services.

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. Minority interests have been re-captioned to noncontrolling interests and have been presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2008 was derived from the Company's audited financial statements for the year ended December 31, 2008, 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.

Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 165, "Subsequent Events" ("SFAS 165"), which is effective for interim and annual periods ending after June 15, 2009. SFAS 165 provides guidance on management's assessment of subsequent events, clarifying that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or available to be issued. The Company has evaluated subsequent events through August 7, 2009, the date that these financial statements were issued.

In June 2009, the FASB issued SFAS No. 168, "The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" ("SFAS 168"), which is effective for interim and annual periods ending after September 15, 2009. SFAS 168 makes the FASB Accounting Standards Codification ("Codification") the single authoritative source for U.S. GAAP. The Codification replaces all previous U.S. GAAP accounting standards. The adoption of SFAS 168 will only impact references for accounting guidance.

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

Basic net income per share attributable to Yahoo! common stockholders is computed using the weighted average number of common shares outstanding during the period, excluding net income attributable to participating securities (restricted stock awards granted under the Company's 1995 Stock Plan and restricted stock units granted under the 1996 Directors' Stock Plan (the "Directors' Plan")) in accordance with FASB Staff Position ("FSP") EITF 03-6-1 "Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities." Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of unvested restricted stock and shares underlying unvested restricted stock units (using the treasury stock method), the incremental common shares issuable upon the exercise of stock options (using the treasury stock method), shares to be purchased under the employee stock purchase plan, and shares issuable upon an assumed conversion of the Company's Notes prior to their maturity and conversion on April 1, 2008. In applying the treasury stock method, 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 133 million and 138 million shares of common stock for the three and six months ended June 30, 2009, respectively, and 129 million and 133 million for the three and six months ended June 30, 2008, 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		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Basic:				
Numerator:				
Net income attributable to Yahoo!	$ 131,161	$ 141,387	$ 668,001	$ 258,945
Less: Net income allocated to participating securities	(273)	(171)	(1,675)	(324)
Net income attributable to Yahoo! common stockholders — basic	$ 130,888	$ 141,216	$ 666,326	$ 258,621
Denominator:				
Weighted average common shares	1,372,629	1,394,783	1,353,180	1,393,155
Net income attributable to Yahoo! common stockholders per share — basic	$ 0.10	$ 0.10	$ 0.49	$ 0.19
Diluted:				
Numerator:				
Net income attributable to Yahoo!	$ 131,161	$ 141,387	$ 668,001	$ 258,945
Less: Net income allocated to participating securities	(135)	(24)	(860)	(55)
Less: Effect of dilutive securities issued by equity investees	—	(219)	(26,860)	(445)
Add: Interest expense, net of tax, related to the Notes	54	—	5,370	—
Net income attributable to Yahoo! common stockholders — diluted	$ 131,080	$ 141,144	$ 645,651	$ 258,445
Denominator:				
Denominator for basic calculation	1,372,629	1,394,783	1,353,180	1,393,155
Weighted average effect of Yahoo! dilutive securities:				
Restricted stock and restricted stock units	8,666	11,741	8,542	11,255
Stock options	12,349	6,095	13,359	5,938
ESPP	1,691	1,676	1,401	—
Assumed conversion of the Notes	2,504	—	15,448	—
Denominator for diluted calculation	1,397,839	1,414,295	1,391,930	1,410,348
Net income attributable to Yahoo! common stockholders per share — diluted	$ 0.09	$ 0.10	$ 0.46	$ 0.18

See Note 9 — "Debt" for additional information related to the Company's Notes.

Note 3 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2008	June 30, 2009	Percent Ownership of Common Stock
Alibaba Group	$2,216,659	$2,161,912	44%
Alibaba.com	51,999	52,440	1%
Yahoo! Japan	905,672	1,090,371	35%
Other	3,115	3,679	
Total	$3,177,445	$3,308,402	

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

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

	Three Months Ended		Six Months Ended	
	March 31, 2008	March 31, 2009	March 31, 2008	March 31, 2009
Operating data[1]:				
Revenues	$106,336	$156,628	$ 203,984	$309,276
Gross profit	$ 76,152	$115,122	$ 138,573	$218,615
(Loss)/income from operations[2]	$ (7,663)	$ 1,934	$ (213,073)	$ (43,676)
Net income/(loss)[3]	$ 9,000	$ (5,423)	$1,892,257	$ (64,511)

	September 30, 2008	March 31, 2009
Balance sheet data:		
Current assets	$ 2,585,369	$2,800,745
Long-term assets	$ 2,193,374	$2,254,182
Current liabilities	$ 821,174	$1,133,499
Long-term liabilities	$ 20,131	$ 20,345
Noncontrolling interests	$ 187,570	$ 203,304

(1) The Company records its share of the results of Alibaba Group one quarter in arrears within earnings in equity interests in its condensed consolidated statements of income.

(2) The loss from operations of $213 million for the six months ended March 31, 2008 is primarily due to Alibaba Group's impairment loss on goodwill and intangible assets of $178 million for which Yahoo! Inc. has no basis in its investment balance.

(3) The net income of $1.9 billion for the six months ended March 31, 2008 includes the gain from Alibaba Group's sale of an approximate 27 percent ownership interest in Alibaba.com in Alibaba.com's initial public offering ("IPO").

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three and six months ended June 30, 2008 and 2009, these transactions were not material.

Equity Investment in Alibaba.com Limited. As part of the IPO of Alibaba.com, the Company purchased an approximate 1 percent interest in the common stock of Alibaba.com. This investment is accounted for using the equity method, consistent with the Company's investment in Alibaba Group, which holds the controlling interest in Alibaba.com. The fair value of the Company's ownership interest in the common stock of Alibaba.com, based on the quoted stock price, was approximately $102 million as of June 30, 2009.

Equity Investment in Yahoo! Japan. The investment in Yahoo! Japan Corporation ("Yahoo! Japan") is accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of investments in equity interests on the Company's condensed consolidated balance sheets. The Company records its share of the results of Yahoo! Japan and any related amortization expense, one quarter in arrears, within earnings in equity interests in the condensed consolidated statements of income. The fair value of the Company's ownership interest in the common stock of Yahoo! Japan, based on the quoted stock price, was approximately $6 billion as of June 30, 2009.

As of June 30, 2009, the Company's ownership interest in Yahoo! Japan was approximately 35 percent compared to 34 percent as of March 31, 2009. The 1 percent increase is due to share repurchases that were undertaken by Yahoo! Japan on the open market. The Company's proportionate share of Yahoo! Japan's share repurchase amount in excess of its book value was approximately $87 million and has been primarily allocated to goodwill. Goodwill is not deductible for tax purposes.

During the three months ended June 30, 2008 and 2009, the Company received cash dividends from Yahoo! Japan in the amounts of $19 million and $26 million, net of taxes, respectively, which were recorded as reductions in the Company's investment in Yahoo! Japan.

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

	Three Months Ended		Six Months Ended	
	March 31, 2008	March 31, 2009	March 31, 2008	March 31, 2009
Operating data(*):				
Revenues	$ 704,071	$ 803,611	$ 1,322,819	$ 1,582,258
Gross profit	$ 598,903	$ 681,792	$ 1,129,590	$ 1,339,770
Income from operations	$ 320,249	$ 380,281	$ 596,565	$ 724,586
Net income	$ 153,423	$ 199,840	$ 305,110	$ 398,549

	September 30, 2008	March 31, 2009
Balance sheet data:		
Current assets	$ 1,202,164	$ 939,357
Long-term assets	$ 1,923,195	$ 2,262,925
Current liabilities	$ 778,110	$ 665,156
Long-term liabilities	$ 189,719	$ 106,558
Noncontrolling interests	$ 25,665	$ 21,235

(*) The Company records its share of the results of Yahoo! Japan one quarter in arrears in earnings in equity interests in the condensed consolidated statements of income.

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

Through its commercial arrangement with Yahoo! Japan, the Company provides advertising and search marketing services to Yahoo! Japan for a service fee. Under this arrangement, the Company records marketing services revenue from Yahoo! Japan for the provision of search marketing services based on a percentage of advertising revenues earned by Yahoo! Japan for the delivery of sponsored search results. In addition, the Company recognizes revenues from license fees received from Yahoo! Japan. These arrangements resulted in revenues of approximately $81 million and $73 million, respectively, for the three months ended June 30, 2008 and 2009 and revenues of approximately $154 million and $148 million, respectively, for the six months ended June 30, 2008 and 2009. As of both December 31, 2008 and June 30, 2009, the Company had a net receivable balance from Yahoo! Japan of approximately $39 million.

Note 4 GOODWILL

The change in the carrying amount of goodwill for the six months ended June 30, 2009 was primarily due to foreign currency translation gains of $21 million.

Table of Contents

Note 5 INTANGIBLE ASSETS, NET

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

	December 31, 2008	June 30, 2009		
	Net	Gross Carrying Amount	Accumulated Amortization(1)	Net(2)
Customer, affiliate, and advertiser related relationships	$ 99,828	$ 137,777	$ (50,179)	$ 87,598
Developed technology and patents	350,168	511,363	(235,650)	275,713
Trade name, trademark, and domain name	35,864	74,828	(42,011)	32,817
Total intangible assets, net	$ 485,860	$ 723,968	$ (327,840)	$396,128

(1) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately $13 million as of June 30, 2009.

(2) As of December 31, 2008 and June 30, 2009, $441 million and $353 million, respectively, of the net intangibles balance were related to the U.S. segment. As of December 31, 2008 and June 30, 2009, $45 million and $43 million, respectively, of the net intangibles balance were related to the International segment.

For the three months ended June 30, 2008 and 2009, the Company recognized amortization expense for intangible assets of $77 million and $59 million, respectively, including $54 million in cost of revenues for the three months ended June 30, 2008 and $50 million in cost of revenues for the three months ended June 30, 2009. For the six months ended June 30, 2008 and 2009, the Company recognized amortization expense for intangible assets of $147 million and $106 million, respectively, including $100 million in cost of revenues for the six months ended June 30, 2008 and $87 million for the six months ended June 30, 2009. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2009 and each of the succeeding years is as follows: six months ending December 31, 2009: $77 million; 2010: $119 million; 2011: $88 million; 2012: $56 million; 2013: $24 million; 2014: $11 million; and cumulatively thereafter: $4 million.

Note 6 OTHER INCOME, NET

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Interest and investment income	$21,741	$ 4,640	$44,908	$11,488
Investment gains, net	1,980	6	824	96
Gains/(losses) on sales of marketable equity securities	—	66,684	(1,054)	66,684
Other	862	680	(5,430)	(1,298)
Total other income, net	$24,583	$72,010	$39,248	$76,970

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

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

Gains/losses on sales of marketable equity securities include gains/losses from sales of publicly traded companies. In May 2009, the Company tendered all of its Gmarket shares for net proceeds of $120 million. The Company recorded a pre-tax gain of $67 million ($40 million after tax).

Other consists mainly of imputed interest related to the adoption of FSP APB 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1") and foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies. See Note 9 — "Debt" for additional information related to the adoption of FSP APB 14-1.

Note 7 COMPREHENSIVE INCOME

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Net income	$132,375	$143,040	$669,140	$261,735
Change in net unrealized gains/(losses) on available-for-sale securities, net of tax and reclassification adjustments	1,115	(7,073)	(1,247)	(7,401)
Foreign currency translation adjustments	107,351	15,653	238,783	97,769
Other comprehensive income	108,466	8,580	237,536	90,368
Comprehensive income	240,841	151,620	906,676	352,103
Less: Comprehensive income attributable to noncontrolling interests	(1,214)	(1,653)	(1,139)	(2,790)
Comprehensive income attributable to Yahoo! Inc.	$239,627	$149,967	$905,537	$349,313

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

	December 31, 2008	June 30, 2009
Unrealized gain/(loss) on available-for-sale securities, net of tax	$ 6,857	$ (544)
Foreign currency translation, net of tax	113,419	211,188
Accumulated other comprehensive income	$ 120,276	$210,644

Note 8 INVESTMENTS

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

	December 31, 2008			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 935,025	$ 1,602	$ —	$ 936,627
Municipal bonds	47,687	55	—	47,742
Corporate debt securities	247,554	739	(2,985)	245,308
Corporate equity securities(*)	68,745	17,884	—	86,629
Total investments in available-for-sale securities	$1,299,011	$ 20,280	$ (2,985)	$1,316,306

	June 30, 2009			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$1,234,104	$ 750	$ (25)	$1,234,829
Municipal bonds	525,622	741	(35)	526,328
Corporate debt securities and commercial paper	152,476	422	(692)	152,206
Total investments in available-for-sale securities	$1,912,202	$ 1,913	$ (752)	$1,913,363

Reported as:

	December 31, 2008	June 30, 2009
Short-term marketable debt securities	$1,159,691	$1,594,226
Long-term marketable debt securities	69,986	319,137
Other assets(*)	86,629	—
Total	$1,316,306	$1,913,363

(*) These balances included the Company's investment in Gmarket as part of other long-term assets in the condensed consolidated balance sheet at December 31, 2008 and disposed of in May 2009.

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial for both 2008 and the six months ended June 30, 2009 as the carrying value approximates fair value because of the short maturity of those instruments.

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

	December 31, 2008	June 30, 2009
Due within one year	$1,159,691	$1,594,226
Due after one year through five years	69,986	319,137
Total available-for-sale marketable debt securities	$1,229,677	$1,913,363

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, 2008					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Total investments in available-for-sale securities(*)	$72,585	$ (2,521)	$18,640	$ (464)	$91,225	$ (2,985)

(*) Consists of corporate debt securities.

	June 30, 2009					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	$127,118	$ (25)	$ —	$ —	$127,118	$ (25)
Municipal bonds	114,581	(35)	—	—	114,581	(35)
Corporate debt securities	47,797	(10)	20,897	(682)	68,694	(692)
Total investments in available-for-sale securities	$289,496	$ (70)	$20,897	$ (682)	$310,393	$ (752)

The Company's investment portfolio consists of liquid government, agency, municipal, and high-quality fixed-income corporate securities. 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 requirement and no current intent to sell these securities. The Company expects to recover up to (or beyond) the initial cost of investment.

SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements by establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Basis of Fair Value Measurement

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The following table sets forth the financial assets, measured at fair value as of June 30, 2009 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Total
Money market funds(*)	$ 1,043,069	$ —	$ 1,043,069
Available for sale securities:(*)			
U.S. Government and agency securities	—	1,719,899	1,719,899
Municipal bonds	—	536,591	536,591
Commercial paper	—	171,570	171,570
Corporate debt securities	—	70,495	70,495
Total assets at fair value	$ 1,043,069	$ 2,498,555	$ 3,541,624

(*) The money market funds, U.S. government and agency securities, municipal bonds, commercial paper, 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.

The amount of cash and cash equivalents as of June 30, 2009 includes $655 million in cash deposited with commercial banks.

The fair value of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair value of the Company's Level 2 financial assets are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. As of June 30, 2009, the Company did not have any significant Level 3 financial assets or liabilities.

Note 9 DEBT

In April 2003, the Company issued $750 million of the Notes due April 1, 2008, resulting in net proceeds to the Company of approximately $733 million after transaction fees of $17 million, which had been deferred and were included on the condensed consolidated balance sheets in prepaid expense and other current assets. As of March 31, 2008, the transaction fees were fully amortized. The Notes were issued at par, did not bear interest, and were convertible into shares of the Company's common stock. Upon conversion, the Company had the right to deliver cash in lieu of common stock.

During the three months ended March 31, 2008, $167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to the holders of the Notes. On the maturity date of April 1, 2008, the remaining $583 million of the Notes were converted and 28.5 million shares of Yahoo! common stock were issued to the holders of the Notes.

Effective January 1, 2009, the Company adopted FSP APB 14-1 and accordingly prior periods have been restated. For convertible debt instruments within the scope of FSP APB 14-1, the proceeds from the instrument's issuance must be allocated between the liability and equity components in a manner that reflects interest cost based upon the Company's borrowing rate at the date of issuance of the convertible debt for a similar debt instrument without the debt conversion feature. The borrowing rate was estimated to be 5 percent for the liability component of the Notes. This effective interest rate was used to calculate the fair value of the Notes using a present value approach and the accretion of interest expense over the life of the Notes.

Upon adoption of FSP APB 14-1, the Company recorded the change in accounting principle as a cumulative effect adjustment to the opening balance of retained earnings as of January 1, 2007 totaling $69 million which represented imputed interest, net of taxes, for the period from issuance to January 1, 2007. The corresponding increase in additional paid-in capital as of January 1, 2007 was $95 million. Imputed interest, which is net of $66 million in taxes, recorded over the life of the Notes resulted in a reduction in retained earnings of $95 million and a corresponding increase in additional paid-in capital of $95 million as of the maturity date.

The interest expense imputed for the three and six months ended June 30, 2008 was nil and $9 million, respectively, which is included in other income, net on the condensed consolidated statements of income. There was no impact on basic net income per share for the three months ended June 30, 2008. The impact on basic net income per share for the six months ended June 30, 2008 was $0.01. See Note 2 — "Basic and Diluted Net Income per Share Attributable to Yahoo! Inc. Common Stockholders" for additional information.

Note 10 STOCK-BASED COMPENSATION

1995 Stock Plan. The Company's Board of Directors previously adopted an amended and restated version of the Yahoo! Inc. 1995 Stock Plan (the "Restated 1995 Plan"), subject to approval of the amendments by the Company's stockholders. At the Company's annual meeting of stockholders held on June 25, 2009, the Company's stockholders approved the Restated 1995 Plan. Among other things, the Restated 1995 Plan reflects amendments to (i) increase the number of shares of the Company's common stock available for award grants under the Restated 1995 Plan by 50,000,000 shares (so that a maximum of 754,000,000 shares of the Company's common stock may be issued or delivered pursuant to awards granted under the Restated 1995 Plan); (ii) change the share-counting provisions so that each share issued in respect of restricted stock and other "full-value" awards under the Restated 1995 Plan will count as 1.75 shares against the share limits; (iii) extend the Company's ability to grant new awards under the Restated 1995 Plan until April 2, 2019; and (iv) extend the Company's authority to grant awards under the Restated 1995 Plan intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the U.S. Internal Revenue Code through the 2014 annual meeting of stockholders as well as to grant such performance-based awards that would be payable only in cash and to approve the performance criteria listed in Appendix A to the Restated 1995 Plan for use in connection with such performance-based awards.

1996 Employee Stock Purchase Plan. The Company's Board of Directors previously approved an amended and restated version of the Company's 1996 Employee Stock Purchase Plan (the "Restated Purchase Plan"), subject to approval of the amendments by the Company's stockholders. At the Company's annual meeting of stockholders held on June 25, 2009, the Company's stockholders approved the Restated Purchase Plan. Among other things, the Restated Purchase Plan reflects amendments to (i) increase the number of shares authorized for issuance under the Restated Purchase Plan by 30,000,000 shares (so that the maximum aggregate number of shares that may be issued under the Restated Purchase Plan would increase to 75,000,000 shares); and (ii) extend the term of the Restated Purchase Plan so that no new offering period would commence after May 10, 2029. The weighted average exercise price in connection with the May 2009 purchase was $10.09 per share. As of June 30, 2009, there was $49 million of unamortized stock-based compensation costs related to the Restated Purchase Plan which will be recognized over a weighted average period of 1.1 years.

Stock Options. The Company's Restated 1995 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 and the Directors' Plan for the six months ended June 30, 2009 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2008	135,442	$ 30.10
Options granted	26,396	$ 12.44
Options exercised(*)	(2,932)	$ 8.01
Options expired	(14,382)	$ 36.12
Options cancelled/forfeited	(7,888)	$ 26.44
Outstanding at June 30, 2009	136,636	$ 26.76

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

As of June 30, 2009, there was $285 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.4 years.

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

	Stock Options		Purchase Plan	
	Three Months Ended		Three Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	3.1%	2.0%	2.9%	3.3%
Expected volatility	37.5%	48.4%	33.1%	52.5%
Expected life (in years)	4.00	4.00	1.15	1.50

	Stock Options Six Months Ended		Purchase Plan Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.7%	1.8%	2.9%	2.9%
Expected volatility	34.4%	52.8%	33.1%	62.1%
Expected life (in years)	3.94	4.00	1.15	1.32

Restricted stock awards and restricted stock units activity for the six months ended June 30, 2009 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2008	31,133	$ 27.97
Granted(*)	15,721	$ 12.51
Vested	(5,825)	$ 30.43
Forfeited	(4,641)	$ 24.98
Unvested at June 30, 2009	36,388	$ 21.28

(*) The Company has included the maximum number of shares issuable under the Company's performance-based executive incentive restricted stock units.

During the six months ended June 30, 2009, 5.8 million previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled. The Company withheld 2 million shares based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were $27 million for the six months ended June 30, 2009 and are reflected as a financing activity within the condensed consolidated statements of cash flows. Upon the vesting of shares of certain restricted stock awards, 0.2 million shares were reacquired by the Company to satisfy the related tax withholding obligations and $2 million was recorded as treasury stock. Payments of $25 million related to the net share settlement of 2 million shares of restricted stock units 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.

During the six months ended June 30, 2008, 6 million previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld of approximately 2 million were based on the value of the restricted stock awards on their vesting date as determined by the Company's closing stock price.

Total payments for the employees' tax obligations to the relevant taxing authorities were $57 million for the six months ended June 30, 2008 and are reflected as a financing activity within the condensed consolidated statements of cash flows. Upon the vesting of shares of certain restricted stock awards, 0.7 million shares were reacquired by the Company to satisfy the tax withholding obligations and $20 million was recorded as treasury stock. Payments of $37 million related to net share settlements of restricted stock units had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued as a result of the vesting and were recorded as a reduction of additional paid-in-capital.

As of June 30, 2009, there was $329 million of unrecognized stock-based compensation cost related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.3 years.

CEO Inducement Option and Make-up Equity. On January 30, 2009, Carol Bartz, the Company's Chief Executive Officer, was granted a stock option covering 5.0 million shares of the Company's common stock, with a per share exercise price of $11.73 (the closing price of the common stock on the grant date) and a maximum term of seven years ("Inducement Option"). Vesting of the Inducement Option is dependent on whether the average closing price for the Company's common stock for twenty consecutive trading days prior to January 1, 2013 (or the price immediately preceding a change in control of the Company if it occurs pursuant to an agreement signed before that date) exceeds certain levels that range from 150 percent to 300 percent ($17.60 to $35.19) of Yahoo!'s closing stock price on the date of grant of the Inducement Option. Any shares acquired by Ms. Bartz upon exercise of the Inducement Option must be held until January 1, 2013, except in the event of her death or a change in control. The Company determined the grant-date fair value of the Inducement Option to be $27 million and the weighted average derived requisite service period of the award to be 1.2 years. The grant-date fair value of the Inducement Option will be expensed over the weighted average derived requisite service period.

In addition, to compensate Ms. Bartz for the forfeiture of the value of equity grants and post-employment medical coverage from her previous employer, the Company granted Ms. Bartz an award comprised of $2.5 million in cash and restricted stock with a grant-date fair value of $7.5 million, which will vest in four equal quarterly installments in 2009 (the "Make-Up Grant"). The Make-Up Grant is subject to certain clawback provisions in the event of a termination of Ms. Bartz's employment by the Company for cause or by Ms. Bartz without good reason (as those terms are defined in her employment agreement) during the term of the employment agreement. The value of the Make-Up Grant will be expensed ratably through 2009.

Performance-Based Executive Incentive Restricted Stock Units. In February 2009, the Compensation Committee approved long-term performance-based incentive equity awards to Ms. Bartz and other senior officers, including two types of restricted stock units that vest based on the Company's achievement of certain performance goals. The first type of restricted stock unit generally will vest on the third anniversary of the grant date based on the Company's attainment of certain annual operating cash flow targets as well as the executive's continued employment through that vesting date. The second type of restricted stock unit generally will vest following the third anniversary of the grant date based on the Company's attainment of certain levels of total stockholder return relative to the returns for the NASDAQ 100 Index companies as well as the executive's continued employment through that vesting date. For both types of restricted stock units, the number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the applicable performance target. The amount of stock-based compensation recorded for the first type of restricted stock unit will vary depending on the Company's attainment of the operating cash flow target and the completion of the service period. The amount of stock-based compensation recorded for the second type of restricted stock unit will vary depending only on the completion of the service period. The aggregate fair value of these two types of restricted stock units on the date of grant of $3 million and $13 million, respectively, will be recognized over the three-year service periods.

Treasury Shares. Retirement of treasury stock is recorded as a reduction of common stock, additional paid-in-capital, and retained earnings, as applicable. As of May 31, 2009, the Company's Board of Directors approved the retirement of approximately 209 million treasury shares, resulting in reductions of $0.2 million in common stock, $1.5 billion in additional paid-in-capital, and $3.8 billion in retained earnings.

Note 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating lease agreements with original lease periods of up to 23 years, expiring between 2009 and 2027.

A summary of gross and net lease commitments as of June 30, 2009 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Six months ending December 31, 2009	$ 82	$ (2)	$ 80
Years ending December 31,			
2010	145	(2)	143
2011	120	(2)	118
2012	102	(1)	101
2013	92	—	92
2014	84	—	84
Due after 5 years	230	—	230
Total gross and net lease commitments	$ 855	$ (7)	$ 848

	Capital Lease Commitment
Six months ending December 31, 2009	$ 3
Years ending December 31,	
2010	7
2011	7
2012	7
2013	8
2014	8
Due after 5 years	39
Gross lease commitment	$ 79
Less: interest	(36)
Net lease commitment	$ 43

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs ("TAC"), to its Affiliates. As of June 30, 2009, these commitments totaled $220 million, of which $60 million will be payable in the remainder of 2009, $131 million will be payable in 2010, and $29 million will be payable in 2011.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to $47 million through 2023.

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

As of June 30, 2009, 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.

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, auction sites, shopping services, and other communications and community features.

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label ("BMG"), Capitol Records, Inc., Virgin Records America, Inc., Sony Music Entertainment, Inc., UMG Recordings, Inc., Interscope Records, Motown Record Company, L.P., and Zomba Recording Corporation filed a lawsuit alleging copyright infringement against LAUNCH Media, Inc. ("LAUNCH") in the U.S. District Court for the Southern District of New York seeking declaratory and injunctive relief and damages. The plaintiffs alleged, among other things, that the consumer-influenced portion of LAUNCH's LAUNCHcast service is "interactive" within the meaning of Section 114 of the Copyright Act and therefore does not qualify for the compulsory license provided for by the Copyright Act. Yahoo! acquired LAUNCH in August 2001. This lawsuit was settled with all plaintiffs, other than BMG. On April 27, 2007, after a two week jury trial, the jury returned a unanimous verdict in favor of LAUNCH finding no liability. On March 17, 2009, the U.S. Court of Appeals for the Second Circuit heard BMG's appeal of the trial verdict. The Company is awaiting a decision on the appeal.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court for the Southern District of New York against certain underwriters involved in Overture Services Inc.'s ("Overture") IPO, Overture, and certain of Overture's former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the "Exchange Act") involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted IPOs of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 1, 2009, the parties filed a motion with the Court for preliminary approval of a stipulated global settlement. On June 10, 2009, the Court entered an order granting preliminary approval of the settlement, ordered that notice be given to the class members, and scheduled the final approval hearing for September 10, 2009.

In May 2007, two purported class actions were commenced by plaintiffs Ellen Brodsky and Manfred Hacker, asserting claims arising under the federal securities laws against the Company and certain individual defendants. These actions were ordered consolidated in the U.S. District Court for the Central District of California, and on December 21, 2007, a Consolidated Amended Complaint was filed against Yahoo! and certain individual defendants, including current and former officers and a former director and officer. Plaintiffs purport to represent a class of persons who purchased the Company's common stock between April 8, 2004 and July 18, 2006. Plaintiffs allege that defendants engaged in a scheme to inflate the Company's stock price by making false and misleading statements regarding the Company's operations, financial results, and future business prospects in violation of Section 10(b) of the Exchange Act and SEC Rule 10b-5. Plaintiffs also allege that the individual defendants engaged in insider trading in violation of Section 20(A) of the Exchange Act, and as control persons are subject to liability under Section 20(A) of the Exchange Act. Plaintiffs seek compensatory damages, injunctive relief, disgorgement of alleged insider trading proceeds, and other equitable relief. On March 10, 2008, the Court granted defendants' motion to transfer the action to the U.S. District Court for the Northern District of California. Plaintiffs filed their Second Amended Consolidated Complaint on December 19, 2008. On June 18, 2009, the Court granted defendants' motion to dismiss and entered judgment on the merits, dismissing the Second Amended Consolidated Complaint without leave to amend.

On June 14, 2007, a stockholder derivative action was filed in the U.S. District Court for the Central District of California by Jill Watkins against members of the Board and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in the Brodsky/Hacker class action litigation, and violation of Section 10(b) of the Exchange Act. Watkins agreed to coordinate her action with the federal class action litigation involving plaintiffs Brodsky/Hacker. The action was transferred to the U.S. District Court for the Northern District of California on April 29, 2008. On June 18, 2009, the Court granted leave to the plaintiff Watkins to file an amended complaint and ordered that the amended complaint be filed forthwith. On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had previously substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a shareholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment.

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

Table of Contents

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

Note 12 SEGMENTS

The Company manages its business geographically. The primary areas of measurement and decision-making are the U.S. and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources.

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Revenues by segment:				
United States	$1,262,191	$1,152,393	$2,567,531	$2,340,323
International	535,894	420,504	1,048,156	812,616
Total revenues	$1,798,085	$1,572,897	$3,615,687	$3,152,939
Segment operating income before depreciation, amortization, and stock-based compensation expense:				
United States	$ 295,537	$ 268,205	$ 608,630	$ 560,937
International	131,509	117,239	251,549	233,485
Total segment operating income before depreciation, amortization, and stock-based compensation expense	427,046	385,444	860,179	794,422
Depreciation and amortization	(203,357)	(204,765)	(390,868)	(386,338)
Stock-based compensation expense	(123,168)	(104,926)	(248,173)	(231,646)
Income from operations	$ 100,521	$ 75,753	$ 221,138	$ 176,438
Capital expenditures, net:				
United States	$ 152,731	$ 84,553	$ 276,199	$ 141,918
International	23,166	10,121	39,491	23,237
Total capital expenditures, net	$ 175,897	$ 94,674	$ 315,690	$ 165,155

	December 31, 2008	June 30, 2009
Property and equipment, net:		
United States	$1,396,031	$1,303,621
International	140,150	126,756
Total property and equipment, net	$1,536,181	$1,430,377

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Marketing services:				
Owned and Operated sites	$1,015,688	$ 858,160	$1,981,328	$1,730,063
Affiliate sites	571,268	519,690	1,178,072	1,030,968
Marketing services	1,586,956	1,377,850	3,159,400	2,761,031
Fees	211,129	195,047	456,287	391,908
Total revenues	$1,798,085	$1,572,897	$3,615,687	$3,152,939

Note 13 INCOME TAXES

The effective tax rates for the three and six months ended June 30, 2009 were 47 percent and 41 percent, respectively, compared to 38 percent and 39 percent for the same periods in 2008. The effective tax rates for the three and six months ended June 30, 2009 differ from the statutory federal income tax rate of 35 percent primarily due to state taxes, the effect of non-U.S. operations and non-deductible stock-based compensation expense. The effective tax rate for the six months ended June 30, 2009 was also impacted by a one-time tax benefit related to a California state tax law change that was enacted in the first quarter.

The Company's total amount of unrecognized tax benefits as of June 30, 2009 is $801 million, of which $363 million is recorded as deferred and other long-term tax liabilities, net on the condensed consolidated balance sheet. The total unrecognized tax benefits as of June 30, 2009 increased by $3 million from the balance as of December 31, 2008.

On May 27, 2009, the United States Court of Appeals for the Ninth Circuit Court issued its ruling in the case of *Xilinx Inc. v. Commissioner*, holding that stock-based compensation expense is required to be included in certain transfer pricing arrangements between a U.S. company and its offshore subsidiaries. The Company believes it has adequately provided for the impact of the Xilinx ruling as well as for any potential adjustments that may result from tax audits. However, the final outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

The Company's federal and California income tax returns for the years ended December 31, 2005 and 2006 are currently under examination by the Internal Revenue Service and the California Franchise Tax Board.

Note 14 RESTRUCTURING CHARGES, NET

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Employee severance pay and related costs	$ —	$30,389	$ 29,169	$32,198
Non-cancelable lease, contract termination, and other charges	—	42,213	—	45,205
Sub-total before reversal of stock-based compensation expense	—	72,602	29,169	77,403
Reversal of stock-based compensation expense for forfeitures	—	(7,600)	(12,284)	(7,600)
Restructuring charges, net	$ —	$65,002	$ 16,885	$69,803

Q108 Restructuring Plan. During the three months ended March 31, 2008, the Company implemented a strategic workforce realignment to more appropriately allocate resources to its key strategic initiatives. The Company incurred total pre-tax cash charges of nil and approximately $29 million in severance pay expenses and related cash expenses during the three and six months ended June 30, 2008, respectively, in connection with this workforce realignment. The pre-tax cash charges were offset by a $12 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. The strategic workforce realignment was completed during the fourth quarter of 2008. Of the $17 million restructuring charges, net recorded in the six months ended June 30, 2008, $13 million was related to the U.S. segment and $4 million was related to the International segment.

Q408 Restructuring Plan. During the three months ended December 31, 2008, the Company implemented additional cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. The Company incurred charges for severance benefits provided and facilities vacated of $42 million and $47 million during the three and six months ended June 30, 2009, respectively, in connection with the continued implementation of these initiatives. The charge for the three months ended June 30, 2009 included approximately $11 million relating to the change in estimates for sublease income assumptions for facilities which were exited in prior periods, as well as $7 million relating to the write off of leasehold improvements, furniture and fixed assets relating to exited facilities. Net charges under the Q408 restructuring plan relating to the U.S. segment were $40 million and $46 million for the three and six months ended June 30, 2009, respectively. Net charges under the Q408 restructuring plan relating to the International segment were $2 million and $1 million for the three and six months ended June 30, 2009, respectively.

Q209 Restructuring Plan. During the three months ended June 30, 2009, the Company implemented new cost initiatives to further reduce the Company's worldwide workforce by approximately 5 percent. The Company incurred total pre-tax cash charges of approximately $31 million in severance and other related costs during the three months ended June 30, 2009. The pre-tax cash charges were offset by an $8 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the $23 million restructuring charges, net recorded in the three months ended June 30, 2009, $15 million related to the U.S. segment and $8 million related to the International segment.

Restructuring Accruals. As of June 30, 2009, the aggregate outstanding restructuring liability with respect to the cost reduction initiatives was $86 million, of which $30 million relates to employee severance pay expenses which the Company expects to substantially pay out by the end of fiscal year 2009, and $56 million relates to non-cancelable lease costs which the Company expects to pay over the terms of the related obligations which extend to the end of fiscal year 2017.

The activity in the Company's restructuring accruals as of June 30, 2009 is summarized as follows (in thousands):

	Q408 Restructuring Plan	Q209 Restructuring Plan	Total
Balance as of January 1, 2009	$ 89,887	$ —	$ 89,887
Employee severance pay and related costs	4,532	30,447	34,979
Reversal of stock-based compensation expense	—	(7,600)	(7,600)
Non-cancelable lease, contract termination, and other charges(*)	39,251	—	39,251
Write-off of leasehold improvements, furniture, and fixed assets	7,024	—	7,024
Reversal of previous charges	(3,851)	—	(3,851)
Restructuring charges, net for the six months ended June 30, 2009	$ 46,956	$ 22,847	$ 69,803
Cash paid	(70,711)	(11,211)	(81,922)
Non-cash reversal of stock-based compensation expense	—	7,600	7,600
Non-cash adjustments	180	427	607
Balance as of June 30, 2009	$ 66,312	$ 19,663	$ 85,975

(*) Includes $1 million in professional services relating to the restructuring

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

	December 31, 2008	June 30, 2009
United States	$ 68,410	$ 65,873
International	21,477	20,102
Total restructuring accruals	$ 89,887	$ 85,975

Note 15 SUBSEQUENT EVENTS

On July 29, 2009, Yahoo! entered into a binding letter agreement with Microsoft Corporation ("Microsoft") under which Microsoft will be Yahoo!'s exclusive technology provider for algorithmic and paid search services and Yahoo! will become the exclusive worldwide relationship sales force for both companies' premium search advertisers. During the 10-year term of the agreement, Yahoo! will be entitled to receive revenue sharing payments based on the net revenues generated from Microsoft's services on Yahoo! Properties and Affiliate sites. Microsoft will acquire an exclusive 10-year license to Yahoo!'s core search technology and will have the ability to integrate Yahoo! search technology into its existing Web search platforms. The agreement does not cover either company's Web properties and products, email, instant messaging, display advertising, or any other aspect of the companies' businesses, and the companies will continue to compete in those areas. The transaction will be subject to regulatory review.

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

Forward-Looking Statements

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

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

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

Overview

Yahoo! Inc., together with its consolidated subsidiaries ("our," "we," or "us"), is a leading global consumer brand and one of the most trafficked Internet destinations worldwide. Yahoo! is where millions of people go every day to see what is happening with the people and things that matter to them most. Yahoo! helps marketers reach our audience with its unique and compelling advertiser proposition.

Together with our owned and operated online properties and services ("Yahoo! Properties" or "Owned and Operated sites"), we provide our advertising offerings and access to Internet users beyond Yahoo! through our distribution network of third-party entities ("Affiliates"), who have integrated our advertising offerings into their Websites, referred to as Affiliate sites, or their other offerings. We generate revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of the services we provide to our users are free, we do charge fees for a range of premium services.

We provide a range of marketing services that are designed to make it easier and more effective for advertisers and marketers to reach and connect with users who visit Yahoo! Properties and our Affiliate sites. We believe that our marketing services enable advertisers to deliver highly relevant marketing messages to their target audiences.

Our offerings to users on Yahoo! Properties currently fall into six categories: Front Doors, Communities, Search, Communications, Audience, and Connected Life. The majority of our offerings are available in more than 30 languages. We manage and measure our business geographically, principally the United States ("U.S.") and International.

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

Second Quarter Results

Operating Results	Three Months Ended June 30, 2008	Three Months Ended June 30, 2009	Dollar Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009	Dollar Change
			(In thousands)			
Revenues	$1,798,085	$1,572,897	$(225,188)	$3,615,687	$3,152,939	$(462,748)
Income from operations	$ 100,521	$ 75,753	$ (24,768)	$ 221,138	$ 176,438	$ (44,700)

Cash Flow Results	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009	Dollar Change
		(In thousands)	
Net cash provided by operating activities	$1,212,143	$ 604,143	$(608,000)
Net cash used in investing activities	$ (873,525)	$(744,615)	$ 128,910
Net cash provided by financing activities	$ 181,523	$ 111,620	$ (69,903)

Our revenue decline of 13 percent for both the three and six months ended June 30, 2009 compared to the same periods in 2008 can be attributed to a reduction in our marketing services revenues primarily due to the economic environment and the impact of foreign currency rate fluctuations. Marketing services experienced 13 percent year over year declines for both periods. The declines in income from operations reflect decreases in revenues partially offset by decreases in operating expenses of $147 million and $310 million for the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The decreases in operating expenses are primarily due to our cost reduction initiatives.

During the three months ended June 30, 2009, we tendered all of our shares of Gmarket for net proceeds of $120 million and recorded a pre-tax gain of $67 million ($40 million after-tax).

During the three months ended June 30, 2009, we implemented a new cost initiative to further reduce our worldwide workforce. For the three months ended June 30, 2009, we incurred a net pre-tax expense of $23 million related to this initiative and a net pre-tax expense of $42 million related to the Q408 restructuring plan.

Cash generated from our operations is a measure of the cash productivity of our business model. Our operating activities in the six months ended June 30, 2009 generated adequate cash to meet our operating needs. Cash used in investing activities in the six months ended June 30, 2009 included capital expenditures of $165 million and net purchases of marketable debt securities of $678 million, which were offset by proceeds from sales of marketable equity securities of $120 million. Net cash provided by operating activities during the six months ended June 30, 2008 includes a $350 million one-time payment related to a commercial arrangement entered into with AT&T Inc. No similar payments were received during the six months ended June 30, 2009.

On July 29, 2009, Yahoo! entered into a binding letter agreement with Microsoft Corporation under which Microsoft will be Yahoo!'s exclusive technology provider for algorithmic and paid search services and Yahoo! will become the exclusive worldwide relationship sales force for both companies' premium search advertisers. During the 10-year term of the agreement, Yahoo! will be entitled to receive revenue sharing payments based on the net revenues generated from Microsoft's services on Yahoo! Properties and Affiliate sites. Microsoft will acquire an exclusive 10-year license to Yahoo!'s core search technology and will have the ability to integrate Yahoo! search technology into its existing Web search platforms. The agreement does not cover either company's Web properties and products, email, instant messaging, display advertising, or any other aspect of the companies' businesses, and the companies will continue to compete in those areas. The transaction will be subject to regulatory review.

Results of Operations

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

	Three Months Ended June 30, 2008	(*)	Three Months Ended June 30, 2009	(*)	Percent Change	Six Months Ended June 30, 2008	(*)	Six Months Ended June 30, 2009	(*)	Percent Change
Marketing services:										
Owned and Operated sites	$1,015,688	56%	$ 858,160	55%	(16)%	$1,981,328	55%	$1,730,063	55%	(13)%
Affiliate sites	571,268	32%	519,690	33%	(9)%	1,178,072	32%	1,030,968	33%	(12)%
Marketing services	1,586,956	88%	1,377,850	88%	(13)%	3,159,400	87%	2,761,031	88%	(13)%
Fees	211,129	12%	195,047	12%	(8)%	456,287	13%	391,908	12%	(14)%
Total revenues	$1,798,085	100%	$1,572,897	100%	(13)%	$3,615,687	100%	$3,152,939	100%	(13)%

(*) Percent of total revenues.

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

We currently expect revenues to decrease for the three months ending September 30, 2009 compared to the three months ended September 30, 2008 due primarily to the economic environment. Adverse economic conditions have caused some advertisers to spend less on online advertising which could negatively affect the growth rate of our revenues, particularly our display revenues as advertisers spend less on brand advertising. In addition, fluctuation of the U.S. Dollar against other currencies could have a negative impact on our international revenues.

Marketing Services Revenues from Owned and Operated Sites. Marketing services revenues from Owned and Operated sites for the three and six months ended June 30, 2009 decreased by 16 percent and 13 percent, respectively, as compared to the same periods in 2008. The primary components of our marketing services revenues from Owned and Operated sites are search and display advertising. For the three months ended June 30, 2009, revenues from search advertising and display advertising on Owned and Operated sites declined 15 percent and 14 percent, respectively, compared to the same period in 2008. For the six months ended June 30, 2009, revenues from search and display advertising on Owned and Operated sites declined 9 percent and 13 percent, respectively, compared to the same period in 2008. We believe the decline in overall marketing services revenues was mainly due to the economic environment and the effects of foreign currency exchange rate fluctuations.

Although increased user activity levels on Yahoo! Properties has contributed to a higher volume of search queries, Page Views, and advertising impression displays, lower advertising spending and a shift to lower yielding inventory in both search and display advertising has resulted in decreased revenues.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views to more accurately reflect the total number of Web pages viewed by users on Yahoo! Properties. Based on this process, from time to time we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to our Owned and Operated sites. For the three and six months ended June 30, 2009, Page Views increased 7 percent and revenue per Page View decreased 21 percent and 18 percent, respectively. The decline in revenue per Page View was due to the decline in revenues from the factors discussed above.

Marketing Services Revenues from Affiliate sites. Marketing services revenues from Affiliate sites for the three and six months ended June 30, 2009 decreased 9 percent and 12 percent, respectively, as compared to the same periods in 2008. The number of searches on Affiliate sites increased by approximately 27 percent and 32 percent, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. Although increased traffic has contributed to a higher volume of search queries on our Affiliate network, lower advertising spending, a shift to lower yielding inventory, and our network quality initiatives have resulted in decreased revenues. The average revenue per search on our Affiliate sites decreased by 28 percent and 34 percent for the three and six months ended June 30, 2009, respectively, as compared to the same periods in 2008.

Fees Revenues. Our fees revenues include premium fee-based services such as Internet broadband services, sports, music, photos, games, personals, premium e-mail offerings, and services for small businesses. Other fee-based revenues include royalties, licenses, and mobile services.

Fees revenues for the three and six months ended June 30, 2009 decreased 8 percent and 14 percent, respectively, as compared to the same periods in 2008. The decrease in fees revenues for the three and six months ended June 30, 2009 can be primarily attributed to changes in certain of our broadband access partnerships, from being fee-paying user based to an advertising revenue sharing model, as well as our outsourcing of the voice over internet protocol, or VOIP, and subscription music businesses.

As used in this discussion, “fee-paying users” is based on the total number of fee-based subscriptions aggregated from each Yahoo! Property. To calculate the average revenue per fee-paying user, we divide the revenue generated from the subscriptions by the average fee-paying users during the quarter.

The number of fee-paying users for our fee-based services decreased to 8.6 million as of June 30, 2009 compared to 10.2 million as of June 30, 2008, a decrease of 16 percent as a result of the business model changes described above. Average monthly revenues per fee-paying user was approximately $3.50 and $4 for the three and six months ended June 30, 2009, respectively, compared to approximately $4 for the same periods in 2008. Average monthly revenues per fee-paying user declined for the three months ended June 30, 2009 and remained relatively flat for the six months ended June 30, 2009 compared to the same periods in 2008 due to the change in the mix of fee-based subscribers, primarily due to the outsourcing of various services discussed above.

Table of Contents

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

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

	Three Months Ended June 30,				Percent	Dollar
	2008	(*)	2009	(*)	Change	Change
Cost of revenues	$765,911	43%	$712,453	45%	(7)%	$ (53,458)
Sales and marketing	$404,899	23%	$280,386	18%	(31)%	$(124,513)
Product development	$314,719	17%	$291,398	19%	(7)%	$ (23,321)
General and administrative	$188,811	10%	$138,652	9%	(27)%	$ (50,159)
Amortization of intangibles	$ 23,224	1%	$ 9,253	1%	(60)%	$ (13,971)
Restructuring charges, net	$ —	—	$ 65,002	4%	100%	$ 65,002

	Six Months Ended June 30,				Percent	Dollar
	2008	(*)	2009	(*)	Change	Change
Cost of revenues	$1,520,994	42%	$1,413,190	45%	(7)%	$(107,804)
Sales and marketing	$ 829,490	23%	$ 601,498	19%	(27)%	$(227,992)
Product development	$ 620,325	17%	$ 597,441	19%	(4)%	$ (22,884)
General and administrative	$ 359,891	10%	$ 275,649	9%	(23)%	$ (84,242)
Amortization of intangibles	$ 46,964	1%	$ 18,920	1%	(60)%	$ (28,044)
Restructuring charges, net	$ 16,885	1%	$ 69,803	2%	313%	$ 52,918

(*) Percent of total revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Cost of revenues	$ 3,549	$ 2,663	$ 6,829	$ 6,242
Sales and marketing	56,306	35,651	121,844	85,548
Product development	46,442	51,647	94,524	105,925
General and administrative	16,871	22,565	37,260	41,531
Restructuring expense reversal, nets	—	(7,600)	(12,284)	(7,600)
Total stock-based compensation expense	$ 123,168	$ 104,926	$ 248,173	$ 231,646

For additional information about stock-based compensation see Note 10 — "Stock-Based Compensation" in the Notes to the condensed consolidated financial statements elsewhere in this quarterly report as well as "Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2008 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

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

The changes in operating costs and expenses for the three months ended June 30, 2009 compared to the three months ended June 30, 2008 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	Facilities	TAC	Other	Total
Cost of revenues	$ (5,732)	$ (12,135)	$ (692)	$(2,212)	$(15,565)	$(17,122)	$ (53,458)
Sales and marketing	(75,900)	507	799	(4,552)	—	(45,367)	(124,513)
Product development	(22,511)	(2,630)	9,857	(106)	—	(7,931)	(23,321)
General and administrative	(14,693)	537	(1,612)	370	—	(34,761)	(50,159)
Amortization of intangibles	—	—	(13,971)	—	—	—	(13,971)
Restructuring charges, net	—	—	—	—	—	65,002	65,002
Total	$ (118,836)	$ (13,721)	$ (5,619)	$(6,500)	$(15,565)	$(40,179)	$(200,420)

The changes in operating costs and expenses for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	Facilities	TAC	Other	Total
Cost of revenues	$ (3,925)	$ (12,398)	$ 822	$(2,046)	$(57,314)	$ (32,943)	$(107,804)
Sales and marketing	(129,855)	621	774	(8,278)	—	(91,254)	(227,992)
Product development	(22,905)	(6,357)	16,913	(1,175)	—	(9,360)	(22,884)
General and administrative	(33,162)	(266)	(2,022)	1,578	—	(50,370)	(84,242)
Amortization of intangibles	—	—	(28,044)	—	—	—	(28,044)
Restructuring charges, net	—	—	—	—	—	52,918	52,918
Total	$ (189,847)	$ (18,400)	$ (11,557)	$(9,921)	$(57,314)	$(131,009)	$(418,048)

Compensation Expense. Total compensation expense decreased $119 million and $190 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decreases were primarily due to decreases in our total headcount across all functions, primarily the sales and marketing function.

Information Technology. Information technology expense decreased $14 million and $18 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decreases were due to decreased telecom usage as well as decreased equipment spending.

Depreciation and Amortization. Depreciation and amortization expense decreased $6 million and $12 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decreases were due to decreased amortization expense for fully amortized intangible assets acquired in prior years slightly offset by increased investment in server equipment.

Facilities. Facilities expense decreased $7 million and $10 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decrease was primarily due to the consolidation of our real estate facilities as part of our cost reduction initiatives.

TAC. TAC decreased $16 million and $57 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decrease was primarily driven by the impact of foreign currency rate fluctuations, offset by changes in Affiliate partner mix and a small increase in average TAC rates.

Other Expenses. Other expenses decreased $40 million and $131 million, respectively, for the three and six months ended June 30, 2009, as compared to the same periods in 2008. The decrease for the three months ended June 30, 2009 from the same period in 2008 was mainly due to decreases in marketing-related expenses of $23 million, decreases in employee travel and entertainment expenses of $19 million, and decreases in content costs of $19 million, offset by increases in restructuring charges, net of $65 million. The decrease for the six months ended June 30, 2009 from the same period in 2008 was mainly due to decreases in marketing-related expenses of $60 million, decreases in employee travel and entertainment expenses of $33 million, and decreases in content costs of $37 million, offset by increases in restructuring charges, net of $53 million. The decreases in marketing-related expenses were due to fewer marketing ad campaigns and advertising expenses during the three and six months ended June 30, 2009 as compared to the same periods in 2008 as we continue to manage our costs. Content costs, included in costs of revenues and driven by our rich media offerings, decreased due to lower content costs for various properties as we transition out of and/or outsource certain offerings. In addition, decreases in third-party service provider expenses of $45 million and $57 million, respectively, was primarily due to lower costs for advisors related to Microsoft's proposal to acquire all or part of the Company, other strategic alternatives, including the Google agreement, the proxy contest, and related litigation defense during the three and six months ended June 30, 2009 as compared to the same periods in 2008.

We currently expect our operating costs to decrease for the three months ended September 30, 2009 compared to three months ended September 30, 2008 due primarily to our cost reduction initiatives.

Restructuring Charges, Net. We have completed the Q108 restructuring plan, which was implemented during the three months ended March 31, 2008 to more appropriately allocate resources to our key strategic initiatives. In connection with this plan, we incurred $17 million in employee severance pay and related costs during the six months ended June 30, 2008. We did not incur any costs in connection with this plan in 2009. Of the $17 million restructuring charges, net recorded in the six months ended June 30, 2008, $13 million was related to the U.S. segment and $4 million was related to the International segment.

The Q408 restructuring plan included a workforce reduction and the consolidation of certain real estate facilities. We incurred charges for severance benefits provided and facilities vacated of $42 million and $47 million during the three and six months ended June 30, 2009, respectively, in connection with the continued implementation of these initiatives. The charge for the three months ended June 30, 2009 included approximately $11 million relating to the change in estimates for sublease income assumptions for facilities which were exited in prior periods, as well as $7 million relating to the write off of leasehold improvements, furniture and fixed assets relating to exited facilities. Net charges under the Q408 restructuring plan relating to the U.S. segment were $40 million and $46 million for the three and six months ended June 30, 2009, respectively. Net charges under the Q408 restructuring plan relating to the International segment were $2 million and $1 million for the three and six months ended June 30, 2009, respectively.

The Q209 restructuring plan includes additional cost initiatives to further reduce our worldwide workforce by approximately 5 percent. We incurred total pre-tax cash charges of approximately $31 million in severance and other related costs associated with this initiative during the three months ended June 30, 2009. The pre-tax cash charges were offset by a credit of $8 million related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the $23 million restructuring charges, net recorded in the three months ended June 30, 2009, $15 million related to the U.S. segment and $8 million related to the International segment. The restructuring plan involves reallocating resources to align with our strategic priorities including investing resources in some areas, reducing resources in others, and eliminating some areas of our business that do not support our strategic priorities.

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

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009
Employee severance pay and related costs	$ —	$ 30,389	$ 29,169	$32,198
Non-cancelable lease, contract termination, and other charges	—	42,213	—	45,205
Sub-total before reversal of stock-based compensation expense	—	72,602	29,169	77,403
Reversal of stock-based compensation expense for forfeitures	—	(7,600)	(12,284)	(7,600)
Restructuring charges, net	$ —	$ 65,002	$ 16,885	$69,803

In addition to the charges described above, we currently expect to incur future charges of approximately $45 million to $60 million for non-cancelable lease costs, relocation costs, and the write-off of leasehold improvements, furniture, and fixed assets as we continue to exit facilities identified as part of the Q408 restructuring plan. Of the expected future charges, between $20 million and $25 million is expected to be incurred in the remainder of 2009 and between $25 million and $35 million is expected to be recorded between 2010 and 2015.

Our restructuring charges for excess lease facilities is highly dependent upon estimated amounts of sublease income, time required to market and obtain a subtenant or to terminate lease obligations varies considerably with commercial real estate market conditions in certain geographies. Our restructuring charges represent the best estimate of the fair value of the obligations we expect to incur and could be subject to adjustment as market conditions change and sublease agreements are signed through fiscal 2017. Refer to Note 14 — "Restructuring charges, net" in the Notes to the condensed consolidated financial statements for additional information.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2009	Dollar Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009	Dollar Change
Interest and investment income	$ 21,741	$ 4,640	$(17,101)	$ 44,908	$ 11,488	$(33,420)
Investment gains, net	1,980	6	(1,974)	824	96	(728)
Gains/(losses) on sales of marketable equity securities	—	66,684	66,684	(1,054)	66,684	67,738
Other	862	680	(182)	(5,430)	(1,298)	4,132
Total other income, net	$ 24,583	$ 72,010	$ 47,427	$ 39,248	$ 76,970	$ 37,722

Interest and investment income for the three and six months ended June 30, 2009 decreased due to lower average interest rates compared to the same periods in 2008. Average interest rates were less than 1 percent in both the three and six months ended June 30, 2009, respectively, compared to 2.9 percent and 3.2 percent, respectively, in the same periods in 2008. During the three months ended June 30, 2009, we tendered all of our Gmarket shares for net proceeds of $120 million. We recorded a pre-tax gain of $67 million ($40 million after-tax).

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

Income Taxes. The effective tax rates for the three and six months ended June 30, 2009 were 47 percent and 41 percent, respectively, compared to 38 percent and 39 percent for the same periods in 2008. These effective tax rates differ from the amounts computed by applying the federal statutory income tax rate primarily due to states taxes, the effect of non-U.S. operations and non-deductible stock-based compensation expense. We currently expect the effective tax rate for fiscal year 2009 to be in the range of 44 percent to 47 percent, excluding any other discrete items that may occur during the remainder of the year.

During the six months ended June 30, 2009, we recorded an increase in our total unrecognized tax benefits of approximately $3 million bringing the amount to $801 million. Over the next twelve months, our existing tax positions are expected to generate an increase in total unrecognized tax benefits.

Earnings in Equity Interests. Earnings in equity interests for the three and six months ended June 30, 2009 was $64 million and $113 million, respectively, as compared to $55 million and $510 million for the same periods in 2008. Earnings in equity interests for the six months ended June 30, 2008 included a $401 million net non-cash gain related to Alibaba Group Holding Limited's ("Alibaba Group") initial public offering ("IPO") of Alibaba.com Limited ("Alibaba.com"), net of tax. In connection with the IPO, we made a direct investment of 1 percent in Alibaba.com. See Note 3 — "Investments in Equity Interests" in the Notes to the condensed consolidated financial statements for additional information.

Noncontrolling Interests. Noncontrolling interests represents 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 consolidate the subsidiaries' results in our condensed consolidated financial statements.

Business Segment Results

We manage our business geographically. Our primary areas of measurement and decision making are the United States and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources.

	Three Months Ended June 30, 2008	(*)	Three Months Ended June 30, 2009	(*)	Percent Change	Six Months Ended June 30, 2008	(*)	Six Months Ended June 30, 2009	(*)	Percent Change
Revenues by segment:										
United States	$1,262,191	70%	$1,152,393	73%	(9)%	$2,567,531	71%	$2,340,323	74%	(9)%
International	535,894	30%	420,504	27%	(22)%	1,048,156	29%	812,616	26%	(22)%
Total revenues	$1,798,085	100%	$1,572,897	100%	(13)%	$3,615,687	100%	$3,152,939	100%	(13)%

(*) Percent of total revenues.

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2009	Percent Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009	Percent Change
Segment operating income before depreciation, amortization, and stock-based compensation expense:						
United States	$ 295,537	$ 268,205	(9)%	$ 608,630	$ 560,937	(8)%
International	131,509	117,239	(11)%	251,549	233,485	(7)%
Total segment operating income before depreciation, amortization, and stock-based compensation expense	427,046	385,444	(10)%	860,179	794,422	(8)%
Depreciation and amortization	(203,357)	(204,765)	(1)%	(390,868)	(386,338)	(1)%
Stock-based compensation expense	(123,168)	(104,926)	(15)%	(248,173)	(231,646)	(7)%
Income from operations	$ 100,521	$ 75,753	(25)%	$ 221,138	$ 176,438	(20)%

Revenue is generally attributed to individual countries according to the sales force that generated the revenue. No single foreign country accounted for more than 10 percent of revenues for the three and six months ended June 30, 2009 or 2008, respectively.

United States. United States revenues for the three and six months ended June 30, 2009 decreased $110 million, or 9 percent, and $227 million, or 9 percent, respectively, as compared to the same periods in 2008. Our year over year decreases in revenues were a result of a decline in advertising across the majority of Yahoo! Properties, particularly search advertising, and in our fee-based services. The decline in revenues was offset by declines in operating expenses of $77 million and $173 million, respectively, for the three and six months ended June 30, 2009 as compared to the same periods in 2008. United States operating income before depreciation, amortization, and stock-based compensation expense for the three and six months ended June 30, 2009 decreased $27 million, or 9 percent, and $48 million, or 8 percent, respectively, as compared to the same periods in 2008.

International. International revenues for the three and six months ended June 30, 2009 decreased $115 million, or 22 percent, and $236 million, or 22 percent, respectively, as compared to the same periods in 2008. The decline in international revenues was mainly due to a decline in advertising across the majority of Yahoo! Properties, particularly search advertising, the sale of Kelkoo SAS during the three months ended December 31, 2008, and the effects of foreign currency exchange rate fluctuations. The decline in revenues was offset by declines in operating expenses of $70 million and $138 million, respectively, for the three and six months ended June 30, 2009 as compared to the same periods in 2008. International operating income before depreciation, amortization, and stock-based compensation expense for the three and six months ended June 30, 2009 decreased $14 million, or 11 percent, and $18 million, or 7 percent, respectively, as compared to the same periods in 2008.

International revenues accounted for approximately 27 percent and 26 percent, respectively, of total revenues in the three and six months ended June 30, 2009, compared to 30 percent and 29 percent in the same periods of 2008.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian Dollars, British Pounds, Euros, Korean Won, and Taiwan Dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and six months ended June 30, 2008, our international revenues for the three and six months ended June 30, 2009 would have been higher than we reported by approximately $78 million and $170 million, respectively, and our International segment operating income before depreciation, amortization, and stock-based compensation expense would have been higher than we reported by $11 million and $23 million, respectively.

Critical Accounting Policies and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2008 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 estimates since December 31, 2008.

Recent Accounting Pronouncements

See Note 1 — “The Company and Summary of Significant Accounting Policies” in the Notes to the condensed consolidated financial statements.

Liquidity and Capital Resources

	As of December 31, 2008	As of June 30, 2009
	(In thousands)	
Cash and cash equivalents	$2,292,296	$2,284,086
Short-term marketable debt securities	1,159,691	1,594,226
Long-term marketable debt securities	69,986	319,137
Total cash, cash equivalents, and marketable debt securities	$3,521,973	$4,197,449
Percentage of total assets	26%	30%

Cash Flow Results	Six Months Ended June 30, 2008	Six Months Ended June 30, 2009
	(In thousands)	
Net cash provided by operating activities	$1,212,143	$ 604,143
Net cash used in investing activities	$ (873,525)	$ (744,615)
Net cash provided by financing activities	$ 181,523	$ 111,620

Our operating activities for the six months ended June 30, 2009 and 2008 generated adequate cash to meet our operating needs. As of June 30, 2009, we had cash, cash equivalents, and marketable debt securities totaling $4.2 billion, compared to $3.5 billion at December 31, 2008.

Net cash provided by operating activities during the six months ended June 30, 2008 includes a $350 million one-time payment related to a commercial arrangement entered into with AT&T Inc. No similar payments were received during the six months ended June 30, 2009.

During the six months ended June 30, 2009, we generated $604 million of cash from operating activities, $120 million from proceeds from the sales of marketable equity securities, and $71 million from the issuance of common stock as a result of the exercise of employee stock options and employee stock purchases. This was offset by a net $165 million in capital expenditures and $27 million in tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock. During the six months ended June 30, 2008, we used $79 million in direct stock repurchases and $57 million for tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock. Additionally, we invested $316 million in net capital expenditures and $180 million in net acquisitions. The cash used for these investments was offset by $1.2 billion of cash generated from operating activities and $317 million from the issuance of common stock as a result of the exercise of stock options and employee stock purchases.

We expect to continue to generate positive cash flows from operations for the three months ended September 30, 2009. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position, and the sale of additional equity securities could result in dilution to our stockholders.

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

Cash flow changes

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes, and non-operating gains and losses from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense net of stock-based restructuring expense reversals, non-cash restructuring charges, tax benefits from stock-based awards, and excess tax benefits from stock-based awards. Cash provided by operating activities was greater than net income in the six months ended June 30, 2009 mainly due to the net impact of non-cash adjustments to income.

Cash used in investing activities was primarily attributable to capital expenditures and purchases of intangible assets. In the six months ended June 30, 2009, we invested $165 million in net capital expenditures and $22 million to purchase intangible assets, which was offset by proceeds from the sales of marketable equity securities of $120 million. In the six months ended June 30, 2008, we invested $316 million in net capital expenditures, $51 million to purchase intangible assets, a net $180 million in acquisitions, and a net $8 million in other investing activities.

Cash used in financing activities is driven by employee option exercises and employee stock purchases offset by our stock repurchases. Our cash proceeds from employee option exercises and employee stock purchases were $71 million for the six months ended June 30, 2009, compared to $317 million for the same period of 2008. During the six months ended June 30, 2009, we did not repurchase any shares of common stock. We used $27 million for tax withholding payments related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock ($2 million of which relates to reacquired shares in treasury stock related to restricted stock awards). During the six months ended June 30, 2008, we used $79 million in the direct repurchase of 3.4 million shares of our common stock at an average price of $23.39 per share. In addition, $57 million was used for tax withholdings related to net share settlements of restricted stock units and tax-related reacquisition of shares of restricted stock ($20 million of which relates to reacquired shares in treasury stock related to restricted stock awards).

Financing

In April 2003, we issued $750 million of the Notes which matured on April 1, 2008. During the three months ended March 31, 2008, $167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to the holders of the Notes. On April 1, 2008, the remaining $583 million of the Notes were converted and 28.5 million shares of Yahoo! common stock were issued to the Note holders. See Note 9 — "Debt" in the Notes to the condensed consolidated financial statements for additional information.

Retirement of treasury stock is recorded as a reduction of common stock, additional paid-in-capital, and retained earnings, as applicable. As of May 31, 2009, the Company's Board of Directors approved the retirement of approximately 209 million treasury shares, resulting in reductions of $0.2 million in common stock, $1.5 billion in additional paid-in-capital, and $3.8 billion in retained earnings.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were $165 million for the six months ended June 30, 2009, compared to $316 million in the same period in 2008. Our capital expenditures for the remainder of 2009 are expected to be slightly less than 2008 levels.

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 23 years, expiring between 2009 and 2027.

A summary of lease commitments as of June 30, 2009 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Six months ending December 31, 2009	$ 82	$ 3
Years ending December 31,		
2010	145	7
2011	120	7
2012	102	7
2013	92	8
2014	84	8
Due after 5 years	230	39
Total gross lease commitments	$ 855	$ 79
Less: interest	—	(36)
Net lease commitments	$ 855	$ 43

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent traffic acquisition costs, to our Affiliates. As of June 30, 2009, these commitments totaled $220 million, of which $60 million will be payable in the remainder of 2009, $131 million will be payable in 2010, and $29 million will be payable in 2011.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to $47 million through 2023.

Income Taxes. As of June 30, 2009, the unrecognized tax benefits that resulted in an accrued liability amounted to $363 million and are classified as deferred and other long-term tax liabilities, net on our condensed consolidated balance sheets. As of June 30, 2009, the settlement period for our income tax liabilities cannot be determined. However, no significant liabilities are expected to become due within the next twelve months.

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

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

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

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

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in an approximate $9 million and $2 million decrease, respectively, in the fair value of our available-for-sale debt securities as of June 30, 2009 and December 31, 2008.

Foreign Currency Risk. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian Dollars, British Pounds, Euros, Korean Won, and Taiwan Dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenues, operating expenses, and net income for our International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and six months ended June 30, 2008, our international revenues for the three and six months ended June 30, 2009 would have been higher than we reported by approximately $78 million and $170 million, respectively, and our International segment operating income before depreciation, amortization, and stock-based compensation expense would have been higher than we reported by $11 million and $23 million, respectively.

As mentioned above, we are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders' equity. In addition, we have certain assets and liabilities that are denominated in currencies other than the respective entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a gain or loss. We record these foreign currency transaction gains and losses, realized and unrealized, in other income, net on the condensed consolidated statements of income. During the three and six months ended June 30, 2009 and 2008, our net foreign currency transaction gains and losses, realized and unrealized, were not material.

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

Our cash and debt investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of June 30, 2009 and 2008, net unrealized gains and losses on these investments were not material.

Item 4. *Controls and Procedures*

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

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see Note 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, 2008, which was filed with the Securities and Exchange Commission on February 27, 2009, as set forth below. Except for the addition of the risk factor concerning our recent binding letter agreement with Microsoft, we do not believe any of the changes constitute material changes from the risk factors previously disclosed in the 10-K for the year ended December 31, 2008.

We face significant competition for users, advertisers, publishers and distributors, principally from Google, Microsoft, and AOL.

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

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

Google, Microsoft and AOL offer products and services that directly compete for users with our offerings, including consumer e-mail, desktop search, local search, instant messaging, photos, maps, video sharing, content channels, mobile applications, and shopping services.

We also compete with traditional media companies to attract advertising dollars, both domestically and internationally. Currently many advertisers direct a portion, but only a portion, of their advertising budgets to Internet advertising. In response, traditional media companies are increasingly expanding their content offerings onto the Web and thus are competing not only to keep offline advertising dollars but also for a share of online advertising dollars. We further compete for users, advertisers and developers with the wide variety of other providers of online services, including social media and networking sites like Facebook and MySpace.com. In recent years, social networks and social media sites have attracted an increased share of users' online time.

Some of our existing competitors and possible additional entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. For example AOL, as a subsidiary of Time Warner Inc., may have access to content from Time Warner's movie, television, music, book, periodical, news, sports, and other media holdings; access to a network of cable and other broadband users and delivery technologies; and advertising offerings. In addition, Google and Microsoft have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions and research and development.

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

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

For the three months ended June 30, 2009, 88 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenues depends upon:

- maintaining and growing our user base;
- maintaining and growing our popularity as an Internet destination site;
- attracting more advertisers to our user base;
- broadening our relationships with advertisers to small-and medium-sized businesses;
- the successful implementation and acceptance of our advertising platforms by advertisers, website publishers, and online advertising networks;
- the successful ongoing implementation, acceptance and improvement of our new advertising management platform, APT from Yahoo!;
- the successful implementation, acceptance and improvement of our search technologies;
- maintaining and expanding our Affiliate program for search and display marketing services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

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

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

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

If our cost reduction initiatives do not yield anticipated benefits or if we do not manage our operating expenses effectively, our profitability might decline.

We have implemented cost reduction initiatives designed to better align our operating expenses with our revenues, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to implement these initiatives and to manage costs to better and more efficiently manage our business. Our cost reduction initiatives, however, might not yield the anticipated benefits. Our operating expenses might also increase, from their reduced levels, as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo! brand, fund product development, and acquire and integrate complementary businesses and technologies. In addition, deteriorating economic conditions or other factors could cause our business to contract requiring us to implement additional cost cutting measures. If we do not recognize the anticipated benefits of our cost reduction initiatives, our expenses increase at a greater pace than our revenues, or we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

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

We deploy our own Internet search technology to provide search results on our network. 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' experience, including search relevance, speed, and services responsive to users' needs and preferences, to continue to attract, retain, and expand our user base. If we are unable to provide innovative search technologies and other services which generate significant traffic to our Websites, our business could be harmed, causing our revenues to decline.

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

We believe that maintaining and enhancing our brands, including those that contain the Yahoo! name as well as those that do not, is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry in the Internet market. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we anticipate spending increasing amounts of money on, and devoting greater resources to, advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors, including among other issues: service outages; product malfunctions; data privacy and security issues; exploitation of our trademarks by others without permission; and poor presentation or integration of our search marketing listings by Affiliates on their sites or in their software and services.

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

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

We create, own, and maintain a wide array of intellectual property assets, including copyrights, patents, trademarks, trade dress, trade secrets, and rights to certain domain names, which we believe are 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. 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 companies, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other 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 business are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in 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. In addition, third-parties have made, and may continue to make, trademark infringement and related claims against us over the display of search results triggered by search terms that include trademark terms. Currently, we are engaged in lawsuits regarding such trademark issues.

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

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

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

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

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

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

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

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues which could adversely impact our business. The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

We may be subject to legal liability for online services.

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

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

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

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

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

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our on-going business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement claims against the acquired company;
- the impairment of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- our lack of, or limitations on, our control over the operations of our joint venture companies;
- in the case of foreign acquisitions and investments, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems, and operational differences; and
- the impact of known potential liabilities or unknown liabilities associated with the 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, diversification, and changes to our business could adversely affect our operating results.

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

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

Any failure to scale and adapt our existing technology architecture to manage expansion and 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, and Page Views to users around the world. The products and services offered by Yahoo! have expanded and changed significantly over time and are expected to continue to expand and change rapidly in the future to accommodate new technologies and Internet advertising solutions and new means of content delivery, such as rich media, audio, video, and mobile.

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

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

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

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

If we are unable to recruit and retain key personnel, we might 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, where our corporate headquarters and the headquarters of several of our vertical and horizontal competitors are located, fluctuations in global economic and industry conditions, changes in Yahoo!'s management or leadership, competitors' hiring practices, and the effectiveness of our compensation programs. If we do not succeed in recruiting, retaining, and motivating our key employees and in attracting new key personnel, we may be unable to meet our business plan and as a result, our stock price may decline.

If we are unable to license or acquire compelling content 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 in-license much of the content on our online properties, such as news items, stock quotes, weather reports, maps and audio and video content, from third-parties. We believe that users will increasingly demand high-quality audio and video content, such as music, film, speeches, news footage, concerts, and other special events. Such content may require us to make substantial payments to third parties from whom we license or acquire such content. Our ability to maintain and build relationships with third-party content 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 content agreements with existing third-party content providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us, and potential content providers may not offer their content to us at all, or may offer it on terms that are not agreeable to us. An increase in the prices charged to us by third-party content providers could harm our operating results and financial condition. Further, many of our content licenses with third-parties are non-exclusive. Accordingly, other Webcasters and other media providers, such as radio or television 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 broadcast content that is similar to or the same as that provided by Yahoo!, or if we do not develop compelling editorial content or personalization services, the number of users of our services may not grow as anticipated, or may decline, which could harm our operating results.

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

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

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

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

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

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

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

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

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

The number of individuals who access the Internet through devices other than a PC, such as mobile telephones, personal digital assistants, smart phones, hand held computers, televisions, and set-top box devices, has increased dramatically, and the trend is likely to continue. Our services were originally designed for rich, graphical environments such as those available on the desktop and PC. The lower resolution, functionality, and memory associated with alternative devices currently available may make the use of our services through such devices difficult, and the versions of our services developed for these devices may not be compelling to users, manufacturers, or distributors of alternative devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our services may not work or be viewable on these devices as a result. As we have limited experience to date in operating versions of our services developed or optimized for users of alternative devices, and as new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our services for use on these alternative devices, and we may need to devote significant resources to the creation, support, and maintenance of such versions. We may be unable to attract and retain a substantial number of alternative device manufacturers, distributors, content providers, and users to our services, or to capture a sufficient share of an increasingly important portion of the market for these services, and, therefore, 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, 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 making its devices incompatible with our software or by not listing our services in a convenient directory. If competitive distributors impair access to our services, or if they simply are more successful than our distributors in developing compelling products that attract and retain users or advertisers, then our revenues could decline.

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

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

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

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

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

- trade barriers and changes in trade regulations;

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

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

New technologies could block our advertisements or our search marketing listings, which would harm our operating results.

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

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

A large amount of information on the Internet is provided in proprietary document formats such as Microsoft Word. These proprietary document formats may limit the effectiveness of our search technology by preventing our 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 our ability to access the document contents with our search technology. This would mean that the document contents would not be included in our 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 a software provider also competes with us, it may give its search technologies, or the technologies of our competitors, a preferential ability to search documents in its proprietary format. Any of these results could harm our brand and our operating results.

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, power loss, telecommunications failures, cyber attacks, terrorist attacks, and similar events.
- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, physical and electronic break-ins, sabotage, and similar disruptions from unauthorized tampering, as well as coordinated denial-of-service attacks. We are distributing servers among additional data centers around the world to create redundancies; however, we do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of delays or disruptions to service.

- We rely on third-party providers for our principal Internet connections and co-location of a significant portion of our data servers, as well as for key components or features of our e-mail and VOIP services, news and stock quote 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. In addition, if our agreements with these third-party providers are terminated due to failure to reach agreement on terms or otherwise, we might not have a readily available alternative.

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

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

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

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

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

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

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

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

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. In addition, the current administration recently announced proposals for new U.S. tax legislation that, if adopted, could adversely affect the Company's tax rate. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination 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 wide fluctuations. During the three months ended June 30, 2009, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $12.75 to $16.65 per share and the closing sale price on July 31, 2009 was $14.32 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements and implementations of technological innovations or new services, upgrades and media properties by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; the operating performance of companies in which we have an equity investment, including Yahoo! Japan and Alibaba Group Holding Limited; and news reports relating to us, trends in our markets, or general economic conditions.

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

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

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

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

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

Uncertainty resulting from our pending agreement with Microsoft may adversely affect our business.

On July 29, 2009, Yahoo! entered into a binding letter agreement with Microsoft Corporation under which Microsoft will be Yahoo!’s exclusive technology provider for algorithmic and paid search services and Yahoo! will become the exclusive worldwide relationship sales force for both companies' premium search advertisers. Pursuant to the agreement, the parties will negotiate and execute a definitive search and advertising services and sales agreement and a definitive license agreement. The agreement is subject to regulatory review, which will take a number of months. The agreement also provides for a transition period of up to 24 months following the commencement of the implementation of the agreement. The regulatory review process, negotiation of definitive agreements, and implementation and transition planning processes are likely to require the expenditure of significant time and resources by us. There can be no assurance that regulatory approval will be obtained. The uncertainty created by the pendency of this transaction could lead to a loss of employees, publishers, advertisers and other business partners, which could negatively impact our business and operating results.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

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

On June 25, 2009, the Company held its Annual Meeting of Stockholders (the "Meeting"). At the Meeting, stockholders elected each director nominee to the Board of Directors by the following votes:

Director	Shares For	Shares Against	Abstain
Carol Bartz	1,225,920,697	10,013,092	3,027,146
Frank J. Biondi, Jr.	1,202,288,153	32,349,888	4,322,893
Roy J. Bostock	1,209,826,247	19,143,672	9,991,015
Ronald W. Burkle	1,207,002,745	21,873,486	10,084,703
John H. Chapple	1,219,061,454	12,946,127	6,953,353
Eric Hippeau	1,201,490,209	27,274,704	10,196,021
Carl C. Icahn	903,318,534	332,411,992	3,230,408
Vyomesh Joshi	1,191,830,262	40,454,265	6,676,407
Arthur H. Kern	1,201,485,409	26,104,423	11,371,102
Mary Agnes Wilderotter	1,175,281,978	57,174,740	6,504,217
Gary L. Wilson	1,212,422,997	17,022,194	9,515,744
Jerry Yang	1,195,103,948	39,011,414	4,845,572

At the Meeting, the stockholders also acted on the following matters:

- Stockholders voted to approve amendments to the Company's 1995 Stock Plan (with 794,817,824 shares voting for, 280,802,251 shares voting against, 4,738,523 shares abstaining and 158,602,337 broker non-votes).
- Stockholders voted to approve amendments to the Company's Amended and Restated 1996 Employee Stock Purchase Plan (with 990,605,962 shares voting for, 85,118,878 shares voting against, 4,633,957 shares abstaining and 158,602,137 broker non-votes).
- Stockholders ratified the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009 (with 1,226,554,891 shares voting for, 9,698,777 shares voting against, and 2,707,266 shares abstaining).
- Stockholders defeated the stockholder proposal calling for a so-called "say-on-pay" executive compensation advisory vote (with 357,494,992 shares voting for, 699,516,111 shares voting against, 23,347,494 shares abstaining and 158,602,337 broker non-votes).

In this Item 4, all vote counts have been rounded to the nearest whole share.

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.

Table of Contents

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: August 7, 2009	By: /s/ Carol Bartz Carol Bartz Chief Executive Officer
Dated: August 7, 2009	By: /s/ Timothy R. Morse Timothy R. Morse Chief Financial Officer (Principal Financial Officer)

[Table of Contents](#)

YAHOO! INC.
Index to Exhibits

Exhibit Number	Description
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 for the quarter ended June 30, 2000 (filed July 28, 2000) and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, filed as Exhibit 4.1 below, 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 filed February 6, 2009 and incorporated herein by reference).
4.1	Amended and Restated Rights Agreement (including the form of Rights Certificate), dated as of April 1, 2005, by and between Yahoo! Inc. 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).
10.2(A)+	Yahoo! Inc. 1995 Stock Plan, as amended and restated on June 25, 2009 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 29, 2009 and incorporated herein by reference).
10.3(A)+	Yahoo! Inc. Amended and Restated 1996 Employee Stock Purchase Plan, as amended and restated on June 25, 2009 (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 29, 2009 and incorporated herein by reference).
10.13+*	Summary of Compensation Payable to Named Executive Officers.
10.14(B)+*	Separation Agreement, dated May 21, 2009, between the Registrant and Blake Jorgensen.
10.20+*	Employment Letter Agreement, dated June 5, 2009, between the Registrant and Timothy R. Morse.
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 7, 2009.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 7, 2009.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 7, 2009.
101.INS*‡	XBRL Instance
101.SCH*‡	XBRL Taxonomy Extension Schema
101.CAL*‡	XBRL Taxonomy Extension Calculation
101.LAB*‡	XBRL Taxonomy Extension Labels
101.PRE*‡	XBRL Taxonomy Extension Presentation

* Filed herewith.

\+ Indicates a management contract or compensatory plan or arrangement.

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

Exhibit 10.13

Summary of Compensation Payable to Named Executive Officers

Base Salary. The Compensation Committee (the "Committee") of the Board of Directors of Yahoo! Inc. ("Yahoo") has previously approved the annual base salaries of Yahoo's principal executive officer, principal financial officer, and the other executive officers who were named in the Summary Compensation Table of the Company's Proxy Statement filed with the Securities and Exchange Commission on April 29, 2009 and who are currently employed by the Company (together, the "Named Executive Officers"). The following table shows the current annual base salary for 2009 for each of the Named Executive Officers:

Name and Principal Position	Salary ($)
Carol Bartz Chief Executive Officer	1,000,000
Jerry Yang Chief Yahoo	1
Timothy R. Morse Chief Financial Officer	500,000
Aristotle Balogh Chief Technology Officer and Executive Vice President of Products	550,000
Michael J. Callahan Executive Vice President, General Counsel and Secretary	420,000

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

Yahoo's Named Executive Officer bonuses for 2009 will be determined under Yahoo's Executive Incentive Plan. The Named Executive Officer's respective target bonus opportunities (expressed as a percentage of base salary) under the Executive Incentive Plan for 2009 are as follows: Ms. Bartz - 200%, Mr. Morse – 100%, Mr. Balogh - 100% and Mr. Callahan - 75%. Mr. Yang will not participate in the Executive Incentive Plan. 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. Equity-based incentives granted by Yahoo! to the Named Executive Officers are reported on Form 4 filings with the Securities and Exchange Commission.

[Yahoo! Letterhead]

May 21, 2009

Blake Jorgensen
[address]

Dear Blake:

As we discussed, Yahoo! Inc. ("**Yahoo!**" or the "**Company**") is prepared to offer you separation benefits to aid in your employment transition. If you sign and comply with the terms of this separation agreement (the "**Agreement**"), which contains a release of claims, and return your signed Agreement to Yahoo! Human Resources by the deadline specified in this Agreement (collectively these are the "**Agreement Eligibility Requirements**"), then Yahoo! will continue to employ you through the Separation Date specified below and will pay your premiums for continued group health coverage under COBRA as described below. If you continue to comply with the terms specified in this Agreement, sign the Supplemental Release (which contains a release of claims and is attached as Exhibit A) on or after the Separation Date, comply with the terms of the Supplemental Release, and do not revoke the Supplemental Release during the applicable revocation period (collectively these are the "**Supplemental Release Eligibility Requirements**"), you will receive severance benefits following the Separation Date described below.

If you do not comply with the Agreement Eligibility Requirements, your employment may terminate prior to the Separation Date described below, and the Company will not pay your premiums for continued group health coverage under COBRA as described below. If you do not comply with the Supplemental Release Eligibility Requirements, you will not receive the severance benefits and some of the other benefits specified in this Agreement.

1. Separation. If you meet the Agreement Eligibility Requirements, your last day of work with the Company and your employment termination date will be the earlier of (a) June 30, 2009 or such date between July 1, 2009 to September 1, 2009 as may be mutually agreed upon in writing by you and Yahoo!, or (b) the date on which the Company terminates your employment due to your failure to satisfactorily perform your job duties and/or comply with Company policies and procedures (as applicable, the "**Separation Date**"). You will be expected to continue to perform your current job duties and assist with the transition of work. However, between the date of this Agreement and the Separation Date, Yahoo! may allocate some or all of your job responsibilities to others and may appoint other persons as Yahoo!'s Chief Financial Officer. You hereby resign as Chief Financial Officer of Yahoo! (and as an officer and director of the Company and any subsidiary, as well as a fiduciary of any benefit plan of the Company) as of the Separation Date or sooner if requested by Yahoo!. You shall execute such additional documents as reasonably requested by the Company to evidence your resignation. From the date of this Agreement to your Separation Date ("**Transition Period**"), if you meet the

Agreement Eligibility Requirements, Yahoo! will continue to pay you your regular base salary or wages and you will continue to be eligible for benefits under the Company's plans, however, you shall not be eligible for any new equity grants or other new incentive or bonus opportunities.

2. Accrued Salary and Paid Time Off. On the Separation Date, Yahoo! will pay you all accrued salary, and all accrued and unused vacation earned through the Separation Date, subject to payroll deductions and required withholdings. You are entitled to any earned payments regardless of whether you sign this Agreement or the Supplemental Release.

3. Severance Benefits. If you comply with the Supplemental Release Eligibility Requirements, then Yahoo! will pay you, as severance benefits, one million eight hundred thousand dollars ($1,800,000.00), subject to payroll deductions and required withholdings. The severance benefits specified in this paragraph will be paid in a lump sum within twenty (20) business days after the Effective Date (as described in the Supplemental Release), provided that you meet the Supplemental Release Eligibility Requirements.

4. Health Insurance. Your group health insurance will cease on the last day of the month of your Separation Date. At that time, you will be eligible to continue your group health insurance benefits at your own expense under the terms and conditions of the applicable benefit plan, federal COBRA law and/or, if applicable, state insurance laws. You will receive additional information regarding your right to elect continued coverage under COBRA. Provided that you timely elect continued coverage under COBRA and meet the Agreement Eligibility Requirements, the Company shall pay your premiums for continued group health coverage for you and your currently covered dependents for twelve (12) months following the Separation Date. For more information about continued group health coverage, please contact Yahoo! Benefits at (888) 862-5822.

5. Obligations. Prior to your Separation Date, you shall devote your full business efforts and time to Yahoo! (other than taking reasonable time off in order to conduct a job search and to serve on the board of directors of Larkin Street Youth Services, which is a nonprofit organization), and you agree that you will not engage in any activities that are in violation of Yahoo!'s Code of Ethics.

6. Tax Matters.

(a) Withholding. Yahoo! will withhold required federal, state and local taxes from any and all payments contemplated by this Agreement.

(b) Responsibility for Taxes. Other than Yahoo!'s obligation and right to withhold federal, state and local taxes, you will be responsible for any and all taxes, interest, and penalties that may be imposed with respect to the payments contemplated by this Agreement (including, but not limited to, those imposed under Internal Revenue Code Section 409A).

7. Stock Options. If you have been granted options to purchase shares of Yahoo!'s common stock, your options will cease to vest on the Separation Date (as specified in Yahoo!'s 1995 Stock Plan, as amended, or other applicable stock plan and your corresponding notice of stock option grant and stock option agreement), and any unvested options shall terminate and be forfeited as of the Separation Date. Your rights to exercise your options that are vested as of the Separation Date are set forth in the applicable stock plan and your corresponding notice of stock option grant and stock option agreement. Nothing in this Agreement modifies the terms applicable to your stock options. For more information about your stock options (if any), please review your stock option information via your Fidelity online access at http://www.netbenefits.com. The Fidelity website will show a complete listing of your stock option grant details, including the expiration date of your options. Should you have any questions, please contact Fidelity directly at 800-544-9354 or Yahoo! Stock Plan Services at [private]@yahoo-inc.com.

8. Restricted Stock and Restricted Stock Units. If you have been granted restricted stock and/or restricted stock units under Yahoo!'s 1995 Stock Plan, as amended, or other applicable stock plan, your restricted stock and restricted stock units will cease to vest on the Separation Date (as specified in the 1995 Stock Plan and your corresponding restricted stock award agreement or restricted stock unit award agreement), and all unvested restricted stock and restricted stock units shall terminate and be forfeited as of the Separation Date. Nothing in this Agreement modifies the terms applicable to your restricted stock or restricted stock units. For more information about your restricted stock and restricted stock units (if any), please review your information via your Fidelity online access at http://www.netbenefits.com. Should you have any questions, please contact Fidelity directly at 800-544-9354 or Yahoo! Stock Plan Services at [private]@yahoo-inc.com.

9. Employee Stock Purchase Plan. Contributions to your Employee Stock Purchase Plan ("**ESPP**") will cease as of the Separation Date. Under the terms of the ESPP, all contributions you made to the ESPP that have not been used to purchase stock will be returned to you without interest by Yahoo! Payroll. For more information about the ESPP, please review your information via your Fidelity online access at http://www.netbenefits.com. Should you have any questions, please contact Fidelity directly at 800-544-9354 or Yahoo! Stock Plan Services at [private]@yahoo-inc.com.

10. 401(k) Plan. If you have questions about your 401(k) account, please contact Yahoo! Benefits at (888) 862-5822.

11. Life Insurance. Your life insurance coverage will cease on or before the Separation Date per the terms of the life insurance plan. The Company will provide you with information about the option to convert this coverage to an individual policy.

12. Flexible Spending Plan. If you enrolled in the Company's Flexible Spending Plan and established a Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account, you have until March 31, 2009 to submit any 2008 Plan Year covered expenses for reimbursement. For the 2009 Plan Year, you have 90 days following your Separation Date to submit any covered expenses incurred from January 1, 2009 through your Separation Date for reimbursement.

13. Other Compensation or Benefits. You acknowledge that, except as expressly provided in this Agreement, you will not receive any additional compensation, severance or transition benefits after the Separation Date, with the exception of any benefit, the right to which has vested, under the express terms of a written benefit plan of the Company.

14. Indemnification. Your rights to indemnification under the By-Laws of the Company, as well as under other organizational documents, contractually or at law, shall continue with regard to actions or inactions by you while an officer of the Company. In addition, the Company shall continue to cover you under the Company's directors' and officers' liability insurance policies on the same basis as other officers and directors while liability exists with regard to such actions or inactions. Nothing in this Agreement, or the Supplemental Release when delivered, is intended to release or reduce your rights to indemnification by Yahoo! including under the By-Laws of the Company or under your June 4, 2007 Indemnification Agreement with Yahoo!.

15. Expense Reimbursements. You agree that, within thirty (30) days following your Separation Date, you will submit your final expense reimbursement statement and required documentation reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement. Yahoo! will reimburse you for expenses pursuant to its regular business practice. For a copy of the Yahoo! expense form, please email [private]@yahoo-inc.com**.** You should submit completed expense reports and receipts to the Expense Report Department at Yahoo!, 701 First Avenue, Sunnyvale, California 94089. You may only submit expenses that you incurred prior to the Separation Date.

16. Invention and Assignment to Yahoo!. During the Transition Period and after your Separation Date, you agree to perform promptly, all acts deemed necessary or desirable by Yahoo! to permit and assist it, at its expense, in obtaining and enforcing the full benefits, enjoyment, rights and title throughout the world in all intellectual property assigned to Yahoo! pursuant to your Employee Confidentiality and Assignment of Inventions Agreement(s) or similar agreement(s) including, but not limited to, disclosing information, executing documents and assisting or cooperating in legal proceedings.

17. Return of Company Property. By your Separation Date or earlier if requested by Yahoo!, you agree to return to Yahoo! all hard copy and electronic documents (and all copies thereof) and other property belonging to Yahoo!, its subsidiaries and/or affiliates that you have had in your possession at any time, including, but not limited to, files, notes, notebooks, correspondence, memoranda, agreements, drawings, records, business plans, forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to, computers, PDAs, pagers, telephones, credit cards, entry cards, identification badges and keys), and any materials of any kind that contain or embody any proprietary or confidential information of the Company, its subsidiaries or affiliates (and all reproductions thereof in whole or in part) other than documents that Yahoo! has publicly filed or which an authorized representative of Yahoo! has made available to the general public. If you discover after the Separation Date that you have retained any proprietary or confidential information (including, but not limited to, proprietary or confidential information contained in any electronic documents or e-mail systems in your possession or control), you also agree immediately upon discovery to send an email to [private]@yahoo-inc.com and inform Yahoo! of the nature and location of the proprietary or confidential information that you have retained so that Yahoo! may arrange to remove, recover, and/or collect such information. Severance benefits and other benefits under this Agreement will not be paid or provided until all Company property has been returned to Yahoo! other than documents that Yahoo! has publicly filed or which an authorized representative of Yahoo! has made available to the general public.

18. Proprietary Information Obligations. You acknowledge your continuing obligations under your Employee Confidentiality and Assignment of Inventions Agreement(s) or similar agreement(s) (collectively "**NDA**"), including your obligation not to use or disclose any confidential or proprietary information of the Company, its subsidiaries or affiliated entities and not to solicit Yahoo! employees as specified in your NDA.

19. Confidentiality. You agree to hold the provisions of this Agreement and the Supplemental Release in strictest confidence and you agree not to publicize or disclose their terms in any manner whatsoever until Yahoo! publicly files the Agreement and/or Supplemental Release; *provided, however,* that you may discuss this matter in confidence with your immediate family and your attorney or other professional advisor, so long as those parties agree to be bound by this confidentiality agreement. Nothing in this section prohibits you from disclosing the terms of this Agreement in order to enforce the Agreement or as otherwise required or permitted by law. In particular, and without limitation, you agree not to disclose the terms of this Agreement or the Supplemental Release to any current or former Yahoo! employee. You acknowledge that Yahoo! has certain public filing obligations with which it must comply relating to this Agreement.

20. Nondisparagement. You agree not to make negative comments or otherwise disparage Yahoo! or its officers, directors or employees in any manner likely to be harmful to them or their business, business reputation or personal reputation; *provided however* that statements which are complete and made in good faith in response to any question, inquiry or request for information required by legal process shall not violate this paragraph. Yahoo! agrees that it will instruct directors of Yahoo! Inc.'s current board of directors, Yahoo!'s Chief Executive Officer, Chief Yahoo, Chief Human Resources Officer, Chief Technology Officer, and Executive Vice-President, Yahoo! North America not to disparage you in any manner.

21. Release of Claims. In consideration for, and as a condition of the benefits and other consideration under this Agreement, to which you are not otherwise entitled, you hereby generally and completely release the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns (collectively "**Released Party**") from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date you sign this Agreement that are related in any way to or arise in connection with your employment with Yahoo! or the termination of your Yahoo! employment. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to your employment with the Company or the termination of that employment; (2) all claims related to your compensation or benefits from the Company, including wages, salary, bonuses, commissions, vacation pay, expense reimbursements (to the extent permitted by applicable law), severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including without limitation claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including without limitation claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Worker Adjustment and Retraining Notification Act (as amended) and similar laws in other jurisdictions, the Employee Retirement Income Security Act of 1974 (as amended), the Family and Medical Leave Act of 1993, and the California Fair Employment and Housing Act (as amended) and similar laws in other jurisdictions, but not including claims under the federal Age Discrimination in Employment Act of 1967, as amended. This general release does not include or release any of your rights to indemnification (or benefits to you of any insurance coverage that may exist) including those pursuant to paragraph 14 of this Agreement. To the maximum extent permitted by law, you also promise never directly or indirectly to bring or participate in an action against any Released Party under California Business & Professions Code Section 17200 or under any other unfair competition law of any jurisdiction. If, notwithstanding the above, you are awarded any money or other relief under such a claim, you hereby assign the money or other relief to the Company. Your waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date you sign this Agreement.

This Agreement includes a release of claims of discrimination or retaliation on the basis of workers' compensation status, but does not include workers' compensation claims. Excluded from this Agreement are any claims which by law cannot be waived in a private agreement between employer and employee, including but not limited to the right to file a charge with or participate in an investigation conducted by the Equal Employment Opportunity Commission ("**EEOC**") or any state or local fair employment practices agency. You waive, however, any right to any monetary recovery or other relief should the EEOC or any other agency pursue a claim on your behalf.

22. Representations. You acknowledge and represent that you have not suffered any discrimination, harassment, retaliation, or wrongful treatment by any Released Party. You also acknowledge and represent that you have not been denied any rights including, but not limited to, rights to a leave or reinstatement from a leave under the Family and Medical Leave Act of 1993, the Uniformed Services Employment and Reemployment Rights Act of 1994, or any similar law of any jurisdiction.

23. Release of Unknown Claims. You acknowledge that you have read and understand Section 1542 of the California Civil Code: **"A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."** You hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to your release of any unknown or unsuspected claims.

24. Cooperation. You agree to reasonably cooperate with and make yourself available on a continuing basis to Yahoo! and its representatives and legal advisors (understanding your other business commitments) in connection with any matters in which you are or were involved or any existing or future claims, investigations, administrative proceedings, lawsuits and other legal and business matters, as reasonably requested by Yahoo!. You also agree that within two (2) business days of receipt (or more promptly if reasonably required by the circumstances) you shall send the Company copies of all correspondence (for example, but not limited to, subpoenas) received by you in connection with any legal proceedings involving or relating to Yahoo!, unless you are expressly prohibited by law from so doing. You agree that you will not voluntarily cooperate with any third party in any actual or threatened claim, charge, or cause of action of any nature whatsoever relating to Yahoo! or against Yahoo! and its directors, officers, employees, successors, parent and subsidiary entities, and affiliates. You understand that nothing in this Agreement prevents you from cooperating with any government investigation.

25. Miscellaneous. This Agreement, including its Exhibit, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of Yahoo!. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the state where you last worked for Yahoo!.

IF THIS AGREEMENT IS ACCEPTABLE TO YOU, PLEASE SIGN BELOW AND RETURN THE ORIGINAL TO ***DAVID WINDLEY*** *AT 701 FIRST AVENUE, SUNNYVALE, CALIFORNIA 94089 BY 5:00 P.M. ON THE 7TH DAY AFTER YOU RECEIVE THIS AGREEMENT.*

I wish you good luck in your future endeavors.

Sincerely,

YAHOO! INC.

By: /s/ David Windley
David Windley
Chief Human Resources Officer

Exhibit A – Supplemental Release

AGREED AND VOLUNTARILY EXECUTED:

/s/ Blake Jorgensen

Blake Jorgensen

5/21/09

Date

cc: Personnel File

SUPPLEMENTAL RELEASE
(To be signed on or after the Separation Date)

In return for payment of severance benefits as described in my separation agreement, dated May 21, 2009 ("**Agreement**"), the terms of which are incorporated herein by reference, I hereby generally and completely release the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, affiliates, and assigns (collectively "**Released Party**") from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Supplemental Release that are related in any way to or arise in connection with my employment with Yahoo! or the termination of my Yahoo! employment. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including wages, salary, bonuses, commissions, vacation pay, expense reimbursements (to the extent permitted by applicable law), severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including without limitation claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including without limitation claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("**ADEA**"), the federal Worker Adjustment and Retraining Notification Act (as amended) and similar laws in other jurisdictions, the Employee Retirement Income Security Act of 1974 (as amended), the Family and Medical Leave Act of 1993, and the California Fair Employment and Housing Act (as amended) and similar laws in other jurisdictions. This general release does not include or release any of my rights to indemnification (or benefits to me of any insurance coverage that may exist) including those pursuant to paragraph 14 of the Agreement. To the maximum extent permitted by law, I also promise never directly or indirectly to bring or participate in an action against any Released Party under California Business & Professions Code Section 17200 or under any other unfair competition law of any jurisdiction. If, notwithstanding the above, I am awarded any money or other relief under such a claim, I hereby assign the money or other relief to the Company. I understand that the waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date I sign this Supplemental Release.

This Supplemental Release includes a release of claims of discrimination or retaliation on the basis of workers' compensation status, but does not include workers' compensation claims. Excluded from this Supplemental Release are any claims which by law cannot be waived in a private agreement between employer and employee, including but not limited to the right to file a charge with or participate in an investigation conducted by the Equal Employment Opportunity Commission ("**EEOC**") or any state or local fair employment practices agency. I waive, however, any right to any monetary recovery or other relief should the EEOC or any other agency pursue a claim on my behalf.

I acknowledge and represent that I have not suffered any age or other discrimination, harassment, retaliation, or wrongful treatment by any Released Party. I also acknowledge and represent that I have not been denied any rights including, but not limited to, rights to a leave or reinstatement from a leave under the Family and Medical Leave Act of 1993, the Uniformed Services Employment and Reemployment Rights Act of 1994, or any similar law of any jurisdiction.

I agree that I am voluntarily executing this Supplemental Release. I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA and that the consideration given for the waiver and release is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing, as required by the ADEA, that: (a) my waiver and release specified in this paragraph do not apply to any rights or claims that may arise after the date I sign this Supplemental Release; (b) I have been advised to consult with an attorney prior to signing this Supplemental Release; (c) I have at least twenty-one (21) days from the date that I receive this Supplemental Release to consider this Supplemental Release (although I may choose to sign it any time on or after my Separation Date); (d) I have seven (7) days after I sign this Supplemental Release to revoke it ("**Revocation Period**"); and (e) this Supplemental Release will not be effective until I have returned it to Yahoo!'s Human Resources Department and the Revocation Period has expired (the **"Effective Date"**).

I UNDERSTAND THAT THIS SUPPLEMENTAL RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. In giving this release, which includes claims which may be unknown to me at present, I acknowledge that I have read and understand Section 1542 of the California Civil Code, which states: **"A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."** I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to my release of any unknown or unsuspected claims I may have against any Released Party.

Yahoo! will withhold required federal, state and local taxes from any and all payments contemplated by the Agreement and this Supplemental Release. Other than Yahoo!'s obligation and right to withhold federal, state and local taxes, I will be responsible for any and all taxes, interest, and penalties that may be imposed with respect to the payments contemplated by the Agreement and this Supplemental Release (including, but not limited to, those imposed under Internal Revenue Code Section 409A).

Certification Regarding Search and Return of Yahoo! Property. I hereby certify that: (1) prior to the date that I signed this Supplemental Release, I conducted a good faith and diligent search for any Yahoo! business data, whether or not such data would be considered confidential or proprietary and/or whether such data constitutes a legally protectable trade secret, including hard copy and all electronically stored data other than data and documents that Yahoo! has publicly filed or which an authorized representative of Yahoo! has made available to the general public ("**Yahoo! Business Data**") that may be in my possession. This search included reviewing the contents of any personal email accounts and Instant Messenger archives that I maintain, home computers, and other electronic computer media (CDs, USB thumb drives, disks, back-up drives, etc.) which I may have used during my employment to send, receive or store Yahoo! Business Data ("**Personal Computer Media**"); (2) to the extent I located any Yahoo! Business Data pursuant to my search described above, I have returned all originals and copies of such data to Yahoo!, and made arrangements for Yahoo!, at its option, to retrieve, destroy and/or permanently delete such data from my Personal Computer Media such that I cannot recover the data or access it in any manner; (3) I have not copied, saved, downloaded, retained, disclosed, or transmitted in any form whatsoever, any Yahoo! Business Data to any source except in the course of performing my duties for Yahoo! and for Yahoo!'s benefit; (4) I have not copied, saved, downloaded, retained, disclosed, or transmitted in any form whatsoever, any Yahoo! Business Data to any source for the purpose of retaining such data after my Separation Date or taking such data with me to my next employer or using it in connection with any subsequent employment; (5) as of the date that I sign this Supplemental Release, it is my good faith belief that I do not possess any Yahoo! Business Data in tangible or electronic form, except employment-related documents such as wage, benefit, and related information specific to the terms and conditions of my employment with Yahoo!; (6) to the extent I had any question about whether a Yahoo! document contains Yahoo! Business Data, I have inquired of Yahoo! in writing at [private]@yahoo-inc.com concerning the specific document and received clarification as to whether such document relates solely to my employment as defined in this paragraph or whether Yahoo! required me to return the document(s) (in which case, I certify that such document(s) have been returned); (7) I have returned all keys, access cards, credit cards, identification cards, phones, computers and related company-issued devices, including electronic mail devices, PDAs and/or electronic organizers, and other property and equipment belonging to Yahoo! ("**Company Property**"); (8) within the six (6) month period prior to my Separation Date, I have not intentionally or knowingly deleted Yahoo! Business Data, except in the normal course of performing my duties and responsibilities for Yahoo!; and (9) other than in the normal course of performing my duties and/or responsibilities for Yahoo! and for Yahoo!'s benefit, I did not copy, back-up, download, or wipe Yahoo! Business Data that was contained on Company Property other than back-ups created on Yahoo! computer systems, media or other property accessible only by Yahoo! and for Yahoo!'s benefit.

The Agreement and this Supplemental Release constitute the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to this subject matter. The Agreement and this Supplemental Release are entered into without reliance on any promise or representation, written or oral, other than those expressly contained in them and together they supersede any other such promises, warranties or representations. If there is any conflict between the Agreement and the Supplemental Release, the Supplemental Release shall take precedence and control. This Supplemental Release may not be modified or amended except in a writing signed by both a duly authorized officer of Yahoo! and me. This Supplemental Release will bind the heirs, personal representatives, successors and assigns of both the Company and me, and inure to the benefit of both the Company and me, our heirs, successors and assigns. If any provision of this Supplemental Release is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Supplemental Release, and the provision in question will be modified by the court so as to be rendered enforceable. This Supplemental Release will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the state where I last worked for Yahoo!.

*IF THIS SUPPLEMENTAL RELEASE IS ACCEPTABLE TO YOU, PLEASE SIGN BELOW **ON OR AFTER THE SEPARATION DATE** AND RETURN THE ORIGINAL TO **DAVID WINDLEY** AT 701 FIRST AVENUE, SUNNYVALE, CALIFORNIA 94089 BY 5:00 P.M. ON THE 21ST DAY AFTER YOUR SEPARATION DATE.*

DO NOT SIGN THIS SUPPLEMENTAL RELEASE
BEFORE YOUR SEPERATION DATE

By: ______________________________ Date: ______________________________
Blake Jorgensen

cc: Personnel File

[Yahoo! Letterhead]

June 5, 2009

Timothy Morse
[address]

Dear Tim:

On behalf of Yahoo! Inc. (“Yahoo!” or the “Company”), I am pleased to offer you the position of Chief Financial Officer, reporting to Yahoo!’s Chief Executive Officer, Carol Bartz. Your appointment is subject to approval by the Company’s Board of Directors and your compensation package as outlined herein is subject to approval of the Compensation Committee of the Board of Directors (“Compensation Committee”). For purposes of this letter, your first day of work at Yahoo! will be considered your “Employment Start Date”.

Base Salary. Your starting annual base salary will be $41,666.67 per month ($500,000 annually), less applicable taxes and withholdings, paid semi-monthly and subject to annual review.

Executive Incentive Plan. If your Employment Start Date is on or before October 1, 2009, you also will be eligible to participate in the Executive Incentive Plan (EIP), with a target incentive of 100% of your annual base salary less applicable taxes, deductions, and withholdings. Target incentives do not constitute a promise of payment. Your actual EIP payout will depend on Yahoo! financial performance and management’s assessment of your individual performance, and it is subject to, and governed by, the terms and requirements of the EIP document. Eligibility for participation in the EIP is subject to annual review.

Sign-On Bonus. You also will receive a sign-on bonus of $500,000, less applicable taxes and withholdings, to be paid within 30 days of your Employment Start Date. If during the first twelve (12) months following your Employment Start Date you voluntarily resign from your employment with Yahoo! or your employment with Yahoo! is terminated by Yahoo! with Cause[1], then this sign-on bonus will become due and payable by you to Yahoo! on your last day of employment.

Stock Options. As a part of the Yahoo! team, we strongly believe that ownership of the Company by Yahoos is an important factor to our success. Therefore, as part of your compensation, management will recommend that the Compensation Committee grant you an option to purchase 400,000 shares of

[1] For purposes of this letter, “Cause” shall mean termination of your employment with the Company based upon the occurrence of one or more of the following which, with respect to clauses (1), (2) and (3) below, if curable, you have not cured within fourteen (14) days after you receive written notice from the Company specifying with reasonable particularity such occurrence: (1) your refusal or material failure to perform your job duties and responsibilities (other than by reason of your serious physical or mental illness, injury or medical condition), (2) your failure or refusal to comply in any material respect with material Company policies or lawful directives, (3) your material breach of any contract or agreement between you and the Company (including but not limited to this letter agreement and any Employee Confidentiality and Assignment of Inventions Agreement or similar agreement between you and the Company), or your material breach of any statutory duty, fiduciary duty or any other obligation that you owe to the Company, (4) your commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or your engaging in unprofessional, unethical or other intentional acts that materially discredit the Company or are materially detrimental to the reputation, character or standing of the Company, or (5) your indictment or conviction or *nolo contendre* or guilty plea with respect to any felony or crime of moral turpitude. Following notice and cure as provided in the preceding sentence, upon any additional one-time occurrence of one or more of the events enumerated in that sentence, the Company may terminate your employment for Cause without notice and opportunity to cure. However, should the Company choose to offer you another opportunity to cure, it shall not be deemed a waiver of its rights under this provision.

Yahoo! Inc.'s common stock (the "Option"). The exercise price for the Option will be the fair market value of Yahoo! common stock on the date of grant as determined by the Compensation Committee. The Option will be subject to the terms and conditions of Yahoo! Inc.'s 1995 Stock Plan, as amended, and the applicable notice of stock option grant and stock option agreement (which will include the stock option vesting schedule), and vesting of the Option is contingent on your continued employment with Yahoo! through each vesting date. Subject to approval by the Compensation Committee, twenty-five percent (25%) of the shares subject to the Option will vest on the first anniversary of your Employment Start Date. Thereafter, one-eighth of the shares subject to the Option shall vest and become exercisable every six months, such that the Option will be fully vested on the fourth anniversary of the Employment Start Date.

Restricted Stock Units. In addition, management will also recommend that the Compensation Committee grant you an award of 150,000 Restricted Stock Units ("RSUs"), subject to the terms and conditions of the Yahoo! Inc. 1995 Stock Plan, as amended, and the applicable restricted stock unit award agreement. Subject to the approval of the Compensation Committee, the RSUs will vest on the third anniversary of the date of grant, provided that you have been continuously employed with Yahoo! through such date. If, however, during the first twelve (12) months after your Employment Start Date your employment with Yahoo! is terminated by Yahoo! without Cause (as defined above), then 50,000 RSUs will vest (and the balance shall terminate) as of the date your employment with Yahoo! terminates, and payment of the vested RSUs will be satisfied promptly and in no event later than $2\,^{1}/_{2}$ months following the date your employment with Yahoo! terminates. If your employment with Yahoo! is terminated by Yahoo! without Cause (as defined above) after the one (1) year anniversary of your Employment Start Date and prior to the third anniversary of the grant date of the RSUs, then you will receive pro-rata accelerated vesting of 4,166.66 RSUs for each full month worked at Yahoo! after the grant date of the RSUs (and the balance shall terminate) as of the date your employment with Yahoo! terminates, and payment of the vested RSUs will be satisfied promptly and in no event later than $2\,^{1}/_{2}$ months following the date your employment with Yahoo! terminates. Any fractional shares will be rounded down to the nearest whole share. Following the vesting of the RSUs, you will receive one share of Yahoo! Inc. common stock as payment for each vested RSU (subject to tax withholding).

Benefits. A significant part of your total compensation at Yahoo! is derived from the benefits that Yahoo! provides. Yahoo! provides a very competitive benefits package for its eligible full- and part-time employees. Eligible Yahoos may participate in Yahoo!'s health insurance benefits (medical, dental and vision), life insurance, short term and long term disability, the Employee Stock Purchase Plan, 401(k) Plan, and Yahoo!'s Flexible Spending Plan (Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account). Yahoos working less than 40 hours per week may not be eligible for all benefit programs or certain benefits may be provided on a pro-rated basis. Please refer to benefit plan documents for eligibility. Of course, Yahoo! may change its benefits at any time. Prior to your Employment Start Date, you will be provided a website address and logon instructions to access detailed information about Yahoo! benefits programs, including the plan documents.

Paid Time Off. You will accrue vacation at a rate of fifteen (15) days for the first year of your employment at Yahoo!. Thereafter, you will accrue vacation at the regular Yahoo! vacation accrual rate (up to the maximum as specified in our Vacation Policy). Vacation is accrued based on hours worked, therefore Yahoos who work a part-time schedule accrue vacation on a pro-rata basis. In addition, Yahoo! currently provides eligible employees with ten (10) paid holidays and two (2) personal floating holidays each year.

Proprietary Agreement and No Conflict with Prior Agreements. As an employee of Yahoo!, it is likely that you will become knowledgeable about confidential and/or proprietary information related to the operations, products and services of Yahoo! and its clients. Similarly, you may have confidential or proprietary information from prior employers that should not be used or disclosed to anyone at Yahoo!. Therefore, Yahoo! requests that you read, complete, and sign the enclosed Employee Confidentiality and Assignment of Inventions Agreement ("Proprietary Agreement") and the Proprietary Information Obligations Checklist and return it to Yahoo! prior to your Employment Start Date. In addition, Yahoo! requests that you comply with any existing and/or continuing contractual obligations that you may have with your former employers. By signing this offer letter, you represent that your employment with Yahoo! shall not breach any agreement you have with any third party.

Obligations. During your employment, you shall devote your full business efforts and time to Yahoo!. This obligation, however, shall not preclude you from engaging in appropriate civic, charitable or religious activities or from serving on the boards of directors of one or two companies that are not competitors to Yahoo!, as long the activities do not materially interfere or conflict with your responsibilities to, or your ability to perform your duties of employment by, Yahoo! under this Agreement. Any outside activities must be in compliance with and approved if required by Yahoo!'s Code of Ethics.

Non-competition. In addition to the obligations specified in the Proprietary Agreement, you agree that, during your employment with Yahoo! you will not engage in, or have any direct or indirect interest in any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, consultant, partner or otherwise) that is competitive with the business of Yahoo!, including, without limitation, any then-current activities relating to providing Internet navigational products or services and any then-current activities providing search, e-mail, chat, e-commerce, instant messaging, content (e.g., music, video), ISP (e.g., connectivity, bandwidth or storage) or other Internet-based delivery or functionality. Notwithstanding the preceding sentence, you may own not more than 1% of the securities of any company whose securities are publicly traded.

Employment At-Will. Please understand that this letter does not constitute a contract of employment for any specific period of time, but will create an employment at-will relationship that may be terminated at any time by you or Yahoo!, with or without cause and with or without advance notice. The at-will nature of the employment relationship may not be modified or amended except by written agreement signed by Yahoo!'s Chief Human Resources Officer and you.

Code of Ethics and Yahoo! Policies. Yahoo! is committed to creating a positive work environment and conducting business ethically. As an employee of Yahoo!, you will be expected to abide by the Company's policies and procedures including, but not limited to, Yahoo!'s Guide2Working@Y! and Yahoo!'s Code of Ethics. Yahoo! requests that you review, sign and bring with you on your Employment Start Date, the enclosed Code of Ethics Acknowledgment Form.

Entire Agreement. This offer letter and the referenced documents and agreements constitute the entire agreement between you and Yahoo! with respect to the subject matter hereof and supersede any and all prior or contemporaneous oral or written representations, understandings, agreements or communications between you and Yahoo! concerning those subject matters.

Work Authorization/Visa. If you are in need of a work authorization, please let our Staffing Coordinator know at the time that you accept this offer. Please note that the number of employment visas available each year is limited by the U.S. government. In the event that your request for or extension of an employment visa is denied or an employment visa cannot be obtained within a reasonable amount of time (as determined by Yahoo!, in its sole discretion), Yahoo! reserves the right to withdraw or suspend this offer and/or your employment may be terminated (or if your employment has not begun, you may not become employed by Yahoo!). In the event that Yahoo! has agreed to sponsor you for an employment visa, Yahoo! will cover all expenses associated with the visa application process.

Eligibility to Work in the United States. In order for Yahoo! to comply with United States law, we ask that on your Employment Start Date you bring to Yahoo! appropriate documentation to verify your authorization to work in the United States. Yahoo! may not employ anyone who cannot provide documentation showing that they are legally authorized to work in the United States.

Foreign National Export License. Before releasing certain export-controlled technology and software to you during your employment at Yahoo!, Yahoo! may be required to obtain an export license in accordance with United States law. Yahoo! will inform you if an export license is needed. If an export license is required, then this offer of employment and/or your continued employment (if applicable) with Yahoo! is contingent upon receipt of the export license or authorization, and Yahoo! will have no obligation to employ you or provide you with any compensation or benefits until the export license or authorization is secured.

Background Check. Please understand that this offer is contingent upon the successful completion of your background check.

Accepting this Offer. We hope you will say yes quickly, however, we'll give you until 5:00 p.m. (PST) on 06/__/09 to accept this offer. This offer is contingent on you starting employment at Yahoo! on or before 06/30/2009 or a date mutually agreed upon between you and the Company. **To accept this offer, please sign this letter in the space provided below and fax it, the signed Proprietary Agreement, and the signed Proprietary Information Obligations Checklist to Elizabeth Brown at 408-349-7498. Please also mail the original signed offer letter, the signed Proprietary Agreement and the signed Proprietary Information Obligations Checklist to Elizabeth Brown in the envelope provided.** A second copy of each document has been provided for you to keep for your records.

Day 1: After your acceptance is received, your Recruiter/Coordinator will email you information about New Hire Orientation. If you will not be starting on a Monday coinciding with orientation, please make arrangements with me to complete the necessary eligibility to work and payroll forms on your Employment Start Date.

We can't wait to start working with you and hope that you'll find working at Yahoo! one of the most rewarding experiences of your life, both professionally and personally.

Start practicing your yodel!

/s/ David Windley

David Windley
Chief Human Resources Officer

I accept this offer of employment with Yahoo! Inc. and agree to the terms and conditions outlined in this letter.

/s/ Timothy R. Morse	6/9/09
Signature	Date
Timothy Morse	6/22/09
Full Name	Planned Employment Start Date (Contingent upon completion of a satisfactory background check.)

Enclosures:
Employee Confidentiality and Assignment of Inventions Agreement
Proprietary Information Obligations Checklist
Code of Ethics Acknowledgment Form
At-Will Employment, Guide2Working@Yahoo!, and Privacy Policy Acknowledgment Form

cc: HR file

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, Carol Bartz, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 7, 2009

By: /s/ CAROL BARTZ
Carol Bartz
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, Timothy R. Morse, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: August 7, 2009

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

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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the “Company”) for the quarter ended June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Carol Bartz, as Chief Executive Officer of the Company, and Timothy R. Morse, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, that:

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

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

/s/ CAROL BARTZ

Name: Carol Bartz
Title: Chief Executive Officer
Dated: August 7, 2009

/s/ TIMOTHY R. MORSE

Name: Timothy R. Morse
Title: Chief Financial Officer
Dated: August 7, 2009

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.