

YAHOO INC
Form 10-Q
August 08, 2008

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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, 2008
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
*(State or other jurisdiction of
incorporation or organization)*

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

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

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

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer,

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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, 2008
Common Stock, \$0.001 par value	1,385,789,773

YAHOO! INC.

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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,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
	(Unaudited, in thousands except per share amounts)			
Revenues	\$ 1,697,920	\$ 1,798,085	\$ 3,369,770	\$ 3,615,687
Cost of revenues	683,012	765,911	1,396,649	1,520,994
Gross profit	1,014,908	1,032,174	1,973,121	2,094,693
Operating expenses:				
Sales and marketing	390,430	404,899	757,849	829,490
Product development	281,086	314,719	520,586	620,325
General and administrative	133,258	188,811	288,423	359,891
Amortization of intangibles	25,177	23,224	52,279	46,964
Strategic workforce realignment costs, net				16,885
Total operating expenses	829,951	931,653	1,619,137	1,873,555
Income from operations	184,957	100,521	353,984	221,138
Other income, net	30,736	24,674	66,187	48,336
Income before income taxes, earnings in equity interests, and minority interests	215,693	125,195	420,171	269,474
Provision for income taxes	(87,732)	(47,693)	(180,090)	(104,666)
Earnings in equity interests	32,106	54,927	61,255	509,709
Minority interests in operations of consolidated subsidiaries	500	(1,214)	1,655	(1,139)
Net income	\$ 160,567	\$ 131,215	\$ 302,991	\$ 673,378
Net income per share basic	\$ 0.12	\$ 0.10	\$ 0.23	\$ 0.50
Net income per share diluted	\$ 0.11	\$ 0.09	\$ 0.21	\$ 0.46
Shares used in per share calculation basic	1,339,594	1,372,629	1,346,035	1,353,180
Shares used in per share calculation diluted	1,403,819	1,399,277	1,410,779	1,393,821

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Stock-based compensation expense by function:

Cost of revenues	\$ 2,357	\$ 3,549	\$ 4,364	\$ 6,829
Sales and marketing	52,110	56,306	102,378	121,844
Product development	64,451	46,442	112,751	94,524
General and administrative	9,861	16,871	49,292	37,260
Strategic workforce realignment expense reversals				(12,284)
Total stock-based compensation expense	\$ 128,779	\$ 123,168	\$ 268,785	\$ 248,173

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

Table of Contents**YAHOO! INC.****Condensed Consolidated Balance Sheets**

	December 31, 2007	June 30, 2008
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,513,930	\$ 2,051,370
Short-term marketable debt securities	487,544	1,019,641
Accounts receivable, net	1,055,532	1,041,874
Prepaid expenses and other current assets	180,716	191,445
Total current assets	3,237,722	4,304,330
Long-term marketable debt securities	361,998	148,313
Property and equipment, net	1,331,632	1,415,801
Goodwill	4,002,030	4,150,966
Intangible assets, net	611,497	615,597
Other long-term assets	503,945	216,042
Investments in equity interests	2,180,917	3,138,598
Total assets	\$ 12,229,741	\$ 13,989,647
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 176,162	\$ 136,754
Accrued expenses and other current liabilities	1,006,188	1,062,918
Deferred revenue	368,470	478,352
Short-term debt	749,628	
Total current liabilities	2,300,448	1,678,024
Long-term deferred revenue	95,129	276,099
Other long-term liabilities	28,086	23,004
Deferred and other long-term tax liabilities, net	260,993	332,428
Commitments and contingencies (Note 12)		
Minority interests in consolidated subsidiaries	12,254	13,393
Stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,534,893 and 1,593,423 shares issued, respectively, and 1,330,828 and 1,385,115 shares outstanding, respectively	1,527	1,587
Additional paid-in capital	9,937,010	11,259,544
Treasury stock at cost, 204,065 and 208,308 shares, respectively	(5,160,772)	(5,260,412)
Retained earnings	4,423,864	5,097,242
Accumulated other comprehensive income	331,202	568,738
Total stockholders' equity	9,532,831	11,666,699
Total liabilities and stockholders' equity	\$ 12,229,741	\$ 13,989,647

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

Table of Contents**YAHOO! INC.****Condensed Consolidated Statements of Cash Flows**

	Six Months Ended	
	June 30, 2007	June 30, 2008
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 302,991	\$ 673,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	197,511	243,470
Amortization of intangible assets	113,384	147,398
Stock-based compensation expense	268,785	260,457
Stock-based strategic workforce realignment expense reversals		(12,284)
Tax benefits from stock-based awards	164,655	31,133
Excess tax benefits from stock-based awards	(134,491)	
Deferred income taxes	(90,839)	37,527
Earnings in equity interests	(61,255)	(509,709)
Dividends received	15,156	18,942
Minority interests in operations of consolidated subsidiaries	(1,655)	1,139
(Gains) / losses from sales of investments, assets, and other, net	1,522	(3,910)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	43,365	23,636
Prepaid expenses and other	(12,519)	(1,749)
Accounts payable	31,078	(39,452)
Accrued expenses and other liabilities	(15,839)	54,616
Deferred revenue	18,454	287,551
Net cash provided by operating activities	840,303	1,212,143
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(262,695)	(315,690)
Purchases of marketable debt securities	(993,039)	(889,467)
Proceeds from sales of marketable debt securities	274,094	199,301
Proceeds from maturities of marketable debt securities	1,070,658	370,977
Acquisitions, net of cash acquired	(36,011)	(179,847)
Purchases of intangible assets	(19,914)	(51,160)
Other investing activities, net		(7,639)
Net cash provided by (used in) investing activities	33,093	(873,525)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	203,725	317,445
Repurchases of common stock	(1,013,181)	(79,236)
Structured stock repurchases, net	(250,000)	
Excess tax benefits from stock-based awards	134,491	
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(3,708)	(56,612)

Other financing activities, net		(74)
Net cash (used in) provided by financing activities	(928,673)	181,523
Effect of exchange rate changes on cash and cash equivalents	11,218	17,299
Net change in cash and cash equivalents	(44,059)	537,440
Cash and cash equivalents at beginning of period	1,569,871	1,513,930
Cash and cash equivalents at end of period	\$ 1,525,812	\$ 2,051,370

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

Table of Contents**YAHOO! INC.****Condensed Consolidated Statements of Cash Flows (Continued)****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.

	Six Months Ended	
	June 30,	June 30,
	2007	2008
	(Unaudited, in thousands)	
Acquisition-related activities:		
Cash paid for acquisitions	\$ 41,767	\$ 180,342
Cash acquired in acquisitions	(5,756)	(495)
	\$ 36,011	\$ 179,847
Fair value of common stock and vested stock-based awards issued in connection with acquisitions	\$ 35,004	\$

See Note 3 Acquisitions for additional information.

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

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YAHOO! INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries (Yahoo! or the Company), is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo! is focused on powering its communities of users, advertisers, publishers, and developers by creating indispensable experiences built on trust. To users, Yahoo! provides owned and operated online properties and services (Yahoo! Properties or Owned and Operated sites). Yahoo! also extends its marketing platform and access to Internet users beyond Yahoo! Properties through its distribution network of third-party entities (referred to as Affiliates) who have integrated the Company s advertising offerings into their Websites (referred to as Affiliate sites) or their other offerings.

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing date of the acquisitions. 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 condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, the useful lives of long-lived assets including property and equipment, investment fair values, goodwill and other intangible assets, investments in equity interests, income taxes, and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of stock-based awards granted. 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, 2007. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2007 was derived from the Company s audited financial statements for the year ended December 31, 2007, but does not include all disclosures required by GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Recent Accounting Pronouncements

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157) for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008, and

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

interim periods within those fiscal years for items within the scope of this FSP. The Company is currently evaluating the impact of adopting FSP FAS 157-2 for non-financial assets and non-financial liabilities on its consolidated financial position, cash flows, and results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB 51 (SFAS 160), which will change the accounting for and reporting of business combination transactions and noncontrolling interests in consolidated financial statements. SFAS 141R and SFAS 160 will be effective for the Company on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS 141R and SFAS 160 on its consolidated financial position, cash flows, and results of operations.

In May 2008, the FASB issued FSP Accounting Principles Board Opinion (APB) No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1), which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate. FSP APB 14-1 will be effective for the Company on January 1, 2009 and will require retroactive disclosure. The Company is currently evaluating the impact of adopting FSP APB 14-1 on its consolidated financial position, cash flows, and results of operations.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1), which requires entities to apply the two-class method of computing basic and diluted earnings per share for participating securities that include awards that accrue cash dividends (whether paid or unpaid) any time common shareholders receive dividends and those dividends do not need to be returned to the entity if the employee forfeits the award. FSP EITF 03-6-1 will be effective for the Company on January 1, 2009 and will require retroactive disclosure. The Company is currently evaluating the impact of adopting FSP EITF 03-6-1 on its consolidated financial position, cash flows, and results of operations.

Note 2 BASIC AND DILUTED NET INCOME PER SHARE

Basic net income per share is computed using the weighted average number of common shares outstanding during the period, excluding any unvested restricted stock that is subject to repurchase. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of unvested restricted stock and restricted stock units, collectively referred to as restricted stock awards (using the treasury stock method), the incremental common shares issuable upon the exercise of stock options (using the treasury stock method), and the conversion of the Company's Notes (using the if-converted method).

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 129 million and 133 million shares of common stock for the three and six months ended June 30, 2008, respectively, and 133 million for both the three and six months ended June 30, 2007, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Basic:				
Numerator:				
Net income for basic calculation	\$ 160,567	\$ 131,215	\$ 302,991	\$ 673,378
Denominator:				
Weighted average common shares	1,343,411	1,375,472	1,350,183	1,356,570
Weighted average unvested restricted stock subject to repurchase	(3,817)	(2,843)	(4,148)	(3,390)
Denominator for basic calculation	1,339,594	1,372,629	1,346,035	1,353,180
Net income per share basic	\$ 0.12	\$ 0.10	\$ 0.23	\$ 0.50
Diluted:				
Numerator:				
Net income for basic calculation	\$ 160,567	\$ 131,215	\$ 302,991	\$ 673,378
Effect of dilutive securities issued by equity investees				(26,860)
Net income for diluted calculation	\$ 160,567	\$ 131,215	\$ 302,991	\$ 646,518
Denominator:				
Denominator for basic calculation	1,339,594	1,372,629	1,346,035	1,353,180
Weighted average effect of Yahoo! dilutive securities:				
Restricted stock awards	6,644	10,101	5,779	10,412
Stock options	21,010	14,040	22,392	14,760
Convertible debt	36,571	2,507	36,573	15,469
Denominator for diluted calculation	1,403,819	1,399,277	1,410,779	1,393,821
Net income per share diluted	\$ 0.11	\$ 0.09	\$ 0.21	\$ 0.46

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

Note 3 ACQUISITIONS

Transactions completed in 2007

During the year ended December 31, 2007, the Company completed the acquisitions of Right Media Inc. (Right Media), Zimbra, Inc. (Zimbra), BlueLithium, Inc. (BlueLithium), and other business combinations as described in Note 3 Acquisitions to the Company s annual financial statements for the year ended

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

December 31, 2007 filed on Form 10-K. The purchase price allocations of acquisitions completed during 2007 are summarized as follows:

	Purchase Price	Goodwill	Amortizable Intangibles
Right Media	\$ 525	\$ 441	\$ 104
Zimbra	\$ 303	\$ 245	\$ 79
BlueLithium	\$ 255	\$ 225	\$ 42
Other acquisitions(*)	\$ 169	\$ 74	\$ 118

(*) Includes asset acquisitions and other business combinations.

The results of operations for Right Media, Zimbra, BlueLithium, and certain other business combinations have been included in the Company's condensed consolidated statements of operations since the completion of the acquisitions in 2007. The following unaudited pro forma financial information presents the combined results of the Company and the 2007 acquisitions as if the acquisitions had occurred at the beginning of 2007 (in thousands, except per share amounts):

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Net revenues	\$ 1,729,520	\$ 3,434,534
Net income	\$ 114,440	\$ 214,937
Net income per share basic	\$ 0.09	\$ 0.16
Net income per share diluted	\$ 0.08	\$ 0.15

The above unaudited pro forma financial information includes adjustments for interest income on cash disbursed for the acquisitions, amortization of identifiable intangible assets, stock-based compensation expense, and related tax effects.

Transactions completed in 2008

Maven. On February 11, 2008, the Company acquired Maven Networks, Inc. (Maven), a leading online video platform provider. The Company believes that Maven will assist the Company in expanding state-of-the-art consumer video and advertising experiences on Yahoo! and the Company's network of video publishers across the Web. The purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired from Maven and as a result, the Company recorded goodwill in connection with this transaction. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding options and restricted stock units) in Maven. Maven stockholders were paid in cash. Outstanding unvested Maven options and restricted stock units were assumed and will be exercisable for, or will settle in, shares of Yahoo! common stock.

The total purchase price of \$143 million consisted of \$141 million in cash consideration and \$2 million of direct transaction costs. In connection with the acquisition, the Company issued stock-based awards valued at

\$21 million which are being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

Cash acquired	\$ 257
Other tangible assets acquired	16,869
Amortizable intangible assets:	
Customer contracts and related relationships	7,100
Developed technology and patents	57,100
Trade name, trademark, and domain name	1,200
Goodwill	87,549
Total assets acquired	170,075
Liabilities assumed	(3,720)
Deferred income taxes	(23,485)
Total	\$ 142,870

The amortizable intangible assets have useful lives not exceeding six years and a weighted average useful life of five years. No amounts have been allocated to in-process research and development and \$88 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the United States (U.S.) segment. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

The results of operations for Maven and certain other immaterial business combinations have been included in the Company's condensed consolidated statements of operations since the completion of the acquisitions in 2008. During the six months ended June 30, 2008, the Company also completed immaterial asset acquisitions that did not qualify as business combinations.

The Company's business combinations completed in 2008 do not have a material impact, and therefore pro forma disclosures have not been presented.

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2007	June 30, 2008	Percent Ownership of Common Stock
Alibaba Group	\$ 1,440,278	\$ 2,196,280	44%
Alibaba.com	100,804	104,509	1%
Yahoo! Japan	636,164	833,543	33%

Other	3,671	4,266
Total	\$ 2,180,917	\$ 3,138,598

Equity Investment in Alibaba Group. As of June 30, 2008, the Company's ownership interest in Alibaba Group Holding Limited (Alibaba Group) was approximately 44 percent compared to 43 percent as of December 31, 2007. The 1 percent increase is due to an increase in ownership interest resulting from the exchange of certain Alibaba Group shares previously held by employees for shares in Alibaba.com Limited (Alibaba.com), the business-to-business e-commerce subsidiary of Alibaba Group, as further described below, partly offset by a decrease in ownership interest resulting from the exercise of Alibaba Group's employee stock options.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

In the initial public offering (IPO) of Alibaba.com, Alibaba Group sold an approximate 27 percent interest in Alibaba.com through the issuance of new Alibaba.com shares, the sale of previously held shares in Alibaba.com, and the exchange of certain Alibaba Group shares previously held by Alibaba Group employees for shares in Alibaba.com, resulting in a gain on disposal of interests in Alibaba.com. Accordingly, in the first quarter of 2008, the Company recorded a net non-cash gain of \$401 million, net of tax, within earnings in equity interests representing the Company's share of Alibaba Group's gain.

As of June 30, 2008, the difference between the Company's carrying value of its 44 percent investment in Alibaba Group and its proportionate share of the net assets is summarized as follows (in thousands):

Carrying value of investment	\$ 2,196,280
Proportionate share of net assets	1,635,537
Excess of carrying value of investment over proportionate share of net assets	\$ 560,743
The excess carrying value has been assigned to:	
Goodwill	\$ 519,341
Amortizable intangible assets	42,476
Deferred income taxes	(1,074)
Total	\$ 560,743

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of approximately five years. No amount has been allocated to in-process research and development. Goodwill is not deductible for tax purposes.

The following table presents Alibaba Group's financial information, as derived from Alibaba Group's condensed consolidated financial statements, which includes summary operating information for the three and six months ended March 31, 2007 and 2008 and summary balance sheet information as of September 30, 2007 and March 31, 2008 (in thousands):

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 31, 2008	March 31, 2007	March 31, 2008
Operating data ⁽¹⁾ :				
Revenues	\$ 67,660	\$ 106,336	\$ 128,658	\$ 203,984
Gross profit	\$ 50,276	\$ 76,152	\$ 90,564	\$ 138,573
Loss from operations	\$ (5,705)	\$ (7,663)	\$ (37,779)	\$ (35,082)
Net (loss) / income ⁽²⁾	\$ (6,244)	\$ 9,000	\$ (33,142)	\$ 1,892,257
			September 30, 2007	March 31, 2008

Balance sheet data:

Current assets	\$	723,609	\$	2,649,927
Long-term assets	\$	1,943,425	\$	1,881,490
Current liabilities	\$	452,413	\$	679,174
Long-term liabilities	\$	15,369	\$	15,958

- (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 net income of \$1.9 billion for the six months ended March 31, 2008 is primarily due to Alibaba Group's sale of an approximate 27 percent ownership interest in Alibaba.com from Alibaba.com's IPO.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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, 2007 and 2008, respectively, these transactions were not material.

Equity Investment in Alibaba.com Limited. As part of the November 6, 2007 IPO of Alibaba.com, the Company purchased an approximate 1 percent interest in Alibaba.com for \$101 million. 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. As of June 30, 2008, the difference between the Company's carrying value of its investment in Alibaba.com of \$105 million and its proportionate share of the net assets of Alibaba.com is \$98 million. This excess carrying value has been assigned to goodwill and amortizable intangible assets. The amortizable intangible assets have useful lives not exceeding six years and a weighted average useful life of approximately five years. No amount has been allocated to in-process research and development. Goodwill is not deductible for tax purposes.

The differences between generally accepted accounting principles in the U.S. and International Financial Reporting Standards did not materially impact the amounts reflected in the Company's condensed consolidated financial statements. The fair value of the Company's approximate 1 percent direct interest in Alibaba.com, based upon the quoted stock price of Alibaba.com as of June 30, 2008, was approximately \$81 million. The decline in the quoted market price as of June 30, 2008 below the carrying value of the investment is not indicative of a loss in value that is other-than-temporary.

Equity Investment in Yahoo! Japan. The investment in Yahoo! Japan Corporation (Yahoo! Japan) is being accounted for using the equity method and the total investment is classified as a part of the investments in equity interests balance on the condensed consolidated balance sheets.

On September 1, 2007, the Company commenced a new commercial arrangement with Yahoo! Japan in which the Company provides advertising and search marketing services to Yahoo! Japan for a service fee and exited the pre-existing Affiliate arrangement. Previously, the Company earned search marketing revenues from advertisers and paid traffic acquisition costs (TAC) to Yahoo! Japan. The Company no longer recognizes marketing services revenues and TAC for the delivery of sponsored search results and payments to Affiliates in Japan as Yahoo! Japan is responsible for the fulfillment of all advertiser and Affiliate services. Under this new arrangement, the Company records marketing services revenues 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 to marketing services revenues, the Company continues to record revenues from license fees from Yahoo! Japan. The prior commercial arrangement resulted in net costs of approximately \$80 million and \$158 million for the three and six months ended June 30, 2007, respectively. The new arrangement resulted in revenues of approximately \$81 million and \$154 million for the three and six months ended June 30, 2008, respectively.

As of December 31, 2007 and June 30, 2008, the Company had a net receivable balance from Yahoo! Japan of approximately \$62 million and \$18 million, respectively. During the three months ended June 30, 2007 and 2008, the Company received cash dividends from Yahoo! Japan in the amounts of \$15 million and \$19 million, net of taxes, respectively, which were recorded as reductions in the Company's investment in Yahoo! Japan. The fair value of the Company's approximate 33 percent ownership interest in Yahoo! Japan, based upon the quoted stock price of Yahoo! Japan as of June 30, 2008, was approximately \$8 billion.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

The following table presents Yahoo! Japan's condensed financial information, as derived from the Yahoo! Japan financial statements, which includes summary operating information for the three and six months ended March 31, 2007 and 2008 and summary balance sheet information as of September 30, 2007 and March 31, 2008 (in thousands):

	Three Months Ended		Six Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2007	2008	2007	2008
Operating data(*):				
Revenues	\$ 482,360	\$ 704,071	\$ 945,352	\$ 1,322,819
Gross profit	\$ 463,882	\$ 598,903	\$ 909,050	\$ 1,129,590
Income from operations	\$ 247,490	\$ 320,249	\$ 482,706	\$ 596,565
Net income	\$ 133,948	\$ 153,423	\$ 262,786	\$ 305,110

	September 30,	March 31,
	2007	2008
Balance sheet data:		
Current assets	\$ 1,131,234	\$ 1,654,826
Long-term assets	\$ 1,783,430	\$ 2,068,145
Current liabilities	\$ 692,337	\$ 896,110
Long-term liabilities	\$ 347,995	\$ 302,242

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

The differences between generally accepted accounting principles in the U.S. and Japan did not materially impact the amounts reflected in the Company's condensed consolidated financial statements.

See Note 17 Subsequent Events for additional information related to Yahoo! Japan's authorized stock repurchase.

Note 5 GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2008 are as follows (in thousands):

	United States	International	Total
Balance as of January 1, 2008	\$ 2,518,848	\$ 1,483,182	\$ 4,002,030
Acquisitions and other(*)	91,984	3,248	95,232
Foreign currency translation adjustments		53,704	53,704
Balance as of June 30, 2008	\$ 2,610,832	\$ 1,540,134	\$ 4,150,966

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

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)****Note 6 INTANGIBLE ASSETS, NET**

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

	December 31, 2007		June 30, 2008	
	Net	Gross Carrying Amount	Accumulated Amortization⁽¹⁾	Net⁽²⁾
Customer, affiliate, and advertiser related relationships	\$ 143,195	\$ 213,084	\$ (85,165)	\$ 127,919
Developed and acquired technology and intellectual property rights	384,041	765,648	(343,565)	422,083
Trademark, trade name, and domain name	84,261	207,258	(141,663)	65,595
Total intangible assets, net	\$ 611,497	\$ 1,185,990	\$ (570,393)	\$ 615,597

(1) Since the acquisition of these intangible assets, foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately \$29 million as of June 30, 2008.

(2) As of December 31, 2007 and June 30, 2008, \$506 million and \$535 million, respectively, of the net intangibles balance were related to the U.S. segment. As of December 31, 2007 and June 30, 2008, \$105 million and \$81 million, respectively, of the net intangibles balance were related to the International segment.

For the three months ended June 30, 2007 and 2008, the Company recognized amortization expense for intangible assets of \$57 million and \$77 million, respectively, including \$32 million in cost of revenues for the three months ended June 30, 2007 and \$54 million in cost of revenues for the three months ended June 30, 2008. For the six months ended June 30, 2007 and 2008, the Company recognized amortization expense for intangible assets of \$113 million and \$147 million, respectively, including \$61 million and \$100 million, respectively, in cost of revenues. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2008 and each of the succeeding years is as follows: six months ending December 31, 2008: \$131 million; 2009: \$172 million; 2010: \$137 million; 2011: \$86 million; 2012: \$56 million; 2013: \$22 million; and cumulatively thereafter: \$12 million.

During the six months ended June 30, 2007 and 2008, the Company licensed \$20 million and \$51 million, respectively, of patents and intellectual property rights, included in the Developed and acquired technology and intellectual property rights category of the intangible assets balances as of June 30, 2007 and 2008, respectively.

Note 7 OTHER INCOME, NET

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Interest and investment income	\$ 33,701	\$ 21,741	\$ 71,838	\$ 44,908
Investment (losses) / gains, net	(3,292)	1,980	(2,843)	(230)
Other	327	953	(2,808)	3,658
Total other income, net	\$ 30,736	\$ 24,674	\$ 66,187	\$ 48,336

Investment (losses) / gains, net includes realized gains and losses related to sales of marketable securities and/or investments in publicly traded or privately held companies as well as any declines in the values of such investments judged to be other than temporary.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)****Note 8 COMPREHENSIVE INCOME**

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Net income	\$ 160,567	\$ 131,215	\$ 302,991	\$ 673,378
Change in net unrealized (losses) / gains on available-for-sale securities, net of tax and reclassification adjustments	(2,326)	1,115	(11,203)	(1,247)
Foreign currency translation adjustments	36,379	107,351	58,687	238,783
Other comprehensive income	34,053	108,466	47,484	237,536
Comprehensive income	\$ 194,620	\$ 239,681	\$ 350,475	\$ 910,914

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

	December 31,	June 30,
	2007	2008
Unrealized gains on available-for-sale securities, net of tax	\$ 26,874	\$ 25,627
Foreign currency translation, net of tax	304,328	543,111
Accumulated other comprehensive income	\$ 331,202	\$ 568,738

Note 9 DEBT

In April 2003, the Company issued \$750 million of the Notes due April 1, 2008 at par bearing no interest, and convertible, under certain circumstances, no later than their April 1, 2008 maturity date.

During the six months ended June 30, 2008, \$750 million of the Notes were converted into 36.6 million shares of Yahoo! common stock. As of December 31, 2007, the Notes were classified as short-term debt, because if conversion had not been requested by the holders of the Notes, the Company would have had to settle the Notes in cash at maturity.

Note 10 STOCK-BASED COMPENSATION

Stock Options. The Company's Amended and Restated 1995 Stock 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 Amended and Restated 1996 Directors' Stock Plan for the six months ended June 30, 2008 is summarized as follows (in thousands, except per share amounts):

	Shares		Weighted Average Exercise Price per Share
Outstanding at December 31, 2007	180,397	\$	29.36
Options granted	4,002	\$	27.69
Options assumed	216	\$	25.78
Options exercised(*)	(17,276)	\$	15.16
Options cancelled, forfeited, or expired	(16,490)	\$	36.55
Outstanding at June 30, 2008	150,849	\$	30.15

(*) The Company's current practice is to issue new shares to satisfy stock option exercises.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

As of June 30, 2008, there was \$332 million of unrecognized stock-based compensation costs related to unvested stock options which is expected to be recognized over a weighted average period of 2.7 years.

The fair value of option grants, including the options granted under the Company's 1996 Employee Stock Purchase Plan (the "Purchase Plan"), was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Stock Options		Purchase Plan	
	Three Months Ended		Three Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.8%	3.1%	4.5%	2.9%
Expected volatility	30.2%	37.5%	30.3%	33.1%
Expected life (in years)	3.75	4.00	1.15	1.15

	Stock Options		Purchase Plan	
	Six Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.7%	2.7%	4.5%	2.9%
Expected volatility	30.4%	34.4%	30.3%	33.1%
Expected life (in years)	3.75	3.94	1.15	1.15

Restricted stock awards and restricted stock units activity for the six months ended June 30, 2008 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2007	30,227	\$ 29.34
Granted	14,611	\$ 26.89
Assumed	686	\$ 28.63
Vested	(5,913)	\$ 29.87
Forfeited	(3,535)	\$ 24.94
Unvested at June 30, 2008	36,076	\$ 28.68

During the six months ended June 30, 2008, 6.0 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 2.0 million was 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.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

As of June 30, 2008, there was \$584 million of unrecognized stock-based compensation costs related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.1 years.

Executive Retention Compensation Arrangement. During 2006, the Compensation Committee of the Company's Board of Directors approved a three-year performance and retention compensation arrangement with Terry Semel, the Company's then Chief Executive Officer (CEO). On June 18, 2007, the executive retention arrangement was terminated due to Mr. Semel's resignation as the CEO of the Company. During the second quarter of 2007, \$16 million of stock-based compensation expense recorded through March 31, 2007 under this arrangement was reversed due to the forfeitures of equity awards. No similar arrangement exists for the current CEO.

Note 11 STOCK REPURCHASE PROGRAMS

In October 2006, the Company's Board of Directors authorized a new stock repurchase program allowing it to repurchase up to \$3.0 billion of its outstanding shares of common stock from time to time over the next five years, depending on market conditions, share price, and other factors. Repurchases may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

During the three months ended June 30, 2008, the Company did not repurchase any shares of common stock. During the six months ended June 30, 2008, the Company repurchased 3.4 million shares of common stock at an average price of \$23.39 per share. Total cash consideration for the repurchased stock was \$79 million. The remaining authorization under the Company's share repurchase program is approximately \$1.1 billion.

Note 12 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under lease agreements with original lease periods of up to 23 years, expiring between 2008 and 2027.

During the six months ended June 30, 2008, the Company entered into an 11 year lease agreement for a data center in the western U.S. The total expected minimum lease commitment is \$105 million. The Company has the option to renew this lease for up to an additional ten years.

A summary of gross and net lease commitments as of June 30, 2008 is as follows (in millions):

	Gross Lease Commitments	Sublease Income	Net Lease Commitments
Six months ending December 31, 2008	\$ 76	\$ (4)	\$ 72
Years ending December 31,			
2009	151	(4)	147
2010	130	(2)	128
2011	109	(2)	107
2012	95		95
2013	86		86
Due after 5 years	344		344

Total gross and net lease commitments	\$	991	\$	(12)	\$	979
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Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent TAC, to its Affiliates. As of June 30, 2008, these commitments totaled \$440 million, of which \$68 million will be payable in the remainder of 2008, \$160 million will be payable in 2009, \$161 million will be payable in 2010, and \$51 million will be payable in 2011.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

Intellectual Property Rights. In connection with the licensing of certain intellectual property, the Company is obligated to invest up to \$18 million through the third quarter of 2008. To the extent the licensed intellectual property will benefit future periods, the Company will capitalize such payments and amortize them over the useful life of the related intellectual property. The Company is also obligated to make certain payments under various intellectual property arrangements of up to \$53 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, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements, services to be provided by the Company, or from intellectual property claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The Company has also agreed to indemnify certain former officers, directors, and employees of acquired companies in connection with the acquisition of such companies. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and officers, and former directors and officers of acquired companies, in certain circumstances. It is not possible to determine the 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 may not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its condensed consolidated financial statements.

As of June 30, 2008, 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, photo and video sites, 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, 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. 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. The complaint sought declaratory and injunctive relief and damages for the alleged infringement. After the lawsuit was commenced, Yahoo! entered into an agreement to acquire LAUNCH, which closed in August

2001, and since that time LAUNCH has been a wholly owned subsidiary of Yahoo!. Because LAUNCH settled the LAUNCH litigation as to all other plaintiffs, BMG Music d/b/a/The RCA Records Label was the sole remaining plaintiff in this proceeding. On April 27, 2007, after a two week jury trial, the jury returned a unanimous verdict in favor of LAUNCH finding no liability. The plaintiff has filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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 current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the Securities 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 19, 2002, plaintiffs filed an amended complaint. On July 15, 2002, the issuers filed an omnibus motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the claims against certain defendants, including Overture. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including Overture, was submitted to the Court for approval. While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The district court directed that the litigation proceed within a number of focus cases rather than in all of the 310 cases that had been consolidated. Overture's case is not one of these focus cases. On October 13, 2004, the district court certified these focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit overturned the district court's class certification decision. Since class certification, which was a condition of the settlement, was not met, the parties stipulated to terminate the settlement. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon this stipulation. Plaintiffs amended complaints in the six cases. On March 26, 2008, the district court denied the motions to dismiss except as to Section 11 claims raised by some plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. Initial briefing on the class certification motion was completed in April 2008. The Company intends to defend the case vigorously.

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 share 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 Securities 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 Securities Exchange Act, and as control persons are subject to liability under Section 20(A) of the Securities Exchange Act. The Consolidated Amended Complaint seeks 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. Defendants filed a motion to dismiss the Consolidated Amended Complaint which will be heard on September 18, 2008, in conjunction with a case management conference.

On May 15, 2007, a stockholder derivative complaint was filed in the California Superior Court, Santa Clara County, by Greg Brockwell against members of the Company's Board of Directors and selected officers. Brockwell seeks to prosecute the action on behalf of the Company, which is named as a nominal defendant, and to obtain relief on behalf of the Company. The complaint alleges breaches of state law,

including breaches of fiduciary duties, waste of corporate assets, unjust enrichment and violations of the California Corporations Code between April 2004 and the present. The derivative complaint alleges facts substantially similar to the Consolidated Amended Complaint in the federal class action litigation, and seeks, on behalf of the Company, treble damages under

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

California law, equitable and injunctive relief, restitution, and reimbursement of costs. Discovery has been initiated, and a status conference is set for August 29, 2008. On June 14, 2007, a second 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 of Directors and selected officers. The complaint filed by Plaintiff Watkins is substantially similar to the complaint filed by Plaintiff Brockwell, with the addition of a claim for relief for alleged violation of Section 10(b) of the Securities Exchange Act. The federal derivative plaintiff (Watkins) has agreed to coordinate her action with the consolidated federal class action litigation. On April 15, 2008, defendants filed a motion to transfer the Watkins federal derivative action to accompany the previously transferred Consolidated Amended Complaint in the Brodsky federal class action litigation. On April 21, 2008, defendants also opposed plaintiff's motion to further amend the complaint to assert allegations relating to Microsoft Corporation's (Microsoft) February 1, 2008 unsolicited proposal to acquire Yahoo! Inc. On April 29, 2008, the Watkins action was transferred to the U.S. District Court for the Northern District of California, and a motion to amend the complaint was denied by the transferring court.

Since February 1, 2008, five separate stockholder lawsuits were filed in the California Superior Court, Santa Clara County, against Yahoo! Inc., members of the Board of Directors and selected former officers by plaintiffs Edward Fritsche, the Thomas Stone Trust, Tom Turberg, Congregation Beth Aaron, and the Louisiana Municipal Police Employees Retirement System (the California Lawsuits). The California Lawsuits were consolidated, and on March 12, 2008, a Consolidated Amended Class Action and Derivative Complaint was filed, captioned, In re Yahoo! Inc. Shareholder Litigation, in Santa Clara County Superior Court. The Consolidated Amended Class and Derivative Complaint alleges that the Yahoo! Board of Directors breached fiduciary duties in connection with Microsoft's unsolicited proposal to acquire Yahoo!. The Consolidated Amended Class and Derivative Complaint seeks declaratory and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs. On March 28, 2008, the Santa Clara County Superior Court granted defendants' motion to stay the Consolidated Amended Class Action and Derivative Complaint pending resolution of similar proceedings pending in Delaware Court of Chancery described below.

Since February 11, 2008, five separate stockholder lawsuits were filed in Delaware Court of Chancery against Yahoo! Inc. and members of the Board of Directors by plaintiffs The Wayne County Employees Retirement System, Ronald Dicke, and The Police and Fire Retirement System of the City of Detroit along with The General Retirement System of the City of Detroit, Plumbers and Pipefitters Local Union No. 630 Pension-Annuity Trust Fund and Vernon A. Mercier (the Delaware Lawsuits). Two of the Delaware Lawsuits (by plaintiff Wayne County and by plaintiff Plumbers and Pipefitters Local Union) were voluntarily dismissed with prejudice. The remaining Delaware Lawsuits were consolidated (lead plaintiff is the Police and Fire Retirement System of the City of Detroit) and lead counsel was appointed. On June 13, 2008, defendants filed a motion to dismiss the operative complaint. On June 16, 2008, the Court denied plaintiffs' renewed request for an expedited trial date and on July 11, 2008 stayed all discovery pending resolution of defendants' motion to dismiss. In lieu of opposing the motion to dismiss, on July 14, 2008, plaintiffs filed a motion for leave of court to file an amended complaint (the Second Amended and Consolidated Complaint). The proposed Second Amended and Consolidated Complaint purports to allege claims against certain former and current members of Yahoo!'s Board of Directors on behalf of all Yahoo! stockholders, except defendants and their affiliates. Yahoo! is named as a nominal defendant only, and no monetary relief is sought against the Company.

The proposed Second Amended and Consolidated Complaint generally alleges that defendants breached fiduciary duties in connection with consideration of proposals by Microsoft to purchase all or part of Yahoo!, adoption of severance plans, the June 12, 2008 agreement between Google Inc. and Yahoo! and purports to allege claims relating to alleged false and misleading statements in Yahoo!'s proxy statement. With regard to

the proxy statement, plaintiffs allege that the proxy statement falsely discloses that the severance plans were designed to help retain the Company's employees, maintain a stable work environment and provide certain economic benefits to the employees in the event their employment is actually or constructively terminated in connection with a change in

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

control of the Company when, according to plaintiffs, the severance plans allegedly (i) were designed to interfere with Microsoft's desire for an orderly integration and to defend against a potential proxy contest, (ii) provide no economic benefit to employees in the event of any reduction in force, reorganization or alternative transaction in lieu of a sale to Microsoft, and (iii) were drafted in a manner that may potentially trigger a tax liability for employees who resign and receive severance. Plaintiffs also allege that the proxy statement is misleading in stating that Compensia advised the Company and F.W. Cook & Co. advised the Compensation Committee of the Board of Directors of the Company with respect to the terms of the plans and that the proxy statement omits to state that Yahoo! management disregarded and withheld from the Board of Directors advice and information provided by Compensia regarding (i) the provisions of the severance plans that allow an employee to obtain severance benefits by claiming a change in the employee's duties or responsibilities following a change in control, (ii) the amount of severance benefits to be paid to senior executives of Yahoo! following a change in control, and (iii) the potential total cost of the severance plans. Plaintiffs also allege that the proxy statement omits to state that neither Compensia nor F.W. Cook & Co. attended any relevant meeting of the Board of Directors or the Compensation Committee. The proposed Second Amended and Consolidated Complaint seeks unspecified compensatory damages, declaratory and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs.

The Company may incur substantial expenses in defending against such claims, and it is not presently possible to accurately forecast their outcome. The Company does not believe, based on current knowledge, that any of the foregoing legal proceedings or claims are likely to have a material adverse effect on its financial position, results of operations, or cash flows. In the event of a determination adverse to Yahoo!, its subsidiaries, directors, or officers, 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.

Change in Control Severance Plans. On February 12, 2008, the Compensation Committee of the Board of Directors of the Company approved two change in control severance plans (the Severance Plans) that, together, cover all full-time employees of the Company, including the Company's Chief Executive Officer, Chief Financial Officer, and the executive officers currently employed by the Company. The Severance Plans are designed to help retain the employees, help maintain a stable work environment, and provide certain economic benefits to the employees in the event their employment is terminated following a change in control of the Company. Benefits under the Severance Plans generally include (1) continuation of the employee's annual base salary, as severance pay for a designated number of months following the employee's severance date; (2) reimbursement for outplacement services; (3) continued medical group health and dental plan coverage for the period the employee receives severance pay; and (4) accelerated vesting of all stock options, restricted stock units, and any other equity-based awards previously granted or assumed by the Company and outstanding as of the severance date.

Note 13 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. Segment operating income before depreciation, amortization, and stock-based compensation expense includes income from operations before depreciation, amortization, and stock-based compensation expense. Management believes that segment operating income before depreciation, amortization, and stock-based compensation expense is an appropriate measure to evaluate the operational performance of the Company's segments. However, this measure should

be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Revenues by segment:				
United States	\$ 1,118,514	\$ 1,264,523	\$ 2,219,271	\$ 2,571,933
International	579,406	533,562	1,150,499	1,043,754
Total revenues	\$ 1,697,920	\$ 1,798,085	\$ 3,369,770	\$ 3,615,687
Segment operating income before depreciation, amortization, and stock-based compensation expense:				
United States	\$ 362,337	\$ 297,869	\$ 703,855	\$ 613,032
International	111,292	129,177	229,809	247,147
Total segment operating income before depreciation, amortization, and stock-based compensation expense	473,629	427,046	933,664	860,179
Depreciation and amortization	(159,893)	(203,357)	(310,895)	(390,868)
Stock-based compensation expense	(128,779)	(123,168)	(268,785)	(248,173)
Income from operations	\$ 184,957	\$ 100,521	\$ 353,984	\$ 221,138
Capital expenditures, net:				
United States	\$ 120,668	\$ 152,731	\$ 220,993	\$ 276,199
International	24,008	23,166	41,702	39,491
Total capital expenditures, net	\$ 144,676	\$ 175,897	\$ 262,695	\$ 315,690
			December 31,	June 30,
			2007	2008
Property and equipment, net:				
United States			\$ 1,182,212	\$ 1,267,521
International			149,420	148,280
Total property and equipment, net			\$ 1,331,632	\$ 1,415,801

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

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2008	2007	2008
Marketing services:				
Owned and Operated sites	\$ 892,290	\$ 1,015,705	\$ 1,711,834	\$ 1,981,381
Affiliate sites	593,742	571,251	1,242,817	1,178,019
Marketing services	1,486,032	1,586,956	2,954,651	3,159,400
Fees	211,888	211,129	415,119	456,287
Total revenues	\$ 1,697,920	\$ 1,798,085	\$ 3,369,770	\$ 3,615,687

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YAHOO! INC.

Notes to Condensed Consolidated Financial Statements (Continued)

Note 14 INCOME TAXES

The effective tax rates for the three and six months ended June 30, 2008 were 38.1 percent and 38.8 percent, respectively, compared to 40.7 percent and 42.9 percent for the same periods in 2007. The effective tax rates for the three and six months ended June 30, 2008 differ from the statutory federal income tax rate of 35.0 percent primarily due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, and the resolution of examinations by taxing authorities. The effective tax rates for the three and six months ended June 30, 2008 were lower than the rates for the same periods in 2007 primarily due to a one-time benefit recorded in the three months ended June 30, 2008 in connection with the resolution of certain tax examinations and due to the effect of items recorded in the three months ended March 31, 2008 related to non-U.S. operations.

The Company's total amount of unrecognized tax benefits as of June 30, 2008 is \$690 million, of which \$243 million is recorded in the financial statements in the deferred and other long-term tax liabilities, net line item of the condensed consolidated balance sheet. The total unrecognized tax benefits as of June 30, 2008 increased by \$4 million from the balance as of December 31, 2007.

The Company has been notified by the Internal Revenue Service and the California Franchise Tax Board that they intend to examine the Company's federal and California income tax returns for the years ended December 31, 2005 and 2006.

During the three months ended March 31, 2008, the Company recorded a deferred tax liability of \$276 million related to its investment in the Alibaba Group. The deferred tax liability resulted primarily from the non-cash gain recorded in the first quarter of 2008 in connection with the IPO of Alibaba.com. See Note 4

Investments in Equity Interests for additional information.

Note 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

All highly liquid investments with an original maturity of three months or less are considered cash equivalents. Investments with effective maturities of less than 12 months from the balance sheet date are classified as current assets. Investments with effective maturities greater than 12 months from the balance sheet date are classified as long-term assets.

The Company's marketable debt and equity securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). Realized gains or losses and declines in value judged to be other than temporary, if any, on available-for-sale securities are reported in other income, net. The Company evaluates the investments periodically for possible other-than-temporary impairment and reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and the Company's ability and intent to hold the investment for a period of time which may be sufficient for anticipated recovery in market value. The Company records impairment charges equal to the amount that the carrying value of its available-for-sale securities exceeds the estimated fair market value of the securities as of the evaluation date, if appropriate. In computing realized gains and losses on available-for-sale securities, the Company determines cost based on amounts paid, including direct costs such as commissions to acquire the security, using the specific identification method.

Effective January 1, 2008, the Company adopted SFAS 157 for financial assets and liabilities. 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

Table of Contents**YAHOO! INC.****Notes to Condensed Consolidated Financial Statements (Continued)**

(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 set forth the financial assets, measured at fair value, by level within the fair value hierarchy as of June 30, 2008 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$ 806,122	\$	\$ 806,122
Available for sale securities			
U.S. Government and agency securities ⁽¹⁾		1,023,400	1,023,400
Municipal bonds ⁽¹⁾		4,672	4,672
Asset-backed securities ⁽¹⁾		25,049	25,049
Commercial paper ⁽¹⁾		550,806	550,806
Corporate debt securities ⁽¹⁾		217,557	217,557
Corporate equity securities ⁽²⁾	102,950		102,950
Total assets at fair value	\$ 909,072	\$ 1,821,484	\$ 2,730,556

(1) The money market funds, U.S. Government and agency securities, municipal bonds, asset-backed securities, commercial paper, and corporate debt securities are classified as part of either cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheet.

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

The amount of cash and cash equivalents as of June 30, 2008 includes \$539 million in cash deposited with commercial banks and \$52 million in bank deposits classified as short-term marketable securities.

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, 2008, the Company did not have any significant Level 3 financial assets or liabilities.

The Company has investments in equity interests that are accounted for using the equity method and are classified as part of the investment in equity interests balance in the condensed consolidated balance sheet.

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YAHOO! INC.

Notes to Condensed Consolidated Financial Statements (Continued)

Note 16 STRATEGIC WORKFORCE REALIGNMENT

During the quarter ended March 31, 2008, the Company implemented a strategic workforce realignment to more appropriately allocate resources to the Company's key strategic initiatives. The strategic realignment involves investing resources in some areas, reducing resources in others, and eliminating some areas of the Company's business that do not support the Company's strategic priorities.

During the quarter ended March 31, 2008, the Company incurred total pre-tax cash charges of approximately \$29 million in severance pay expenses and related cash expenses in connection with the workforce realignment, all of which was recorded in the first quarter of 2008. The pre-tax cash charges were offset by a \$12 million credit related to non-cash stock-based compensation expense reversals for forfeited unvested awards, resulting in a net estimated total strategic workforce realignment pre-tax expense of approximately \$17 million. Of the \$17 million strategic workforce realignment pre-tax expense, \$13 million was related to the U.S. segment and \$4 million was related to the International segment. As of June 30, 2008, the remaining accrual related to the strategic workforce realignment was approximately \$3 million.

Note 17 SUBSEQUENT EVENTS

Yahoo! Japan. On May 23, 2008, Yahoo! Japan authorized a stock repurchase of up to 1.2 million of its shares on the open market. The stock repurchase was completed on July 10, 2008, resulting in an increase in the Company's ownership interest in Yahoo! Japan by approximately 1 percent, to approximately 34 percent. As the Company records its share of the results of Yahoo! Japan one quarter in arrears, the effect of the increased ownership will be reflected in the Company's results beginning in the third quarter of 2008.

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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 for marketing services and fees;

expectations about growth in users;

expectations about cost of revenues and operating expenses;

expectations about our effective tax rate and the amount of unrecognized tax benefits;

expectations about our on-going strategic 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

We are a leading global Internet brand and one of the most trafficked Internet destinations worldwide. We are focused on powering our communities of users, advertisers, publishers, and developers by creating indispensable experiences built on trust. We seek to provide Internet services that are essential and relevant to these communities of users, advertisers, publishers, and developers. Publishers, such as eBay Inc., WebMD, Cars.com, Forbes.com, and the Newspaper Consortium (our strategic partnership with a consortium of more than 20 leading United States (U.S.) newspaper publishing companies), are a subset of our distribution network of third-party entities (referred to as Affiliates) and are primarily Websites and search engines that attract users by providing content of interest, presented on Web pages that have space for advertisements. We manage and measure our business geographically. Our geographic segments are the U.S. and International.

To users, we provide owned and operated online properties and services (Yahoo! Properties or Owned and Operated sites). We also extend our marketing platform and access to Internet users beyond Yahoo! Properties through our Affiliates who have integrated our advertising offerings into their Websites (referred to

as Affiliate sites) or their other offerings.

To advertisers and publishers, we provide a range of marketing solutions and tools that enable businesses to reach users who visit Yahoo! Properties and our Affiliate sites.

To developers, we provide an innovative and easily accessible array of Web Services and Application Programming Interfaces (APIs), technical resources, tools, and channels to market.

We focus on expanding our communities of users and deepening their engagement on Yahoo! Properties to enhance the value of our users to advertisers and publishers and thereby increase the spending of advertisers and

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publishers with us. We believe that we can expand our communities of users by offering compelling Internet services and effectively integrating search, community, personalization, and content to create a powerful user experience. We leverage our user relationships and the social community the users create to enhance our online advertising potential, as well as our fee-based services.

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. Searches is defined as online search queries that may yield Internet search results ranked and sorted based on relevance to the user's search query. Sponsored search results are a subset of the overall search results and provide links to paying advertisers' Web pages. A click-through occurs when a user clicks on an advertiser's language.

We believe the searches, Page Views, click-throughs, and the related marketing services and fees revenues that we generate correlate to the number and activity level of users across our offerings on Yahoo! Properties and the activity level on our Affiliate sites. By providing a platform for our users that brings together our search technology, content, and community while allowing for personalization and integration across devices, we seek to become more essential to, increase our share of, and deepen the engagement of, our users with our products and services. We believe this deeper engagement of new and existing users and our enhanced algorithmic search technology, coupled with the growth of the Internet as an advertising medium may enable us to increase our revenues during 2008.

Second Quarter Highlights

Operating Highlights	Three Months Ended June 30,		2007-2008 Change (In thousands)	Six Months Ended June 30,		2007-2008 Change
	2007	2008		2007	2008	
Revenues	\$ 1,697,920	\$ 1,798,085	\$ 100,165	\$ 3,369,770	\$ 3,615,687	\$ 245,917
Income from operations	\$ 184,957	\$ 100,521	\$ (84,436)	\$ 353,984	\$ 221,138	\$ (132,846)

Cash Flow Highlights	Six Months Ended June 30,		2007-2008 Change (In thousands)
	2007	2008	
Net cash provided by operating activities	\$ 840,303	\$ 1,212,143	\$ 371,840
Net cash provided by (used in) investing activities	\$ 33,093	\$ (873,525)	\$ (906,618)
Net cash (used in) provided by financing activities	\$ (928,673)	\$ 181,523	\$ 1,110,196

Income from operations for the six months ended June 30, 2008 includes a net \$17 million pre-tax strategic workforce realignment, which was recorded in the first quarter of 2008.

Income from operations for the three and six months ended June 30, 2008 includes incremental costs of \$22 million and \$36 million, respectively, for outside advisors related to Microsoft Corporation's (Microsoft) proposals to acquire all or a part of the Company, other strategic alternatives, the recently resolved proxy contest, and related litigation defense costs.

Net cash provided by operating activities for 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., which was recorded in long-term deferred revenue in the first quarter of 2008 and is being recognized in marketing services revenues

over the underlying service period.

In the first half of 2007, we repurchased approximately \$1.0 billion of common stock and also entered into a \$250 million structured share repurchase transaction. In the first half of 2008, we repurchased \$79 million of common stock.

During the six months ended June 30, 2008, our zero coupon senior convertible notes (the Notes) were converted, resulting in the issuance of 36.6 million shares and payment of less than \$1 million in cash.

During the second quarter of 2008, we entered into a non-exclusive services agreement with Google Inc. (Google). The agreement enables Yahoo! to run advertisements supplied by Google alongside Yahoo! s search

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results and on Yahoo! Properties, as well as on Websites of certain partners and Affiliates. The agreement applies to Yahoo! s operations in the U.S. and Canada only. Under the terms of the agreement, Yahoo! will select the search term queries for which, and the pages on which, Yahoo! may offer Google paid search results. Yahoo! will define its users experience and will determine the number and placement of the results provided by Google and the mix of paid results provided by Yahoo!, Google or other providers. The agreement has a term of up to ten years: a four-year initial term and, at Yahoo! s option, two successive three-year renewals. The agreement may be terminated by either party in the event of a change in control of either party and upon certain other events. If Yahoo! has a change in control within twenty four months after the date of the agreement, we must pay Google a termination fee of \$250 million, which is subject to reduction by 50 percent of the net revenues earned by Google under the agreement. Although the agreement is not subject to prior regulatory approval, Yahoo! and Google have voluntarily agreed to delay implementation of the agreement for up to three and a half months while the U.S. Department of Justice reviews the arrangement.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2008	2007	2008
Revenues	100%	100%	100%	100%
Cost of revenues	40	43	41	42
Gross profit	60	57	59	58
Operating expenses:				
Sales and marketing	23	23	22	23
Product development	17	17	15	17
General and administrative	8	10	9	10
Amortization of intangibles	1	1	2	1
Strategic workforce realignment costs, net				1
Total operating expenses	49	51	48	52
Income from operations	11	6	11	6
Other income, net	2	1	2	1
Income before income taxes, earnings in equity interests and minority interests	13	7	13	7
Provision for income taxes	(5)	(3)	(5)	(2)
Earnings in equity interests	1	3	1	14
Minority interests in operations of consolidated subsidiaries	0	0	0	0
Net income	9%	7%	9%	19%

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

	Three Months Ended June 30,			Percent			Six Months Ended June 30,		
	2007	(*)	2008	(*)	Change	2007	(*)	2008	(*)
Marketing services:									
Owned and Operated sites	\$ 892,290	53%	\$ 1,015,705	56%	14%	\$ 1,711,834	51%	\$ 1,981,381	55%
Affiliate sites	593,742	35%	571,251	32%	(4)%	1,242,817	37%	1,178,019	32%
Marketing services fees	\$ 1,486,032	88%	\$ 1,586,956	88%	7%	\$ 2,954,651	88%	\$ 3,159,400	87%
	211,888	12%	211,129	12%	0%	415,119	12%	456,287	13%
Total revenues	\$ 1,697,920	100%	\$ 1,798,085	100%	6%	\$ 3,369,770	100%	\$ 3,615,687	100%

(*) Percent of total revenues.

We currently generate marketing services revenues principally from display advertising on Owned and Operated sites and from sponsored search results generated from searches on Owned and Operated and Affiliate sites. In addition, we receive revenues for Content Match links (advertising on Yahoo! Properties and Affiliate sites which include contextually relevant advertiser links to their respective Websites) on Owned and Operated and Affiliate sites and display advertising on Affiliate sites. The net revenues and related volume metrics from Content Match links and display advertising on Affiliate sites 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. Our revenue growth for the three and six months ended June 30, 2008 was attributable to continuing growth in our search and display advertising businesses.

For the three months ended June 30, 2008, the transition of and changes in certain of our broadband access partnerships, from being fee-paying user-based to an advertising revenue sharing model, also resulted in a decline in fees revenues which were flat compared to the three months ended June 30, 2007.

For the six months ended June 30, 2008, this growth was partially offset by a change in our search marketing relationship with Yahoo! Japan which reduced our reported revenues.

We believe our growing number of users, advertisers, publishers, and inventory, both on and off our network, over recent years has been driving the increases in our marketing services revenues. We also believe our expanding offerings, including our enhanced algorithmic search technology, contribute to our growing number of users. As our user base increases, we process a higher number of searches and generate a higher number of Page Views. We also believe that our growing audience of users makes Yahoo! Properties more attractive to advertisers and increases their spending on marketing services. Further, we believe the growth in users on Yahoo! Properties and on the Internet overall reflects the increasing acceptance, importance, and dependence of users on the Internet. As a result, we believe advertisers are shifting a greater percentage of their spending from traditional media to the Internet to reach this growing online audience.

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, 2008 increased by 14 percent and 16 percent, respectively, as compared to the same periods in 2007. Factors leading to growth in overall marketing services revenues included an increase in user activity levels on Yahoo! Properties, which contributed to a higher volume of searches, Page Views, click-throughs, and ad impression displays. Also, our growing audience of users makes Yahoo! Properties more attractive to advertisers and increases their spending on marketing

services. We expect marketing services revenues from our Owned and Operated sites to continue growing at a rate faster than total 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. Using our updated methodology, for the three and six months ended June 30, 2008 as compared to the same periods in 2007, Page Views increased 23 percent and 21 percent, respectively, and revenue per Page View decreased 7 percent and

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4 percent, respectively. The decrease in revenue per Page View is due to a mix shift to lower-yielding display advertising.

Underlying our marketing services revenues from Owned and Operated sites for the three and six months ended June 30, 2008 is growth in search and display advertising. During the three and six months ended June 30, 2008, revenues from search advertising on Owned and Operated sites grew 18 percent and 19 percent, respectively, compared to the same periods in 2007. During the three and six months ended June 30, 2008, revenues from display advertising on Owned and Operated sites grew 12 percent and 14 percent, respectively, compared to the same periods in 2007.

Marketing Services Revenues from Affiliate sites. Marketing services revenues from Affiliate sites for the three and six months ended June 30, 2008 decreased 4 percent and 5 percent, respectively, as compared to the same periods in 2007. As more inventory becomes available on the Web, it has, and will continue to make, the Affiliate business more competitive; consequently, our portion of revenue share from Affiliate sites is declining. We expect this trend to continue in 2008. However, we also expect to experience some favorable impact from our off-network display initiatives. While this display business is still relatively small, we expect continued growth as our major partnerships gain momentum. The sale of Overture Japan to Yahoo! Japan in the third quarter of 2007 negatively impacted the Affiliate revenues during the three and six months ended June 30, 2008 by approximately \$120 million and \$230 million, respectively, on a year over year basis.

The number of searches on Affiliate sites increased by approximately 18 percent for both the three and six months ended June 30, 2008, as compared to the same periods in 2007. The increase in the volume of searches is primarily attributed to the net increase in the number of Affiliates, as well as increases in searches per Affiliate.

The average revenue per search on our Affiliate sites decreased by 23 percent for both the three and six months ended June 30, 2008, as compared to the same periods in 2007, primarily as a result of a change in traffic mix, as well as due to traffic quality initiatives, and the impact of the aforementioned sale of Overture Japan to Yahoo! Japan.

Fees Revenues. Fees revenues for the three and six months ended June 30, 2008 increased less than 1 percent and 10 percent, respectively, as compared to the same periods in 2007.

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.

The year over year growth in fees revenues is associated with the increase in our licensing fees, mobile services contracts, and fee-based services partially offset by the impact of new broadband arrangements. The market has moved to an environment in which advertising revenue sharing is the prevailing model, and we are evolving our partnerships accordingly. This will result in a reduction in fees revenues associated with these partnerships, but is expected to be offset by increased marketing services revenues associated with the display advertising and sponsored search revenue share arrangements. As we renew contracts with broadband partners and our relationships move from being fee-paying user based to an advertising revenue sharing model, our number of fee-paying users will decrease.

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 paying users for our fee-based services decreased to 10.2 million as of June 30, 2008 compared to 16.9 million as of June 30, 2007, a decrease of 40 percent as a result of these business model changes. Average monthly revenues per paying user was approximately \$4 for both the three and six months

ended June 30, 2008, respectively, compared to approximately \$3 for the same periods in 2007. The increase in average monthly revenues per paying user for both the three and six months ended June 30, 2008 is due to the renegotiation of broadband partnerships from being fee-paying user-based to an advertising revenue sharing model.

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Adjusting the number of fee-paying users as of June 30, 2007 to remove fee-paying users related to our renewed broadband relationships, our fee-paying users would have been 8.4 million. Comparing this adjusted fee-paying user number to the 10.2 million fee-paying users as of June 30, 2008, this yielded an increase of 21 percent.

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

\$

	Three Months Ended June 30,		Percent		Six Months Ended June 30,		Percent			
	2007	(*)	2008	(*)	Change	2007	(*)	2008	(*)	Cha
Cost of revenues	\$ 683,012	40%	\$ 765,911	43%	12%	\$ 1,396,649	41%	\$ 1,520,994	42%	
Sales and marketing	\$ 390,430	23%	\$ 404,899	23%	4%	\$ 757,849	22%	\$ 829,490	23%	
Product development	\$ 281,086	17%	\$ 314,719	17%	12%	\$ 520,586	15%	\$ 620,325	17%	
General and administrative	\$ 133,258	8%	\$ 188,811	10%	42%	\$ 288,423	9%	\$ 359,891	10%	
Amortization of intangibles	\$ 25,177	1%	\$ 23,224	1%	(8)%	\$ 52,279	2%	\$ 46,964	1%	
Strategic workforce realignment costs, net	\$		\$			\$		\$ 16,885	1%	

(*) Percent of total revenues.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2008	2007	2008
Cost of revenues	\$ 2,357	\$ 3,549	\$ 4,364	\$ 6,829
Sales and marketing	52,110	56,306	102,378	121,844
Product development	64,451	46,442	112,751	94,524
General and administrative	9,861	16,871	49,292	37,260
Strategic workforce realignment expense reversals				(12,284)
Total stock-based compensation expense	\$ 128,779	\$ 123,168	\$ 268,785	\$ 248,173

See Note 10 Stock-Based Compensation in the Notes to the condensed consolidated financial statements as well as our Critical Accounting Policies, Judgments, and Estimates for additional information about stock-based compensation.

Cost of Revenues. Cost of revenues consists of traffic acquisition costs and other expenses associated with the production and usage of Yahoo! Properties, including amortization of acquired intellectual property rights and developed technology.

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.

Other Cost of Revenues. Other cost of revenues consist of fees paid to third parties for content, Internet connection charges, data center costs, server equipment depreciation, technology license fees, amortization of acquired intellectual property rights and developed technology, and compensation related expenses (including stock-based compensation expense).

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Cost of revenues are as follows (dollars in thousands):

	Three Months Ended June 30,				Percent	Six Months Ended June 30,				Percent
	2007	(*)	2008	(*)	Change	2007	(*)	2008	(*)	Change
TAC	\$ 454,154	27%	\$ 452,116	25%	0%	\$ 942,928	28%	\$ 917,660	25%	(3)%
Other cost of revenues	228,858	13%	313,795	18%	37%	453,721	13%	603,334	17%	33%
Cost of revenues	\$ 683,012	40%	\$ 765,911	43%	12%	\$ 1,396,649	41%	\$ 1,520,994	42%	9%

(*) Percent of total revenues.

Cost of revenues for the three months ended June 30, 2008 increased \$83 million, or 12 percent, as compared to the same period in 2007. The increase included \$85 million in other costs of revenues offset by a \$2 million decrease in TAC. The year over year increase in other cost of revenues included increases of \$25 million in amortization of technology, developed technology, and intellectual property rights acquired through acquisitions and \$15 million in Internet and telecom connection charges, increased usage, and data center costs. We also experienced increases in the depreciation of server equipment, information technology assets, and maintenance costs of \$20 million, an increase in compensation expense related to additional headcount of \$7 million, and an increase in content costs of \$7 million, driven by our rich media offerings. The increase in the amortization of technology, developed technology, and intellectual property rights acquired resulted from our continued investments in, and acquisitions of, businesses and technology. Increased Internet connection charges, telecom usage, and data center costs supported our growing audience of users, traffic, and new offerings on Yahoo! Properties. The increase in the depreciation of server equipment, information technology assets, and maintenance costs resulted from our continued investments in information technology assets and server equipment. The year over year decrease in TAC was mainly due to the sale of Overture Japan to Yahoo! Japan offset by a slight increase in average TAC rates.

Cost of revenues for the six months ended June 30, 2008 increased \$124 million, or 9 percent, as compared to the same period in 2007. The increase included \$150 million in other costs of revenues offset by a \$26 million decrease in TAC. The year over year increase of \$150 million in other cost of revenues included increases of \$45 million in amortization of technology, developed technology, and intellectual property rights acquired through acquisitions and \$28 million in Internet and telecom connection charges, increased usage, and data center costs. We also experienced increases in the depreciation of server equipment, information technology assets, and maintenance costs of \$35 million, an increase in compensation expense related to additional headcount of \$13 million, and an increase in content costs of \$13 million, driven by our rich media offerings. The increase in the amortization of technology, developed technology, and intellectual property rights acquired resulted from our continued investments in, and acquisitions of, businesses and technology. Increased Internet connection charges, telecom usage, and data center costs supported our growing audience of users, traffic, and new offerings on Yahoo! Properties. The increase in the depreciation of server equipment, information technology assets, and maintenance costs resulted from our continued investments in information technology assets and server equipment. The year over year decrease in TAC was mainly due to the sale of Overture Japan to Yahoo! Japan offset by a slight increase in average TAC rates.

Sales and Marketing. Sales and marketing expenses consist primarily of advertising and other marketing related expenses, compensation related expenses (including stock-based compensation expense), sales commissions, and travel costs.

Sales and marketing expenses for the three months ended June 30, 2008 increased \$14 million, or 4 percent, as compared to the same period in 2007. The year over year increase in sales and marketing expenses was mainly due to increased compensation expense. Compensation expense increased approximately \$19 million, including an additional \$4 million of stock-based compensation expense, due to increases in our sales and marketing headcount. Facilities expenses increased approximately \$5 million primarily due to expanded facilities as a result of our growing headcount. These increases were offset by a decrease of \$7 million in marketing related expenses incurred for our "Be a Better ..." campaign in the prior year, for which no similar expense was recorded in the current period.

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Sales and marketing expenses as a percentage of revenues were 23 percent (including 3 percent related to stock-based compensation expense) for both the three months ended June 30, 2008 and 2007, respectively.

Sales and marketing expenses for the six months ended June 30, 2008 increased \$72 million, or 9 percent, as compared to the same period in 2007. The year over year increase in sales and marketing expenses for the six months ended June 30, 2008 was mainly due to increased compensation expense. Compensation expense increased approximately \$62 million, including an additional \$19 million of stock-based compensation expense due to increases in our sales and marketing headcount. Other sales and marketing expenses increased \$10 million due to an increase in facilities expenses due to expanded facilities as a result of our growing headcount and \$8 million to support our strategic initiatives and the integration of acquisitions. These increases were offset by a decrease of \$8 million in marketing related expenses incurred for our Be a Better ... campaign in the prior year, for which no similar expense was recorded in the current period.

Sales and marketing expenses as a percentage of revenues were 23 percent (including 3 percent related to stock-based compensation expense) and 22 percent (including 3 percent related to stock-based compensation expense) for the six months ended June 30, 2008 and 2007, respectively.

Product Development. Product development expenses consist primarily of compensation related expenses (including stock-based compensation expense) incurred for the development of, enhancements to, and maintenance of Yahoo! Properties and internally used software, classification and organization of listings within Yahoo! Properties, research and development, Yahoo! s technology platforms and infrastructure, and facilities related expenses. Depreciation expense and other operating costs are also included in product development.

Product development expenses for the three months ended June 30, 2008 increased \$34 million, or 12 percent, as compared to the same period in 2007. Approximately \$27 million of the increase was related to compensation expense. The increased compensation expense reflected our continued hiring of engineering talent to further develop and enhance new and existing offerings and services on Yahoo! Properties. Outsourced services increased approximately \$7 million as a result of increased engineering talent for new offerings. We also experienced an increase in facilities expense of \$6 million due to rent expense on our buildings, expanded facilities, and continued investments in information technology equipment and server equipment to support our growing headcount.

Product development expenses as a percentage of revenues were 17 percent (including 3 percent related to stock-based compensation expense) and 17 percent (including 4 percent related to stock-based compensation expense) for the three months ended June 30, 2008 and 2007, respectively.

Product development expenses for the six months ended June 30, 2008 increased \$100 million, or 19 percent, as compared to the same period in 2007. Approximately \$79 million of the increase was related to compensation expense. The increased compensation expense reflected our continued hiring of engineering talent to further develop and enhance new and existing offerings and services on Yahoo! Properties. Outsourced services increased approximately \$10 million as a result of increased engineering talent for new offerings. We also experienced an increase in facilities expense of \$14 million due to rent expense on our buildings, expanded facilities, and continued investments in information technology equipment and server equipment to support our growing headcount.

Product development expenses as a percentage of revenues were 17 percent (including 3 percent related to stock-based compensation expense) and 15 percent (including 3 percent related to stock-based compensation expense) for the six months ended June 30, 2008 and 2007, respectively.

General and Administrative. General and administrative expenses consist primarily of compensation related expenses (including stock-based compensation expense) related to our legal, finance, and human resource organizations and fees for professional services.

General and administrative expenses for the three months ended June 30, 2008 increased \$56 million, or 42 percent, as compared to the same period in 2007. The increase was mainly due to an additional \$30 million in outside service provider expenses. Of the \$30 million increase, we incurred incremental costs of \$22 million primarily for outside advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, the recently resolved proxy contest, and related litigation defense costs. We expect to continue incurring outside advisor costs related to Microsoft's proposals to acquire all or a part of the Company, other

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strategic alternatives, the recently resolved proxy contest, and related litigation defense costs. Compensation expense increased approximately \$21 million due to an increase in our general and administrative headcount and increases in retention bonuses. We also incurred \$4 million in legal settlement expenses during the three months ended June 30, 2008.

General and administrative expenses as a percentage of revenues were 10 percent (including 1 percent related to stock-based compensation expense) and 8 percent (including 1 percent related to stock-based compensation expense) for the three months ended June 30, 2008 and 2007, respectively.

General and administrative expenses for the six months ended June 30, 2008 increased \$71 million, or 25 percent, as compared to the same period in 2007. The increase was mainly due to an additional \$54 million in outside service provider expenses. Of the \$54 million increase, we incurred incremental costs of \$36 million primarily for outside advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, the recently resolved proxy contest, and related litigation defense costs. We expect to continue incurring outside advisor costs related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, the recently resolved proxy contest, and related litigation defense costs. The remaining increase in outside service provider expenses is primarily due to tax advisory and legal expenses of approximately \$13 million. We also incurred \$10 million in legal settlement expenses. Compensation expense increased approximately \$23 million due to a net increase in our general and administrative headcount and increases in retention bonuses. This increase was netted down by a \$12 million decrease in stock-based compensation expense as a result of expense included during the six months ended June 30, 2007 for certain executives who have since left the Company, for which no similar expense was recorded in the current period.

General and administrative expenses as a percentage of revenues were 10 percent (including 1 percent related to stock-based compensation expense) and 9 percent (including 1 percent related to stock-based compensation expense) for the six months ended June 30, 2008 and 2007, respectively.

Amortization of Intangibles. We have purchased, and expect to continue purchasing, assets and/or businesses, which may include the purchase of intangible assets. Amortization of developed technology and acquired intellectual property rights is included in cost of revenues and not in amortization of intangibles.

Amortization of intangibles was approximately \$23 million for the three months ended June 30, 2008, compared to \$25 million for the same period in 2007. Amortization of intangibles was 1 percent of revenues for both the three months ended June 30, 2008 and 2007. The year over year decrease in amortization of intangibles was primarily due to certain intangible assets acquired in prior years being fully amortized and an increase in the weighted amortization periods for acquired intangible assets compared to the prior period, slightly offset by an increase in our asset base during the three months ended June 30, 2008.

During the three months ended June 30, 2008 and 2007, we licensed \$42 million and \$13 million, respectively, of patents and intellectual property rights, included in the Developed and acquired technology and intellectual property rights category of the intangible assets balance as of June 30, 2008 and 2007.

Amortization of intangibles was approximately \$47 million for the six months ended June 30, 2008, compared to \$52 million for the same period in 2007. Amortization of intangibles was 1 percent and 2 percent of revenues for the six months ended June 30, 2008 and 2007, respectively. The year over year decrease in amortization of intangibles was primarily due to certain intangible assets acquired in prior years being fully amortized and an increase in the weighted amortization periods for acquired intangible assets compared to the prior period, slightly offset by an increase in our asset base during the six months ended June 30, 2008.

During the six months ended June 30, 2008 and 2007, we licensed \$51 million and \$20 million, respectively, of patents and intellectual property rights, included in the Developed and acquired technology and intellectual property rights category of the intangible assets balance as of June 30, 2008 and 2007.

Strategic Workforce Realignment Costs, Net. During the quarter ended March 31, 2008, we implemented a strategic workforce realignment to more appropriately allocate resources to our key strategic initiatives. The strategic realignment involves investing resources in some areas, reducing resources in others, and eliminating some areas of our business that do not support our strategic priorities.

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During the quarter ended March 31, 2008, we incurred total pre-tax cash charges of approximately \$29 million in severance pay expenses and related cash expenses in connection with the workforce realignment, all of which was recorded in the first quarter of 2008. The pre-tax cash charges were offset by a \$12 million credit related to non-cash stock-based compensation expense reversals for forfeited unvested awards, resulting in a net estimated total strategic workforce realignment pre-tax expense of approximately \$17 million. Of the \$17 million strategic workforce realignment pre-tax expense, \$13 million was related to the U.S. segment and \$4 million was related to the International segment. As of June 30, 2008, the remaining accrual related to the strategic workforce realignment was approximately \$3 million. See Note 16 Strategic Workforce Realignment 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,		Six Months Ended June 30,	
	2007	2008	2007	2008
Interest and investment income	\$ 33,701	\$ 21,741	\$ 71,838	\$ 44,908
Investment (losses) / gains, net	(3,292)	1,980	(2,843)	(230)
Other	327	953	(2,808)	3,658
Total other income, net	\$ 30,736	\$ 24,674	\$ 66,187	\$ 48,336

Other income, net was \$25 million for the three months ended June 30, 2008, a decrease of \$6 million, as compared to the same period in 2007. Interest and investment income for the three months ended June 30, 2008 decreased mainly from lower average interest rates compared to the same period in 2007. Average interest rates were approximately 2.9 percent in the three months ended June 30, 2008, compared to 4.3 percent in the same period in 2007.

Other income, net was \$48 million for the six months ended June 30, 2008, a decrease of \$18 million, as compared to the same period in 2007. Interest and investment income for the six months ended June 30, 2008 decreased mainly from lower average interest rates as well as lower average invested balances, compared to the same period in 2007. Average interest rates were approximately 3.2 percent in the six months ended June 30, 2008, compared to 4.4 percent in the same period in 2007.

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

Income Taxes. The effective tax rates for the three and six months ended June 30, 2008 were 38.1 percent and 38.8 percent, respectively, compared to 40.7 percent and 42.9 percent for the same periods in 2007. The effective tax rates for the three and six months ended June 30, 2008 differ from the statutory federal income tax rate of 35.0 percent primarily due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense, and the resolution of examinations by taxing authorities. The effective tax rates for the three and six months ended June 30, 2008 were lower than the rates for the same periods in 2007 primarily due to a one-time benefit recorded in the three months ended June 30, 2008 in connection with the resolution of certain tax examinations and due to the effect of items recorded in the three months ended March 31, 2008 related to non-U.S. operations. We currently expect the effective tax rate for fiscal year 2008 to be in the range of 41.2 percent to 44.2 percent.

The total amount of our unrecognized tax benefits as of June 30, 2008 is \$690 million, of which \$243 million is recorded in the financial statements in the deferred and other long-term tax liabilities, net line item of the

condensed consolidated balance sheet. The total unrecognized tax benefits as of June 30, 2008 increased by \$4 million from the balance as of December 31, 2007. 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, 2008 were \$55 million and \$510 million, respectively, as compared to \$32 million and \$61 million for the same periods in 2007. Earnings in equity interests for the six months ended June 30, 2008 included a \$401 million net non-cash gain recorded in the first quarter of 2008 related to Alibaba Group Holding Limited's (Alibaba Group) initial public offering (IPO) of Alibaba.com Limited (Alibaba.com), net of tax. See Note 4 Investments in Equity

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Interests and Note 14 Income Taxes in the Notes to the condensed consolidated financial statements for additional information.

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority holders' percentage share of income or losses from 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. Minority interests in operations of consolidated subsidiaries were less than \$2 million for the both the three and six months ended June 30, 2008, as compared to less than \$1 million and \$2 million, respectively, for the same periods in 2007. Minority interests recorded for the three and six months ended June 30, 2008 and 2007 were related to our Yahoo! 7 joint venture arrangement which was completed in the first quarter of 2006.

Business Segment Results

We manage our business geographically. Our 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. Segment operating income before depreciation, amortization, and stock-based compensation expense includes income from operations before depreciation, amortization, and stock-based compensation expense. Management believes that segment operating income before depreciation, amortization, and stock-based compensation expense is an appropriate measure for evaluating the operational performance of our segments. However, this measure should be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with generally accepted accounting principles in the United States (GAAP).

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

	Three Months Ended June 30,		Percent Change	Six Months Ended June 30,		Percent Change
	2007	(*) 2008		2007	(*) 2008	
Revenues by segment:						
United States	\$ 1,118,514	66%	13%	\$ 2,219,271	66%	71%
International	579,406	34%	(8)%	1,150,499	34%	29%
Total revenues	\$ 1,697,920	100%	6%	\$ 3,369,770	100%	100%

(*) Percent of total revenues.

	Three Months Ended		Percent Change	Six Months Ended		Percent Change
	June 30, 2007	June 30, 2008		June 30, 2007	June 30, 2008	
Segment operating income before depreciation, amortization, and stock-based compensation expense:						

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United States	\$ 362,337	\$ 297,869	(18)%	\$ 703,855	\$ 613,032	(13)%
International	111,292	129,177	16%	229,809	247,147	8%
Total segment operating income before depreciation, amortization, and stock-based compensation expense						
	473,629	427,046	(10)%	933,664	860,179	(8)%
Depreciation and amortization						
	(159,893)	(203,357)	27%	(310,895)	(390,868)	26%
Stock-based compensation expense						
	(128,779)	(123,168)	(4)%	(268,785)	(248,173)	(8)%
Income from operations	\$ 184,957	\$ 100,521	(46)%	\$ 353,984	\$ 221,138	(38)%

Revenues are attributed to individual countries according to the international online property that generated the revenues. No single foreign country accounted for more than 10 percent of revenues for the three and six months ended June 30, 2008 or 2007, respectively.

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United States. U.S. revenues for the three and six months ended June 30, 2008 increased \$146 million, or 13 percent, and \$353 million, or 16 percent, respectively, as compared to the same periods in 2007. Our year over year increases in revenues were a result of growth in advertising across the majority of U.S. Yahoo! Properties. Our expanding user base, which we believe has been attracting more advertisers, has been contributing to our growth in our advertising revenues. For the three months ended June 30, 2008 we experienced a decrease in our fee-based services. Fees revenues were impacted by the decrease in fee-paying users as our broadband relationships transitioned from being fee-paying user-based to an advertising revenue sharing model. U.S. operating income before depreciation, amortization, and stock-based compensation expense for the three and six months ended June 30, 2008 decreased \$64 million, or 18 percent and \$91 million, or 13 percent, respectively, as compared to the same periods in 2007. The decrease is primarily due to a pre-tax cash charge for severance pay expenses and related cash expenditures in connection with a strategic workforce realignment we implemented during the first quarter of 2008 in addition to incremental costs of \$22 million and \$36 million for the three and six months ended June 30, 2008, respectively, for outside advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, the recently resolved proxy contest, and related litigation defense costs.

International. International revenues for the three and six months ended June 30, 2008 decreased \$46 million, or 8 percent, and \$107 million, or 9 percent, respectively, as compared to the same periods in 2007. Most of the international revenues decrease for the three and six months ended June 30, 2008 is the result of the sale of Overture Japan to Yahoo! Japan. Previously, we earned search marketing revenues from advertisers and paid TAC to Yahoo! Japan. In the third quarter of 2007, we commenced a new commercial arrangement with Yahoo! Japan in which we provide advertising and search marketing services to Yahoo! Japan for a service fee. Under this new arrangement, we record marketing services revenues 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. International operating income before depreciation, amortization, and stock-based compensation expense for the three and six months ended June 30, 2008 increased by \$18 million, or 16 percent, and \$17 million, or 8 percent, respectively, as compared to the same periods in 2007.

Our international income from operations has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated by our international subsidiaries are generally denominated in the currencies of the local countries. Using the average foreign currency exchange rates for the three and six months ended June 30, 2007, our international revenues for the three and six months ended June 30, 2008 would have been lower than we reported by approximately \$21 million and \$47 million, respectively.

Critical Accounting Policies, Judgments, 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, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the 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 financial statements for the year ended December 31, 2007 filed on Form 10-K. We have made no significant changes to our critical accounting estimates since December 31, 2007.

Table of Contents**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, 2007	As of June 30, 2008
	(In thousands)	
Cash and cash equivalents	\$ 1,513,930	\$ 2,051,370
Short-term marketable debt securities	487,544	1,019,641
Long-term marketable debt securities	361,998	148,313
Total cash, cash equivalents, and marketable debt securities	\$ 2,363,472	\$ 3,219,324
Percentage of total assets	19%	23%

	Six Months Ended June 30,	
	2007	2008
	(In thousands)	
Cash Flow Highlights		
Net cash provided by operating activities	\$ 840,303	\$ 1,212,143
Net cash provided by (used in) investing activities	\$ 33,093	\$ (873,525)
Net cash (used in) provided by financing activities	\$ (928,673)	\$ 181,523

Our operating activities for the six months ended June 30, 2008 and 2007 generated adequate cash to meet our operating needs. As of June 30, 2008, we had cash, cash equivalents, and marketable debt securities totaling \$3.2 billion, compared to \$2.4 billion at December 31, 2007.

During the six months ended June 30, 2008, we invested \$79 million in direct stock repurchases and used \$57 million for tax withholdings related to net share settlements of restricted stock awards and restricted stock units. Additionally, we invested \$316 million in net capital expenditures and \$180 million in acquisitions, net. The cash used for these investments was offset by \$1.2 billion of cash generated from operating activities (including a \$350 million one-time payment from AT&T Inc. recorded in long-term deferred revenue in the first quarter of 2008) and \$317 million from the issuance of common stock as a result of the exercise of stock options. During the six months ended June 30, 2007, we invested \$1.0 billion in direct stock repurchases and \$250 million in structured stock repurchases. Additionally, we invested \$263 million in net capital expenditures and \$36 million in acquisitions, net. The cash used for these investments was offset by \$840 million of cash generated from operating activities and \$204 million of cash generated from the issuance of common stock as a result of the exercise of stock options.

We expect to continue to generate positive cash flows from operations for the remainder of 2008. 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.

Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities. SFAS 157 establishes 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). See Note 15 Fair Value of Financial Instruments in the Notes to the condensed consolidated financial statements for additional information.

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In the first half of 2007, we repurchased approximately \$1.0 billion of common stock and also entered into a \$250 million structured share repurchase transaction. In the first half of 2008, we repurchased \$79 million of common stock.

Cash flow changes

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, and non-operating gains and losses from sales of investments. Non-cash adjustments include depreciation, amortization, stock-based compensation expense, tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. Cash provided by operating activities was greater than net income in the three months ended June 30, 2008 mainly due to the net impact of non-cash adjustments to income. In the six months ended June 30, 2008 and 2007, operating cash flows were positively impacted by changes in working capital balances including a one-time payment from AT&T Inc., recorded in long-term deferred revenue during the first quarter of 2008.

Cash used in investing activities was primarily attributable to capital expenditures, purchases of intangible assets, as well as acquisitions including our strategic investments. 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. In the six months ended June 30, 2007, we invested \$263 million in net capital expenditures and a net \$36 million in acquisitions.

Cash used in financing activities is driven by our financing activities relating to stock repurchases and employee option exercises. 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 awards and restricted stock units (\$20 million of which relates to reacquired shares in treasury stock related to restricted stock awards). See Note 11 *Stock Repurchase Programs* in the Notes to the condensed consolidated financial statements for additional information. Additionally, we had cash proceeds from employee option exercises of \$317 million for the six months ended June 30, 2008, as compared to \$204 million for the same period in 2007.

During the six months ended June 30, 2007, we used \$1.0 billion in the direct purchase of 34.5 million shares of our common stock at an average price of \$29.39 per share. We also entered into a structured stock repurchase transaction, which settled in cash or stock depending on the market price of our common stock on the date of maturity, resulting in a total cash outlay of \$250 million. In addition, we used \$4 million for tax withholdings related to net share settlements of restricted stock awards and restricted stock units (\$2 million of which relates to reacquired shares in treasury stock related to restricted stock awards).

Financing

During the six months ended June 30, 2008, \$750 million of Notes were converted into 36.6 million shares of Yahoo! common stock and less than \$1 million of cash was paid out. See Note 9 *Debt* in the Notes to the condensed consolidated financial statements for additional information.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$316 million for the six months ended June 30, 2008, compared to \$263 million in the same period in 2007.

Our capital expenditures in 2008 are expected to be consistent with 2007 levels as we continue to invest in the expansion of Yahoo! Properties and our offerings. This level of expenditure, together with the increase in lease commitments, is consistent with our increased headcount and operational expansion, and we anticipate

that this will continue in the future as business conditions merit.

Contractual obligations and commitments

Leases. We have entered into various non-cancelable lease agreements for office space and data centers globally for original lease periods up to 23 years, expiring between 2008 and 2027.

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During the six months ended June 30, 2008, we entered into an 11 year lease agreement for a data center in the western U.S. The total expected minimum lease commitment is \$105 million. We have the option to renew this lease for up to an additional ten years.

A summary of lease commitments as of June 30, 2008 is as follows (in millions):

	Gross Lease Commitments
Six months ending December 31, 2008	\$ 76
Years ending December 31,	
2009	151
2010	130
2011	109
2012	95
2013	86
Due after 5 years	344
Total gross lease commitments	\$ 991

Affiliate Commitments. In connection with our contracts to provide sponsored search and/or display advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of June 30, 2008, these commitments totaled \$440 million, of which \$68 million will be payable in the remainder of 2008, \$160 million will be payable in 2009, \$161 million will be payable in 2010, and \$51 million will be payable in 2011.

Intellectual Property Rights. In connection with the licensing of certain intellectual property, we are obligated to invest up to \$18 million through the third quarter of 2008. To the extent the licensed intellectual property will benefit future periods, we will capitalize such payments and amortize them over the useful life of the related intellectual property. We are also obligated to make certain payments under various intellectual property arrangements of up to \$53 million through 2023.

Income Taxes. As of June 30, 2008, the unrecognized tax benefits that resulted in an accrued liability amounted to \$243 million and are classified as deferred and other long-term tax liabilities, net on our condensed consolidated balance sheets. As of June 30, 2008, 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, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, services to be provided by us, or from intellectual property claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We have also agreed to indemnify certain former officers, directors and employees of acquired companies in connection with the acquisition of such companies. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers. It is not possible to determine the maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements and we have not accrued any

liabilities related to such indemnification obligations in our condensed consolidated financial statements.

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

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

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

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in an approximate \$3 million and \$4 million decrease, in the fair value of our available-for-sale debt securities as of June 30, 2008 and December 31, 2007, respectively.

Foreign Currency Risk. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include British Pounds, Korean Won, Euros, Japanese Yen, Taiwan Dollars, Australian Dollars, and Canadian Dollars. The statements of income of our international operations are translated into U.S. Dollars at the average exchange rates in each applicable period. Using the average foreign currency exchange rates for the three and six months ended June 30, 2007, our international revenues for the three and six months ended June 30, 2008 would have been lower than we reported by approximately \$21 million and \$47 million, respectively. Our international segment operating income before depreciation, amortization, and stock-based compensation expense for the three and six months ended June 30, 2008 would have been lower than we reported by \$11 million and \$19 million, respectively.

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 that will lead to a translation gain or loss that is recorded in accumulated other comprehensive income which is part of stockholders' equity. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. During the three and six months ended June 30, 2008 and 2007, our net foreign currency transaction gains and losses, realized and unrealized, were not material.

Investment Risk. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of June 30, 2008 and 2007, net unrealized gains and losses on these investments were not material.

We are exposed to market risk as it relates to changes in the market value of our investments. We invest in equity instruments of public companies for business and strategic purposes and have classified these securities as available-for-sale. These available-for-sale equity investments are subject to significant fluctuations in fair value due to the volatility of the stock market and the industries in which these companies participate. We have realized gains and losses from the sale of investments, which were not material as of June 30, 2008 and 2007. Our objective in managing exposure to stock market fluctuations is to minimize the impact of stock market declines to earnings and cash flows. Using a hypothetical reduction of 10 percent in the stock price of these equity securities, the fair value of our equity investments would decrease by approximately \$10 million as of June 30, 2008 and 2007.

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Item 4. *Controls and Procedures*

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Securities 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 Securities 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.

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PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see Note 12 Commitments and Contingencies to our 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, 2007, which was filed with the Securities and Exchange Commission on February 27, 2008, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the 10-K for the year ended December 31, 2007.

We face significant competition from large-scale Internet content, product and service aggregators, principally Google, Microsoft and AOL.

We face significant competition from companies, principally Google, Microsoft, and AOL, that have aggregated a variety of Internet products, services, technologies, and content in a manner similar to Yahoo!. Google's Internet search service directly competes with us for Affiliate and advertiser arrangements, both of which are key to our business and operating results. Microsoft's Internet search service also directly competes with us for Affiliate and advertiser arrangements with paid search, and may release features that may make Internet searching capabilities a more integrated part of its Windows operating system. Additionally, Google and Microsoft both offer many other services that directly compete with our services, including Internet advertising solutions, consumer e-mail services, desktop search, local search, instant messaging, photos, maps, video sharing, content channels, mobile applications, and shopping services. AOL has access to content from Time Warner's movie, television, music, book, periodical, news, sports, and other media holdings; access to a network of cable and other broadband users and delivery technologies; advertising offerings; and considerable resources for future growth and expansion. Some of the existing competitors and possible additional entrants may have greater operational, strategic, technological, financial, personnel, or other resources than we do, as well as greater brand recognition either overall or for certain products and services. We expect these competitors increasingly to use their financial and engineering resources to compete with us, individually and potentially in combination with each other. In certain of these cases, most notably AOL, our competition has a direct billing relationship with a greater number of their users through Internet access and other services than we have with our users through our premium services. This relationship may permit such competitors to be more effective than us in targeting services and advertisements to the specific preferences of their users thereby giving them a competitive advantage. If our competitors are more successful than we are in developing compelling products or attracting and retaining users, advertisers, publishers, or developers, then our revenues and growth rates could decline.

We also face competition from other Internet service companies, including Internet access providers, device manufacturers offering online services, Internet advertising companies, and destination Websites.

Our users must access our services through Internet access providers, including wireless providers and providers of cable and broadband Internet access. To the extent that an access provider or device manufacturer offers online services competitive with those of Yahoo!, the user may elect to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider's or manufacturer's own directory or by providing Yahoo! with less prominent listings than the access provider, manufacturer, or a competitor's offerings. Such access providers and manufacturers may prove better able to target services and advertisements to the preferences of their users. If such access providers and device manufacturers are more

successful than we are in developing compelling products or attracting and retaining users or advertisers, then our revenues could decline. Further, to the extent that Internet access providers, mobile service providers, or network providers increase the costs of service to users or restrict Yahoo! s ability to deliver products, services, and content to advertisers or end users or increase our costs of doing so, our revenues could decline.

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We also compete for users and advertisers with many other providers of online services, including Internet advertising companies, destination Websites and social media and networking sites. Some of these competitors may have more expertise in a particular segment of the market, and within such segment, have longer operating histories, larger advertiser or user bases, and more brand recognition or technological features than we offer.

In the future, competitors may acquire additional competitive offerings, and if we are unable to complete strategic acquisitions or investments, our business could become less competitive. Further, competitors may consolidate with each other to become more competitive, and new competitors may enter the market. If our competitors are more successful than we are in developing compelling products or attracting and retaining users, advertisers, publishers, or developers, then our revenues and growth rates could decline.

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

We also compete with traditional media companies for advertising, both offline as well as increasingly with their online assets as media companies offer more content directly from their own Websites. Most advertisers currently spend only a small portion of their advertising budgets on Internet advertising. If we fail to persuade existing advertisers to retain and increase their spending with us and if we fail to persuade new advertisers to spend a portion of their budget on advertising with us, our revenues could decline and our future operating results could be adversely affected.

If we are unable to provide search technologies and other services which generate significant traffic to our Websites, or we are unable to enter into or continue distribution relationships that drive significant traffic to our Websites, our business could be harmed, causing our revenues to decline.

We have deployed our own Internet search technology to provide search results on our network. We have more limited experience in operating our own search service than do some of our competitors. 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 search technologies and other services which generate significant traffic to our Websites, or if we are unable to enter into distribution relationships that continue to drive significant traffic to our Websites, our business could be harmed, causing our revenues to decline.

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

For the quarter ended June 30, 2008, 88 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenue depends upon:

maintaining our user base;

maintaining our popularity as an Internet destination site;

broadening our relationships with advertisers to small-and medium-sized businesses;

attracting advertisers to our user base;

increasing demand for our services by advertisers, users, businesses and Affiliates, including prices paid by advertisers, the number of searches performed by users, the rate at which users click-through to commercial search results and advertiser perception of the quality of leads generated by our

marketing services;

the successful implementation and acceptance of our advertising exchange by advertisers, networks, Affiliates, and publishers;

the successful development and deployment of technology improvements to our advertising platform;

maintaining our Affiliate program for our search marketing;

deriving better demographic and other information from our users; and

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driving acceptance of the Web in general and of Yahoo! in particular by advertisers as an advertising medium.

In many cases, our agreements with advertisers have terms of one year or less, or, in the case of search marketing, 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 with respect to certain categories. 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 spending quickly enough to compensate for any unexpected revenue shortfall.

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

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

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

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

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

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

the revenue we are entitled to receive may be adjusted downwards;

we may be required to make good on our obligations by providing additional advertising or alternative services;

the partners of co-branded services may not renew the arrangements or may renew at less advantageous terms for the Company; and

the arrangements may not generate anticipated levels of shared transactions revenue, or partners may default on the payment commitments in such agreements as has occurred in the past.

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

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

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

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

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

We estimate tax liabilities, the final determination of which is subject to review by domestic and international taxation authorities.

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. We are also subject to review and audit by both domestic and foreign taxation authorities. 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. 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.

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. We may not be able to successfully maintain or enhance consumer awareness of our brands and, even if we are successful in our branding efforts, these efforts may not be cost-effective. If we are unable to maintain or enhance customer awareness of our brands in a cost-effective manner, our business, operating results, and financial condition could be harmed.

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 upon our ability to aggregate compelling content and deliver that content through our online properties. We license much of the content on our online properties, such as news items, stock quotes, weather reports, maps and audio and video content from third-parties. We have been providing increasing amounts of audio and video content to our users, and we believe that users will increasingly demand high-quality audio and video content, such as 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.

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For example, our music and entertainment properties rely on major sports organizations, radio and television stations, record labels, music publishers, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. In addition, as new methods for accessing the 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. Also, to the extent that Yahoo! develops content of its own, Yahoo!'s current and potential third-party content providers may view our services as competitive with their own, and this may adversely affect their willingness to contract with us. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our content providers may increase the prices at which they offer their content to us, and potential content providers may not offer their content 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.

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

We 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. The efforts we have taken to protect our intellectual property and proprietary rights may not be sufficient or effective at stopping unauthorized use of those rights. In addition, effective trademark, patent, copyright, and trade secret protection may not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. There may be instances where we are not able to fully protect or utilize our intellectual property assets in a manner to maximize competitive advantages. Further, while we attempt to ensure that the quality of our brand is maintained by our licensees, our licensees may take actions that could impair the value of our brand, our proprietary rights, or the reputation of our products and media properties. We are aware that third-parties have, from time to time, misused or exploited our brands without permission or copied significant content available on Yahoo! for use in competitive Internet services. Protection of the distinctive elements of Yahoo! may not be available under copyright law or trademark law. If we are unable to protect our proprietary rights from unauthorized use, the value of our brand image may be reduced. Any impairment of our brand could negatively impact our business. In addition, protecting our intellectual property and other proprietary rights is expensive and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results.

We are, and may in the future be, subject to intellectual property infringement 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

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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 or violations of privacy rights or failure to maintain confidentiality of user data. 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.

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 certain third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. The occurrence of any of these results could harm our brand and negatively impact our operating results.

We are subject to U.S. and foreign government regulation of Internet, mobile, and Voice over Internet Protocol 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 Voice over Internet Protocol services both domestically and internationally. The application of existing domestic and international laws and regulations to Yahoo! relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile 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. Recently, plaintiffs have attempted to use U.S. statutes in efforts to recover damages against corporations, including Yahoo!, for alleged human rights abuses committed by foreign governments. 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 Protection Act and the Children's Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability

of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the

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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 could adversely affect our business.

Federal, state, foreign and international laws and regulations may govern the collection, use, retention, sharing and security of data that we receive from our users, advertising partners, and Affiliates. In addition, we have posted on our and 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 consumer 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 or data protection-related 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.

A large number of legislative proposals pending before the U.S. Congress, various federal and state and legislative bodies and foreign governments concern data privacy and retention issues related to our business. It is not possible to predict whether or when such legislation may be adopted. Certain proposals, if adopted, could impose requirements that may result in a decrease in our user registrations and revenues. In addition, 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 data protection 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.

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;

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the impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;

the difficulty of integrating the acquired company's accounting, management information, human resources and other administrative systems;

our lack of, or limitations on, our control over the operations of our joint venture companies;

in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems, and operational differences; and

the impact of known potential liabilities or unknown liabilities associated with the 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.

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

We are continuing to grow, diversify, and evolve our business both in the U.S. and internationally. As a result of the diversification of our business, personnel growth, 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 grow and diversify our business, we must also expand and adapt our operational infrastructure. Our business relies on our data systems, billing systems, and other operational and financial reporting and control systems. All of these systems have become increasingly complex in the recent past due to the growing diversification and complexity of our business, to acquisitions of new businesses with different systems and to increased regulation over controls and procedures. To effectively manage our technical support infrastructure, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures and controls. In particular, any failure of our billing systems to accommodate increasing numbers of transactions and accurately bill users, advertisers, and Affiliates could adversely affect our business and ability to collect revenue. These upgrades and improvements will require a dedication of resources and in some cases are likely to be complex. If we are unable to adapt our systems in a timely manner to accommodate our growth, our business may be adversely affected.

We have announced and are currently implementing on-going strategic initiatives to better and more efficiently manage our business. Implementing these initiatives requires significant time and resource commitments from our senior management. In the event that we are unable to effectively implement these initiatives, we are unable to recruit, maintain the caliber of, or retain key employees as a result of these initiatives or these initiatives do not yield the anticipated benefits, our business may be adversely affected.

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

We offer fee-based enhancements to many of our free services, including 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 and will continue to invest in new products and services. Some of these new products and services may not be profitable or may not meet anticipated user adoption rates. We have

previously discontinued certain 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.

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If our operating expenses continue to increase at a rate faster than we grow revenues as we attempt to expand the Yahoo! brand, fund product development, develop media properties, and acquire other businesses or technologies, our operating results could be reduced.

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

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

We are substantially dependent on the continued services of our senior management who have acquired specialized knowledge and skills with respect to Yahoo! and its operations. The loss of any of these individuals could harm our business. Our business is also dependent on our ability to retain, attract, hire, and motivate 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.

More individuals are utilizing non-Personal Computer (PC), devices to access the Internet and our services, and versions of our services developed or optimized for these devices may not gain widespread adoption by users, manufacturers, or distributors of such devices or may not work on these devices, based on the broad range of unique technical requirements that may be established for each device by their manufacturers and distributors globally.

The number of individuals who access the Internet through devices other than a PC, such as personal digital assistants, mobile telephones, 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, 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.

We plan to expand operations in international markets in which we may have limited experience or rely on business partners.

We plan to expand Yahoo! branded online properties and search offerings in international markets. We have currently developed, through joint ventures, strategic investments, subsidiaries, and branch offices, localized offerings in more than 20 countries outside of the U.S. As we expand into new international markets, we will

have only limited experience in marketing and operating our products and services in such markets. In other instances, we may rely on the efforts and abilities of foreign business partners in such markets. Certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium and so our operations in international markets may not develop at a rate that supports our level of investment.

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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 certain risks inherent in doing business internationally, including:

trade barriers and changes in trade regulations;

difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;

stringent local labor laws and regulations;

longer payment cycles;

credit risk and higher levels of payment fraud;

currency exchange rate fluctuations;

political or social unrest or economic instability;

import or export restrictions;

seasonal volatility in business activity;

risks related to government regulation or required compliance with local laws in certain jurisdictions, including those more fully described above; and

potentially adverse tax consequences.

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

We may be subject to legal liability for online services.

We host a wide variety of services that enable individuals and businesses to exchange information, generate content, advertise products and services, conduct business, and engage in various online activities on a domestic and an international basis. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the 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.

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

We may have difficulty scaling and adapting our existing technology architecture to accommodate increased traffic and technology advances or requirements of our users, advertisers, publishers, and developers.

As one of the most highly trafficked Websites on the Internet, Yahoo! delivers a growing number of products, services, and Page Views to an increasing number of users around the world. In addition, the products and services offered by Yahoo! have expanded and changed significantly and are expected to continue to expand and change rapidly in the future to accommodate new technologies and new means of content delivery, such as rich media, audio, and video. Our future success will depend on our ability to adapt to rapidly changing technologies, to adapt our products and services to evolving industry standards, and to improve the performance and reliability of our products and services. Rapid increases in the levels or types of use of our online properties and services could result in delays or interruptions in our service.

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 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 users, advertisers, and Affiliates to experience delays or interruptions in our service. These changes, delays, or interruptions in our service may cause users, advertisers, and Affiliates to become dissatisfied with our service and move to competing providers of online services or to engage in litigation. 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.

Our business depends on the continued growth and maintenance of the Internet infrastructure.

The success and the availability of our Internet-based products and services depends in part upon the continued growth and maintenance of the Internet infrastructure itself, including its protocols, architecture, network backbone, data capacity, and security. Spam, viruses, worms, spyware, denial of service attacks, phishing, and other acts of malice may affect not only the Internet's speed, reliability, and availability but also its continued desirability as a

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vehicle for commerce, information, and user engagement. If the Internet proves unable to meet the new threats and increased demands placed upon it, our business plans, user and advertiser relationships, site traffic, and revenues could be adversely affected.

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 our search marketing listings on Web pages. As a result, advertisement-blocking technology could reduce the number of advertisements and search results that we are able to deliver and, in turn, our advertising revenues and operating results.

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

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

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

In addition to our relationships with Internet access providers, we have certain distribution agreements and informal relationships with operators of online networks and leading Websites, software companies, electronics companies, and computer manufacturers to increase traffic for our offerings and make them more available and attractive to advertisers and users. Depending on the distributor and the agreement, these distribution arrangements may not be exclusive and may only have a short term. Some of our distributors, particularly distributors who are also competitors or potential competitors, may not renew their distribution agreements with us. In addition, as new methods for accessing the 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 agreements with additional distributors. In the future, existing and potential distributors may not offer distribution of our properties and services to us on reasonable terms, or at all. If we fail to obtain distribution or to obtain distribution on terms that are reasonable, we may not be able to fully execute our business plan.

We rely on third-party providers of 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

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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 fail to prevent click fraud, or other malicious applications or activity of others, or if we choose to manage traffic quality in a way that advertisers find unsatisfactory, we could lose the confidence of our advertisers as well as face potential litigation, government regulation or legislation, which could adversely impact our business and profitability.

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 applications or 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. This could damage our brand and lead to a loss of advertisers and revenue. 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.

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

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

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 GAAP to review our amortizable intangible assets and investments in equity interests for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, and slower growth rates in our industry. Factors that may be considered a change in circumstances indicating that the carrying value of an investment in equity interest may not be recoverable include a decline in the stock price of an equity investee that is a public company or a decline in the operating performance of an equity investee if a private company. We may be

required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill, amortizable intangible assets, or investments in equity interests is determined. This could adversely impact our results of operations.

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Potential continuing uncertainty resulting from Microsoft's various proposals to acquire all or part of Yahoo! and related matters may adversely affect our business.

On January 31, 2008, we received an unsolicited proposal from Microsoft to acquire all of the outstanding shares of common stock of the Company. On February 11, 2008, our Board of Directors announced that, after carefully reviewing the proposal, it unanimously concluded that the proposal was not in the best interests of Yahoo! and our stockholders. On May 3, 2008, Microsoft withdrew its proposal to acquire the Company. Subsequently, Microsoft made other proposals which included acquiring only the Company's search business, and which our Board determined were not in the best interests of Yahoo! and our stockholders. The review and consideration of the various Microsoft proposals and related matters required the expenditure of significant time and resources by us. There can be no assurance that Microsoft will not in the future make other proposals, or take other actions, which may create continuing uncertainty for our employees, publishers, advertisers and other business partners. This continuing uncertainty could negatively impact our business. Additionally, we and members of our Board of Directors have been named in a number of purported stockholder class action complaints relating to the Microsoft proposals as more fully described in Note 12 Commitments and Contingencies to our condensed consolidated financial statements. These lawsuits or any future lawsuits may become time consuming and expensive. These matters, alone or in combination, may harm our business.

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 quarter ended June 30, 2008, the closing sale prices of our common stock on the Nasdaq Global Select Market ranged from \$20.66 to \$28.67 per share and the closing sale price on July 31, 2008 was \$19.89 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 trends in our markets or general economic conditions.

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

In addition, Microsoft's various proposals to acquire all or a part of Yahoo! caused additional substantial volatility in our stock price.

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

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

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*

None.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

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

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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 8, 2008

By:
/s/ BLAKE JORGENSEN

Blake Jorgensen
Chief Financial Officer (Principal Financial Officer)

Dated: August 8, 2008

By:
/s/ MICHAEL MURRAY

Michael Murray
Senior Vice President, Finance and Chief
Accounting Officer (Principal Accounting Officer)

Table of Contents**YAHOO! INC.****Index to Exhibits**

The following exhibits are included, or incorporated by reference, in this Report (and are numbered in accordance with Item 601 of Regulation S-K). Pursuant to Item 601(a)(2) of Regulation S-K, this exhibit index immediately precedes the exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference.)
3.2	Amended and Restated Bylaws of Registrant (Filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference.)
4.1	Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 [the September 22, 2000 Form S-3] and incorporated herein by reference.)
4.2	Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference.)
4.3 **	Form of Senior Note.
4.4 **	Form of Subordinated Note.
4.5 **	Form of Certificate of Designation for Preferred Stock (together with Preferred Stock certificate.)
4.6	Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated herein by reference.)
4.7 **	Form of Warrant Agreement (together with Form of Warrant Certificate.)
4.8	Amended and Restated Rights Agreement, dated as of April 1, 2005, by and between Yahoo! Inc. and Equiserve Trust Company, N.A., as rights agent (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 4, 2005, and incorporated herein by reference.)
10.19 *	Services Agreement, dated as of June 12, 2008, by and between Yahoo! Inc. and Google Inc.
10.20	Agreement, dated July 21, 2008, by and among Yahoo! Inc., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II L.P., Icahn Partners Master Fund III L.P., High River Limited Partnership and Carl C. Icahn. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 21, 2008 and incorporated herein by reference.)
31.1 *	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 8, 2008.
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 8, 2008.
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 8, 2008.

* Filed herewith.

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

Confidential treatment has been requested for certain portions omitted from this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.