

Yahoo! Inc.

Q4'10 Financial Highlights

1.25.2011



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Quarterly Overview

Key Takeaways

- **Revenue ex-TAC of \$1,205 million was above the midpoint of our guidance and consensus.**
- **Operating income for Q4'10 and 2010 grew 85% and 100% year-over-year to \$220 million and \$773 million, respectively.**
- **Operating margins doubled in both 4Q'10 and full year 2010.** Operating margin ex-TAC was 18% in Q4'10 and 17% for the full year.
- **Display advertising momentum remains strong.** Display revenue ex-TAC grew 16% year-over-year in Q4'10 and 17% for the full year.
- **ROIC more than doubled, improving nearly 2.5 times to 13% in 2010.**



Financials and Key Metrics at a Glance

<i>\$ in millions, except per share amounts</i>	Q4'09	Q4'10	Q4'10 YOY
GAAP Revenue	\$1,732	\$1,525	(12%)
Revenue ex-TAC ⁽¹⁾	\$1,258	\$1,205	(4%)
Operating income ⁽²⁾	\$119	\$220	85%
<i>Operating margin ex-TAC ⁽³⁾</i>	9%	18%	+880bps
Net income attributable to Yahoo! Inc. ⁽⁴⁾	\$153	\$312	104%
<i>Net margin ex-TAC ⁽⁵⁾</i>	12%	26%	+1,370bps
EPS attributable to Yahoo! Inc. – diluted	\$0.11	\$0.24	120%
ROIC – last 12 months ⁽⁶⁾	5.5%	13.0%	+750bps
Page view growth ⁽⁷⁾			(1%)
Ending employees	13,900	13,600	(2%)

(1) Revenue excluding traffic acquisition costs (Revenue ex-TAC) is a non-GAAP financial measure defined as GAAP Revenue less TAC. Please refer to supporting Table 1 for reconciliations of GAAP Revenue to Revenue ex-TAC. Traffic acquisition costs (TAC) consists of payments made to Affiliate sites and companies that direct traffic to the Yahoo! websites. Affiliate sites refer to Yahoo!'s distribution network of third-party entities who have integrated Yahoo!'s advertising into their websites or their other offerings.

(2) GAAP Operating income for Q4'10 includes restructuring charges of \$38 million. Excluding these charges, Operating income would have been \$258 million, and Operating margin ex-TAC would have been 21% in the period. Please refer to Table 5 for calculation of Non-GAAP Operating income and presentation of Operating margin on a GAAP basis.

(3) Operating margin ex-TAC is a non-GAAP financial measure calculated as Operating income divided by Revenue ex-TAC. Please refer to Table 5 for GAAP Operating margin.

(4) Net income attributable to Yahoo! Inc. for Q4'10 includes restructuring charges of \$38 million. Excluding these charges, Net income attributable to Yahoo! Inc., EPS attributable to Yahoo! Inc.-diluted, and Net margin ex-TAC would have been \$341 million, \$0.26, and 28%, respectively in the period. Please refer to Tables 7 and 8.

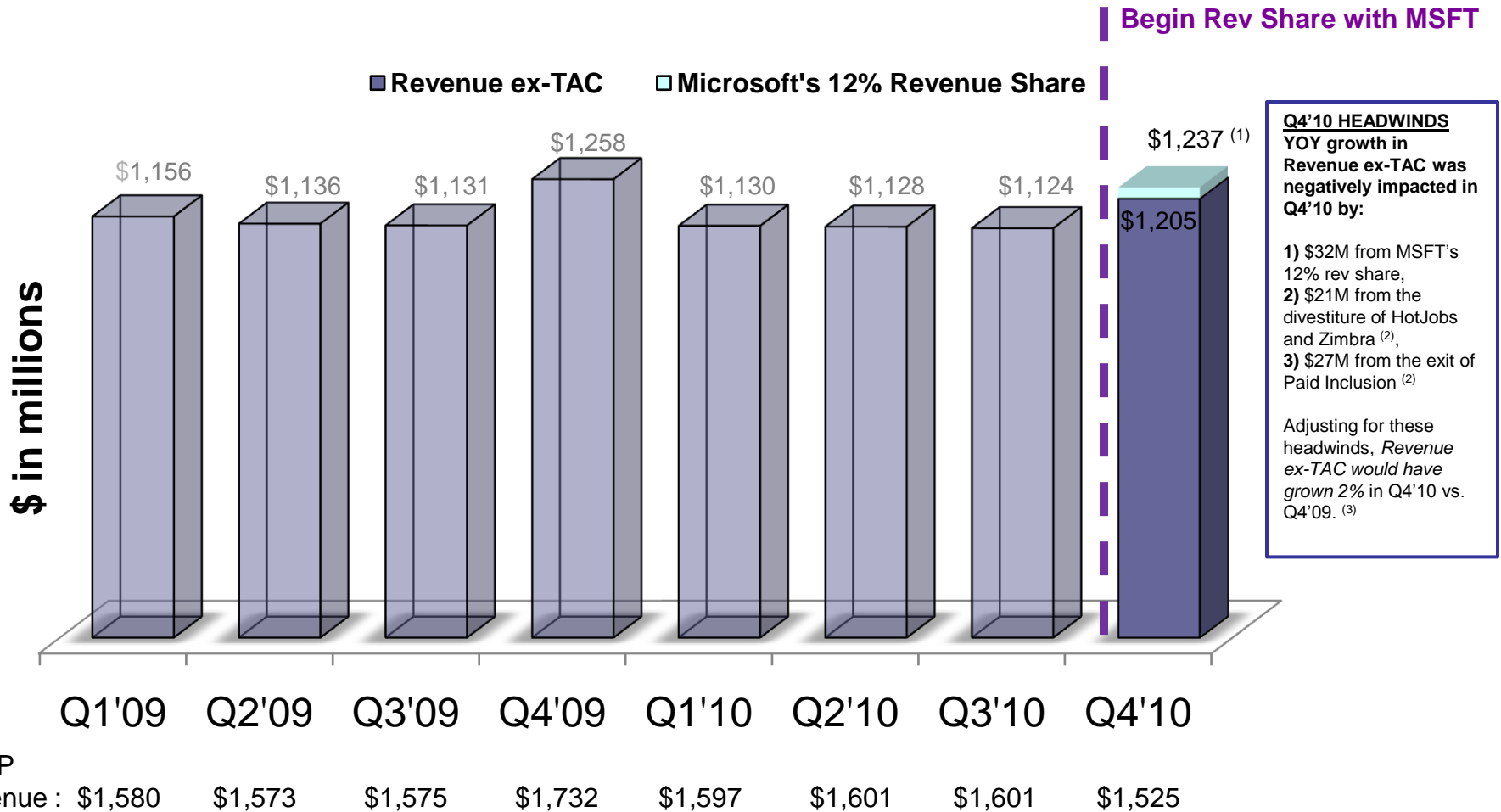
(5) Net margin ex-TAC is a non-GAAP financial measure calculated as Net income attributable to Yahoo! Inc. divided by Revenue ex-TAC. Please refer to Table 7 for GAAP Net margin.

(6) Return on invested capital (ROIC) is presented on a trailing 12 months basis and represents Income from operations after tax divided by Average invested capital. ROIC is calculated as: $(\text{Operating income} \times (1 - \text{Effective tax rate})) / (\text{average Stockholder's equity} + \text{average Net debt} - \text{average Investments in equity interests})$, where the average of such items is calculated as the average of the amounts at the beginning and ending of the 12-month period. Effective tax rate for the period is calculated as $(\text{Provision for income taxes}) / (\text{Income before income taxes and earnings in equity interests})$. Net debt is calculated as $(\text{Total debt}) - ((\text{Cash \& cash equivalents}) + (\text{Short term and Long term marketable debt securities}))$.

(7) 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.



Revenue ex-TAC Trends



- (1) Revenue ex-TAC including Microsoft's 12% revenue share of \$32 million is presented for Q4'10 in order to provide comparable Revenue ex-TAC as if we had not shared any revenue with Microsoft. Please refer to slide 14 for more detailed information.
- (2) Represents the amount of Revenue ex-TAC in Q4'09 that did not recur in Q4'10 due to the intervening divestiture of HotJobs and Zimbra and the discontinuation of our Paid Inclusion ad product, as applicable.
- (3) Please see supporting Table 2 for Revenue growth on a GAAP basis.

Note: Please refer to supporting Table 1 for reconciliations of GAAP Revenue to Revenue ex-TAC.



Revenue ex-TAC Details

<i>\$ in millions</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Display revenue ex-TAC	\$362	\$379	\$384	\$490	\$427	\$445	\$448	\$567
YOY Growth	(16%)	(18%)	(10%)	(2%)	18%	17%	17%	16% ⁽¹⁾
Search revenue ex-TAC	\$495	\$456	\$452	\$473	\$440	\$438	\$428	\$388
YOY Growth	(9%)	(16%)	(18%)	(13%)	(11%)	(4%)	(5%)	(18%) ⁽²⁾
Other revenue ex-TAC	\$299	\$301	\$296	\$296	\$263	\$245	\$248	\$250
YOY Growth	(20%)	(12%)	(16%)	(11%)	(12%)	(19%)	(16%)	(15%)
Total revenue ex-TAC	\$1,156	\$1,136	\$1,131	\$1,258	\$1,130	\$1,128	\$1,124	\$1,205
YOY Growth	(14%)	(16%)	(15%)	(8%)	(2%)	(1%)	(1%)	(4%) ⁽³⁾

Note: The ex-TAC financial measures presented above are presented on a non-GAAP basis. Please refer to supporting Table 2 for a reconciliation of the differences between the most directly comparable GAAP financial measures and such non-GAAP financial measures. Search revenue ex-TAC and Display revenue ex-TAC include revenue from both Yahoo!'s owned and operated online properties and services and Affiliate sites. Other revenue ex-TAC includes listings revenue generated from a variety of consumer and business listings-based services, transaction revenue generated from facilitating commercial transactions through Yahoo! properties, and fee revenue generated from a variety of consumer and business fee-based services.

- (1) Display revenue ex-TAC grew 17% from full year 2009 to full year 2010, and 27% from Q3'10 to Q4'10. GAAP Display revenue grew 15% and 24%, respectively, over the same intervals.
- (2) Search revenue ex-TAC decreased 10% from full year 2009 to full year 2010. GAAP Search revenue decreased 7% over the same interval.
- (3) YOY growth in Total revenue ex-TAC was negatively impacted in Q4'10 by: 1) \$32 million from MSFT's 12% revenue share, 2) \$27 million from discontinuation of our Paid Inclusion ad product, and 3) \$21 million, net from the divestitures of HotJobs and Zimbra. Adjusting for these items, YOY growth in Total revenue ex-TAC would have been 2% in Q4'10. Please see Table 2 for Q4'10 Revenue and YOY growth in Revenue on a GAAP basis.



Geographic Segment Data

<i>\$ in millions</i>	Q4'09	Q4'10	Q4'10 YOY
Americas Segment			
Revenue ex-TAC	\$965	\$889	(8%)
Direct costs ⁽¹⁾	<u>(160)</u>	<u>(142)</u>	(11%)
Contribution by segment	\$805	\$747	(7%)
Segment contribution margin ⁽²⁾	83%	84%	60bps
EMEA Segment			
Revenue ex-TAC	\$110	\$106	(4%)
Direct costs ⁽¹⁾	<u>(29)</u>	<u>(30)</u>	2%
Contribution by segment	\$81	\$76	(6%)
Segment contribution margin ⁽²⁾	73%	72%	(170bps)
Asia Pacific Segment			
Revenue ex-TAC	\$184	\$211	15%
Direct costs ⁽¹⁾	<u>(36)</u>	<u>(40)</u>	11%
Contribution by segment	\$148	\$171	16%
Segment contribution margin ⁽²⁾	81%	81%	60bps

(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Prior to the fourth quarter of 2010, we included TAC in segment direct costs. For comparison purposes, prior period amounts have been revised to conform to the current presentation.

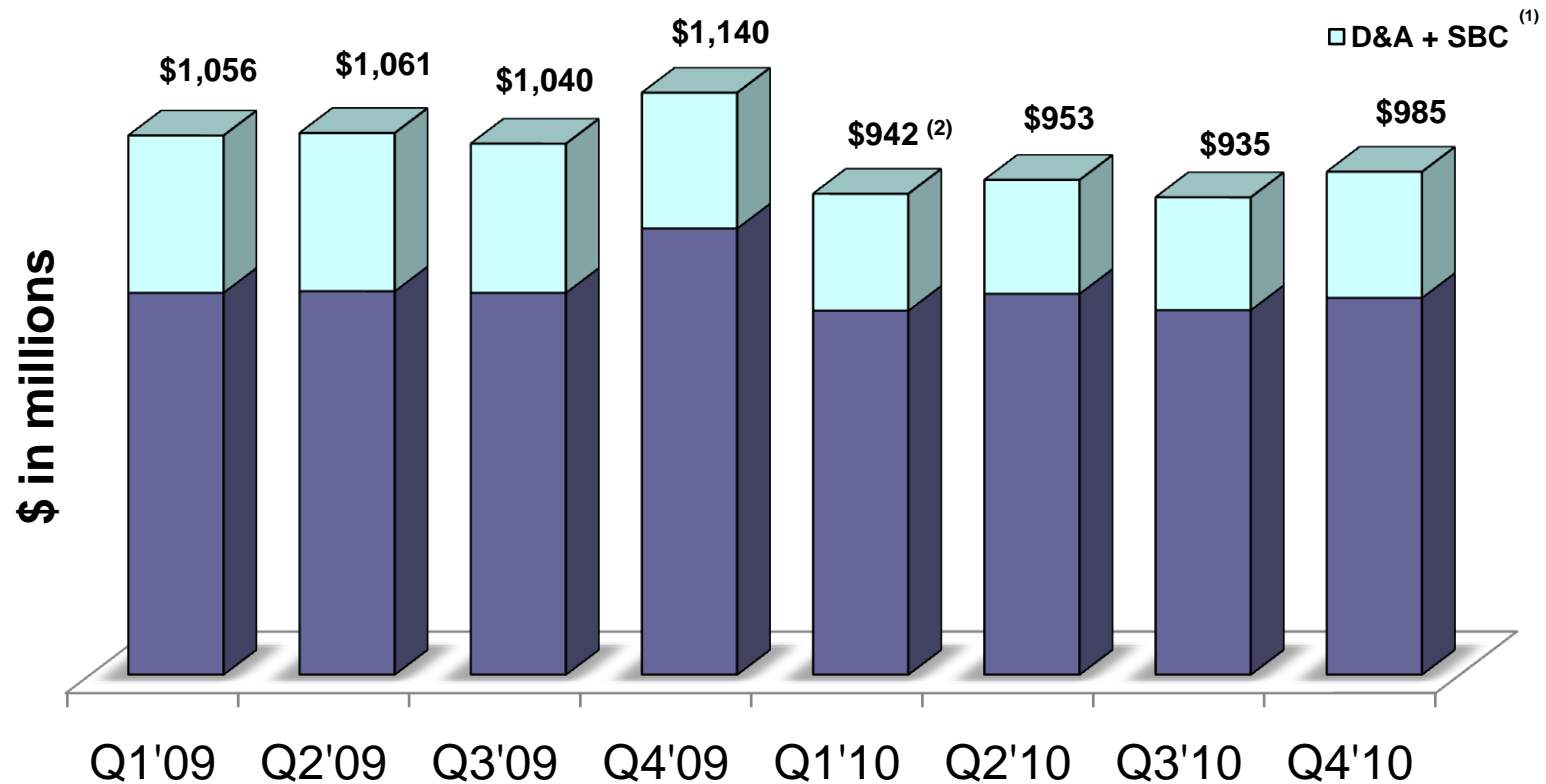
(2) Segment contribution margin is calculated as Contribution by segment divided by Revenue ex-TAC for each segment.

Note: In Q2'10 we reorganized our business segments into three regions: Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. For comparison purposes, prior period amounts have been reclassified to conform to the current presentation.

Note: Please refer to supporting Table 3, "Revenue and Direct Costs by Segment."



Total Expenses less TAC



(1) D&A refers to Depreciation & amortization expense, and SBC refers to Stock-based compensation expense.

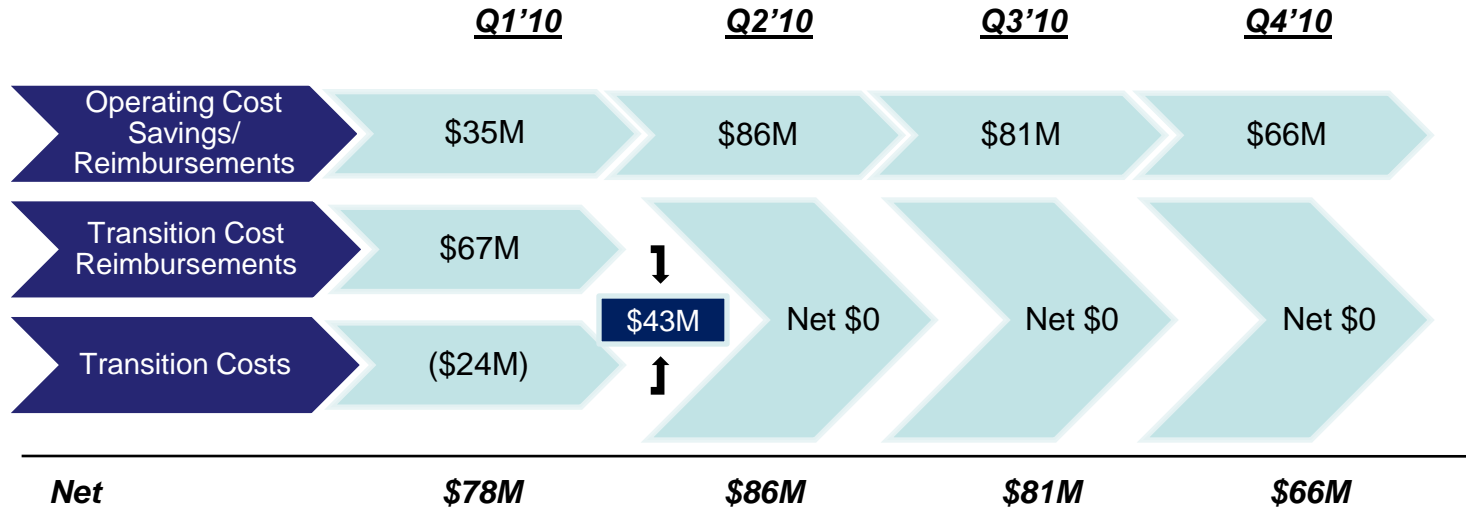
(2) Reflects \$43 million of transition cost reimbursements from Microsoft Corp. recorded in Q1'10 for transition costs incurred in Q3'09 and Q4'09.

Note: Total expenses less TAC is a non-GAAP financial measure defined as Total expenses (GAAP Cost of revenue plus GAAP Total operating expenses) less TAC.

Please refer to supporting Table 4 for reconciliations of Total expenses to Total expenses less TAC.



Yahoo! and Microsoft Search Alliance



Indicative of long-term cost savings, not including 2010 reinvestments

Operating Cost Savings + Reimbursements

- Approximately \$25M - \$30M per month for direct costs of running Yahoo! Search.
- Search operating cost reimbursements are expected to continue to decline as Yahoo! fully transitions all markets to Microsoft's search platform and the underlying expenses are removed from our cost structure.

Transition Cost Reimbursements

- Up to \$150M of reimbursements that Microsoft will pay to Yahoo! over the next two years as specified in the agreement.
- Payments relate to specific transition costs.
- \$21M transition costs in Q4, bringing total to \$124M through Q4'10.

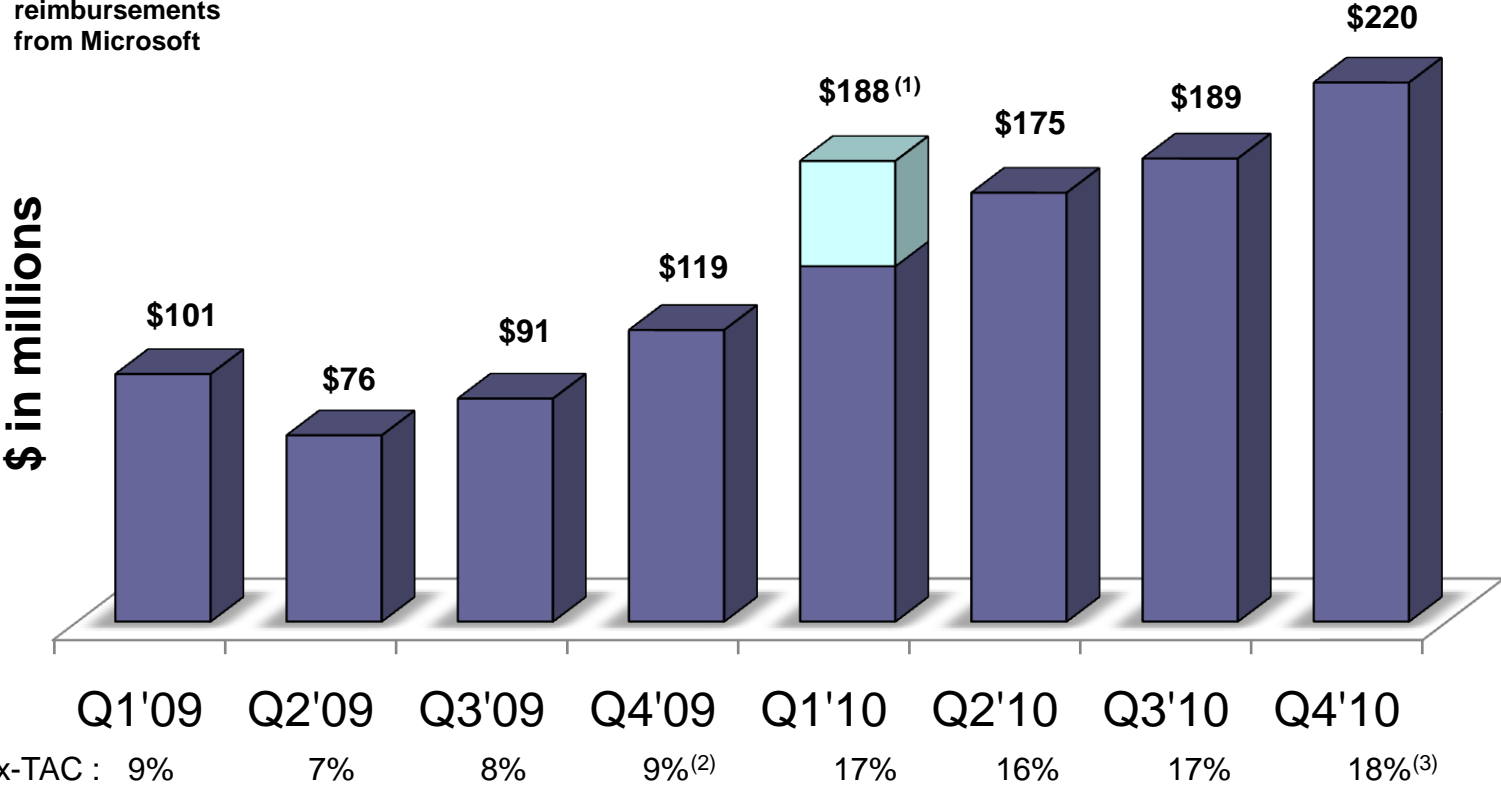
Transition Costs

- Transition costs include sales training, customer migration, consulting, legal, retention and other costs incurred in connection with the transition of search services to Microsoft.



Operating Income

□ Net transition cost reimbursements from Microsoft



(1) Operating income for Q1'10 includes \$43 million of net transition cost reimbursements from Microsoft. See Table 5 for presentation of Non-GAAP Operating income, which excludes certain items that Yahoo! does not consider indicative of its ongoing operating performance.
 (2) Excluding restructuring charges of \$40 million in Q4'09, Operating income would have been \$159 million and Operating margin ex-TAC would have been 13%.
 (3) Excluding restructuring charges of \$38 million in Q4'10, Operating income would have been \$258 million and Operating margin ex-TAC would have been 21%.

Note: Operating margin ex-TAC is a non-GAAP financial measure calculated as Operating income divided by Revenue ex-TAC. Please refer to supporting Table 5 for Operating margin on a GAAP basis.



Key Balance Sheet Metrics

<i>\$ in millions except where noted</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Cash & marketable debt securities ⁽¹⁾	\$3,691	\$4,197	\$4,503	\$4,518	\$4,244	\$3,799	\$3,455	\$3,629
Accounts receivable, net	\$913	\$907	\$907	\$1,003	\$900	\$922	\$939	\$1,030
DSO ⁽²⁾	52	53	53	53	51	52	54	62
Current deferred revenue	\$406	\$417	\$413	\$411	\$352	\$347	\$314	\$255
Market value of 35% ownership in Yahoo Japan (at 12/31/10) ⁽³⁾								\$7,774
Market value of 29% ownership in Alibaba.com (at 12/31/10) ^{(3) (4)}								\$2,661

(1) Cash & marketable debt securities is comprised of Cash and cash equivalents, Short-term marketable debt securities, and Long-term marketable debt securities.

(2) DSO (or days sales outstanding) is calculated as Accounts receivable divided by Total revenue multiplied by Days in the period.

(3) These pre-tax market values are based on public market share prices for Yahoo Japan and Alibaba.com on December 31, 2010.

(4) Yahoo!'s 29% stake in Alibaba.com is held indirectly through its equity interest in Alibaba Group, and the market value presented above does not include estimates for the values of Alibaba Group's privately held businesses.



Key Cash Flow Highlights

<i>\$ in millions</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Share repurchases	\$0	\$0	\$91	\$23	\$385	\$496	\$868	\$0
Net cash provided by operating activities	\$262	\$342	\$355	\$351	\$144	\$347	\$346	\$403
Acquisition of property and equipment, net	\$70	\$95	\$99	\$170	\$113	\$190	\$164	\$247
Free cash flow ⁽¹⁾	\$214	\$266	\$258	\$220	\$64 ⁽²⁾	\$127	\$250	\$155

(1) Free cash flow is a non-GAAP financial measure defined as Net cash provided by operating activities (adjusted to include Excess tax benefits from stock-based awards), less Acquisition of property and equipment, net and Dividends received from equity investees. Please refer to supporting Table 6 for reconciliation of GAAP Cash flow from operating activities to Free cash flow.

(2) Microsoft search operating cost reimbursements and transition cost reimbursements were recognized on the Income statement but not yet received as cash in the first quarter of 2010.



Example – Impact of change in GAAP revenue presentation and revenue share related to Search Alliance ⁽¹⁾

Pre-Search Alliance Transition

GAAP Revenue Presentation – “Gross” basis

	Yahoo! O&O	Affiliate (70% TAC)	Total
GAAP Revenue	\$100	\$100	\$200
Less: TAC ⁽²⁾	(\$5)	(\$70)	(\$75)
Revenue ex-TAC	\$95	\$30	\$125

Post-Search Alliance Transition

GAAP Revenue Presentation – “Net” basis

	Yahoo! O&O	Affiliate (70% TAC)	Total
Search transactions in AdCenter ⁽³⁾	\$100	\$100	\$200
Less: TAC ⁽²⁾	(\$5)	(\$70)	(\$75)
Less: 12% MSFT revenue share ⁽⁴⁾	(\$11)	(\$4)	(\$15)
GAAP Revenue	\$84	\$26	\$110

(1) The numbers presented in this slide are for illustration purposes only and do not reflect actual amounts or actual average TAC rates.

(2) TAC consists of payments made to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo! websites.

(3) Represents dollar value of search transactions in Microsoft’s AdCenter platform attributed to Yahoo! Owned and Operated and Affiliate websites.

(4) Under the Search Agreement, Yahoo! is entitled to an 88% post-TAC revenue share and Microsoft is entitled to a 12% post-TAC revenue share in transitioned markets.



Business Outlook

<i>\$ in millions</i>	Q1'11 Current Outlook
Revenue ex-TAC	\$1,020-\$1,080
Total expenses less TAC	\$890-\$920
Operating income	\$130-\$160

The above business outlook is based on information and expectations as of January 25, 2011. Yahoo! does not intend, and undertakes no duty, to update this business outlook to reflect subsequent events or circumstances; however, Yahoo! may update this business outlook or any portion thereof at any time at its discretion.

Please refer to supporting Table 9 for reconciliations of outlook for Revenue ex-TAC and Total expenses less TAC.





Appendix

Table 1 – Revenue ex-TAC Calculation by Segment

Reconciliations of GAAP Revenue to Revenue ex-TAC

<i>\$ in millions</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Americas								
GAAP Revenue	\$1,216	\$1,186	\$1,178	\$1,273	\$1,155	\$1,133	\$1,147	\$991
TAC	<u>(294)</u>	<u>(294)</u>	<u>(299)</u>	<u>(308)</u>	<u>(282)</u>	<u>(282)</u>	<u>(292)</u>	<u>(102)</u>
Revenue ex-TAC	\$922	\$892	\$878	\$965	\$873	\$851	\$855	\$889
EMEA								
GAAP Revenue	\$147	\$150	\$143	\$159	\$142	\$141	\$133	\$164
TAC	<u>(53)</u>	<u>(55)</u>	<u>(51)</u>	<u>(49)</u>	<u>(53)</u>	<u>(50)</u>	<u>(49)</u>	<u>(58)</u>
Revenue ex-TAC	\$94	\$95	\$92	\$110	\$88	\$90	\$84	\$106
Asia Pacific								
GAAP Revenue	\$218	\$237	\$255	\$300	\$300	\$328	\$322	\$371
TAC	<u>(77)</u>	<u>(87)</u>	<u>(94)</u>	<u>(116)</u>	<u>(131)</u>	<u>(141)</u>	<u>(136)</u>	<u>(160)</u>
Revenue ex-TAC	\$141	\$150	\$161	\$184	\$169	\$187	\$185	\$211
Worldwide								
GAAP Revenue	\$1,580	\$1,573	\$1,575	\$1,732	\$1,597	\$1,601	\$1,601	\$1,525
TAC	<u>(424)</u>	<u>(437)</u>	<u>(444)</u>	<u>(474)</u>	<u>(467)</u>	<u>(473)</u>	<u>(477)</u>	<u>(320)</u>
Revenue ex-TAC	\$1,156	\$1,136	\$1,131	\$1,258	\$1,130	\$1,128	\$1,124	\$1,205

Note: Revenue ex-TAC is a non-GAAP financial measure defined as GAAP Revenue less TAC.

Note: In Q2'10 we reorganized our business segments into three regions: Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. For comparison purposes, prior period amounts have been reclassified to conform to the current presentation.



Table 2 – Revenue Details

Reconciliations of GAAP Revenue Details to Revenue ex-TAC Details

<i>\$ in millions</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Display								
GAAP Display revenue	\$417	\$445	\$445	\$560	\$491	\$514	\$514	\$635
YOY Growth	(13%)	(14%)	(9%)	(0%)	18%	16%	16%	14%
Display TAC	<u>(55)</u>	<u>(66)</u>	<u>(61)</u>	<u>(70)</u>	<u>(64)</u>	<u>(70)</u>	<u>(66)</u>	<u>(68)</u>
Display revenue ex-TAC	\$362	\$379	\$384	\$490	\$427	\$445	\$448	\$567
Search								
GAAP Search revenue	\$863	\$825	\$833	\$875	\$841	\$842	\$839	\$640
YOY Growth	(10%)	(12%)	(12%)	(4%)	(3%)	2%	1%	(27%)
Search TAC	<u>(368)</u>	<u>(369)</u>	<u>(382)</u>	<u>(402)</u>	<u>(401)</u>	<u>(404)</u>	<u>(410)</u>	<u>(252)</u>
Search revenue ex-TAC	\$495	\$456	\$452	\$473	\$440	\$438	\$428	\$388
Other								
GAAP Other revenue	\$300	\$303	\$297	\$298	\$265	\$245	\$248	\$250
YOY Growth	(20%)	(13%)	(16%)	(11%)	(12%)	(19%)	(16%)	(16%)
Other TAC	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
Other revenue ex-TAC	\$299	\$301	\$296	\$296	\$263	\$245	\$248	\$250
Total								
GAAP Revenue	\$1,580	\$1,573	\$1,575	\$1,732	\$1,597	\$1,601	\$1,601	\$1,525
YOY Growth	(13%)	(13%)	(12%)	(4%)	1%	2%	2%	(12%)(1)
TAC	<u>(424)</u>	<u>(437)</u>	<u>(444)</u>	<u>(474)</u>	<u>(467)</u>	<u>(473)</u>	<u>(477)</u>	<u>(320)</u>
Revenue ex-TAC	\$1,156	\$1,136	\$1,131	\$1,258	\$1,130	\$1,128	\$1,124	\$1,205

(1) YOY growth in total GAAP Revenue was negatively impacted by: (a) \$32 million from Microsoft's 12 percent revenue share, (b) \$173 million from the change in GAAP revenue presentation related to the Search Alliance (see slide 14), (c) \$27 million from the discontinuance of our Paid Inclusion ad product, and (d) \$21 million, net from the divestitures of HotJobs and Zimbra. Adjusting for these items, YOY growth in total Revenue would have been 3% in Q4'10.

Note: Revenue ex-TAC is a non-GAAP financial measure defined as GAAP Revenue less TAC.



Table 3 – Revenue and Direct Costs by Segment

<i>\$ in millions</i>	Q4'09	Q4'10
Revenue by segment:		
Americas	\$1,273.1	\$990.7
EMEA	158.8	163.7
Asia Pacific	<u>300.1</u>	<u>370.7</u>
Total revenue	1,732.0	1,525.1
TAC	<u>(473.5)</u>	<u>(319.9)</u>
Total revenue ex-TAC	\$1,258.5	\$1,205.3
Direct costs by segment⁽¹⁾:		
Americas	\$159.7	\$141.9
EMEA	29.4	30.1
Asia Pacific	35.8	39.9
Global operating costs ⁽²⁾	608.2	510.5
Restructuring charges, net	40.4	37.7
Depreciation and amortization	181.8	171.2
Stock-based compensation	<u>84.4</u>	<u>54.0</u>
Income from operations	\$118.8	\$220.0

(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Prior to the fourth quarter of 2010, we included TAC in segment direct costs. For comparison purposes, prior period amounts have been revised to conform to the current presentation.

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



Table 4 – Total Expenses

Reconciliations of Total Expenses to Total Expenses less TAC

\$ millions

	Quarterly Data							
	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10 (1)	Q2'10	Q3'10	Q4'10
Total expenses less TAC:								
Total expenses (GAAP Cost of revenue + GAAP Total operating expenses)	\$ 1,479	\$ 1,497	\$ 1,484	\$ 1,613	\$ 1,409	\$ 1,426	\$ 1,412	\$ 1,305
Less: Traffic acquisition costs ("TAC")	424	437	444	474	467	473	477	320
Total expenses less TAC	<u>\$ 1,056</u>	<u>\$ 1,061</u>	<u>\$ 1,040</u>	<u>\$ 1,140</u>	<u>\$ 942</u>	<u>\$ 953</u>	<u>\$ 935</u>	<u>\$ 985</u>

(1) Total expenses for Q1'10 reflect \$43 million of transition cost reimbursements from Microsoft recorded in Q1'10 for transition costs incurred by Yahoo! in Q3'09 and Q4'09.



Table 5 - Non-GAAP Operating Income Calculation

Reconciliation of GAAP Operating Income to Non-GAAP Operating Income, with Details on Adjustments

\$ in thousands

	Quarterly Data								Year Ended	
	Q1'09	Q2'09	Q3'09	Q4'09 ⁽⁴⁾	Q1'10	Q2'10	Q3'10	Q4'10 ⁽⁴⁾	12/31/2009	12/31/2010
GAAP Operating income	<u>\$ 100,685</u>	<u>\$ 75,753</u>	<u>\$ 91,499</u>	<u>\$ 118,755</u>	<u>\$ 188,021</u>	<u>\$ 175,372</u>	<u>\$ 189,155</u>	<u>\$ 219,976</u>	<u>\$ 386,692</u>	<u>\$ 772,524</u>
(a) Transition costs, net of reimbursements from Microsoft ⁽¹⁾	-	-	11,287	32,013	(43,300)	-	-	-	43,300	(43,300)
(b) Incremental costs for advisors related to strategic alternatives and related matters ⁽²⁾	3,709	2,596	854	-	-	-	-	-	7,159	-
(c) Restructuring charges, net	4,801	65,002	16,689	40,409	4,412	10,052	5,758	37,735	126,901	57,957
Non-GAAP Operating income	<u>\$ 109,195</u>	<u>\$ 143,351</u>	<u>\$ 120,329</u>	<u>\$ 191,177</u>	<u>\$ 149,133</u>	<u>\$ 185,424</u>	<u>\$ 194,913</u>	<u>\$ 257,711</u>	<u>\$ 564,052</u>	<u>\$ 787,181</u>
GAAP Revenue	\$ 1,580,042	\$ 1,572,897	\$ 1,575,399	\$ 1,731,977	\$ 1,596,960	\$ 1,601,379	\$ 1,601,203	\$ 1,525,109	\$ 6,460,315	\$ 6,324,651
GAAP Operating margin	6%	5%	6%	7%	12%	11%	12%	14%	6%	12%
Non-GAAP Operating margin⁽³⁾	7%	9%	8%	11%	9%	12%	12%	17%	9%	12%

- (1) Non-GAAP Operating income excludes reimbursements for prior periods. The net reimbursement adjustment of \$43 million in Q1'10 is equal to the transition costs of \$11 million and \$32 million incurred in the three months ended September 30, 2009 and December 31, 2009, respectively, in connection with the Search Agreement.
- (2) Includes incremental costs for advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, including the Google agreement, the proxy contest, and related litigation defense.
- (3) Non-GAAP Operating margin is calculated as Non-GAAP Operating income divided by GAAP Revenue.
- (4) Excluding restructuring charges of \$40 million in Q4'09 and \$38 million in Q4'10, Operating income would have been \$159 million in Q4'09 and \$258 million in Q4'10, an increase of 62% (whereas GAAP Operating income increased by 85% between the same periods). Excluding the restructuring charges, Operating margin would have been 9% in Q4'09 and 17% in Q4'10, an increase of 800 basis points (whereas GAAP Operating margin increased 800 basis points between the same periods).



Table 6 - Free Cash Flow Calculation

Reconciliation of GAAP Cash Flow from Operating Activities to Free Cash Flow

<i>\$ in millions</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Free cash flow:								
Cash flow from operating activities	\$262.3	\$341.8	\$355.1	\$351.1	\$143.6	\$347.0	\$346.5	\$403.1
Excess tax benefits from stock-based awards	22.1	45.1	2.9	38.4	32.9	31.1	67.6	(0.6)
Acquisition of property & equipment, net	(70.5)	(94.7)	(98.9)	(169.7)	(112.5)	(190.3)	(163.9)	(247.4)
Dividends received from equity investees	=	<u>(26.1)</u>	<u>(1.5)</u>	=	=	<u>(60.9)</u>	=	=
Total	\$214.0	\$266.0	\$257.7	\$219.7	\$63.9	\$126.9	\$250.2	\$155.2

Note: Free cash flow (FCF) is a non-GAAP financial measure defined as GAAP Net cash provided by operating activities (adjusted to include excess tax benefits from stock-based awards), less net capital expenditures and dividends received. The excess tax benefits from stock-based awards, as reported on the statements of cash flows in cash flows from financing activities, represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised/awards released in current and prior periods.



Table 7 – Non-GAAP Net Income Per Share Calculation

Reconciliation of GAAP Net Income Attributable to Yahoo! Inc. and GAAP Net Income Attributable to Yahoo! Inc. Common Stockholders Per Share - Diluted to Non-GAAP Net Income and Non-GAAP Net Income Per Share - Diluted

<i>in millions, except per share amounts</i>	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
GAAP Net income attributable to Yahoo! Inc.	\$117.6	\$141.4	\$186.1	\$153.0	\$310.2	\$213.3	\$396.1	\$312.0
Adjustments	<u>5.6</u>	<u>4.0</u>	<u>(40.8)</u>	<u>47.2</u>	<u>(90.3)</u>	<u>6.8</u>	<u>(175.4)</u>	<u>28.5</u>
Non-GAAP Net income	\$123.1	\$145.4	\$145.3	\$200.2	\$219.9	\$220.1	\$220.8	\$340.5
GAAP Revenue	\$1,580.0	\$1,572.9	\$1,575.4	\$1,732.0	\$1,597.0	\$1,601.4	\$1,601.2	\$1,525.1
GAAP Net margin	7%	9%	12%	9%	19%	13%	25%	20%
Non-GAAP Net margin	8%	9%	9%	12%	14%	14%	14%	22%
GAAP Net income attributable to Yahoo! Inc. common Stockholders per share – diluted	\$0.08	\$0.10	\$0.13	\$0.11	\$0.22	\$0.15	\$0.29	\$0.24
Non-GAAP Net income per share - diluted	\$0.09	\$0.10	\$0.10	\$0.14	\$0.15	\$0.16	\$0.16	\$0.26
Diluted shares outstanding	1,406.5	1,414.3	1,424.9	1,417.0	1,413.4	1,390.2	1,343.1	1,311.7

(1) Non GAAP Net margin is calculated as Non-GAAP Net income divided by GAAP Revenue.

Note: All per share amounts are based on fully diluted share counts. Please refer to supporting Table 8 for details on Adjustments.

Beginning in Q1'10, our presentation of Non-GAAP Net income no longer excludes stock-based compensation expense and its related tax effects. For comparison purposes, prior period amounts have been revised to conform to the current presentation.



Table 8 - Non-GAAP Net Income Calculation

Reconciliation of GAAP Net Income Attributable to Yahoo! Inc. to Non-GAAP Net Income, with Details on Adjustments

\$ in thousands

	Quarterly Data							
	Q1'09	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
GAAP Net income attributable to Yahoo! Inc.	<u>\$ 117,558</u>	<u>\$ 141,387</u>	<u>\$ 186,093</u>	<u>\$ 152,954</u>	<u>\$ 310,191</u>	<u>\$ 213,321</u>	<u>\$ 396,131</u>	<u>\$ 312,020</u>
(a) Transition costs net of reimbursements from Microsoft ⁽¹⁾	-	-	11,287	32,013	(43,300)	-	-	-
(b) Incremental costs for advisors related to strategic alternatives and related matters ⁽²⁾	3,709	2,596	854	-	-	-	-	-
(c) Restructuring charges, net	4,801	65,002	16,689	40,409	4,412	10,052	5,758	37,735
(d) Gain on sale of Gmarket investment	-	(66,684)	-	-	-	-	-	-
(e) Gain on sale of the Company's direct investment in Alibaba.com	-	-	(98,167)	-	-	-	-	-
(f) Gain on sale of HotJobs	-	-	-	-	-	-	(186,345)	-
(g) Gain on sale of Zimbra, Inc.	-	-	-	-	(66,130)	-	-	-
(h) To adjust the provision for income taxes to reflect the tax impact of items (a) - (g)	(2,957)	3,103	28,516	(25,200)	14,686	(3,271)	5,223	(9,207)
Non-GAAP Net income	<u>\$ 123,111</u>	<u>\$ 145,404</u>	<u>\$ 145,272</u>	<u>\$ 200,176</u>	<u>\$ 219,859</u>	<u>\$ 220,102</u>	<u>\$ 220,767</u>	<u>\$ 340,548</u>

(1) Non-GAAP Net income excludes reimbursements for prior periods. The net \$43 million reimbursement adjustment in Q1'10 is equal to the transition costs of \$11 million and \$32 million incurred in the three months ended September 30, 2009 and December 31, 2009, respectively, in connection with the Search Agreement.

(2) Includes incremental costs for advisors related to Microsoft's proposals to acquire all or a part of the Company, other strategic alternatives, including the Google agreement, the proxy contest, and related litigation defense.



Table 9 – Business Outlook Reconciliations

Reconciliations of Outlook for GAAP Revenue to Revenue ex-TAC and Total expenses to Total expenses less TAC

	Three Months Ending March 31, 2011
	(in millions)
	<hr/>
Revenue excluding TAC:	
GAAP Revenue ⁽¹⁾	\$ 1,150 - 1,230
Less: TAC ⁽¹⁾	130 - 150
Revenue ex-TAC	\$ <u>1,020 - 1,080</u>
 Total expenses less TAC:	
Total expenses (GAAP Cost of revenue + GAAP Total operating expenses)	\$ 1,020 - 1,070
Less: TAC ⁽¹⁾	130 - 150
Total expenses less TAC	\$ <u>890 - 920</u>

(1) As a result of the required change in revenue presentation and the revenue share with Microsoft in transitioned markets, Yahoo!'s Q1'11 business outlook at the midpoint of the ranges for GAAP Revenue and TAC is lower than it otherwise would have been by approximately \$207 million and \$171 million, respectively.

The above business outlook is based on information and expectations as of January 25, 2011. Yahoo! does not intend, and undertakes no duty, to update the business outlook to reflect subsequent events or circumstances; however, Yahoo! may update the business outlook or any portion thereof at any time at its discretion.

