

YAHOO INC

FORM 10-Q (Quarterly Report)

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Address	YAHOO! INC. 701 FIRST AVENUE SUNNYVALE, CA 94089
Telephone	4083493300
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Symbol	YHOO
SIC Code	7373 - Computer Integrated Systems Design
Industry	Advertising
Sector	Technology
Fiscal Year	12/31

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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 March 31, 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 0-28018

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

Class	Outstanding at April 30, 2008
Common Stock, \$0.001 par value	1,375,835,884

YAHOO! INC.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended	
	March 31, 2007	March 31, 2008
	(Unaudited, in thousands except per share amounts)	
Revenues	\$1,671,850	\$1,817,602
Cost of revenues	713,637	755,083
Gross profit	958,213	1,062,519
Operating expenses:		
Sales and marketing	367,419	424,591
Product development	239,500	305,606
General and administrative	155,165	171,080
Amortization of intangibles	27,102	23,740
Strategic workforce realignment costs, net	—	16,885
Total operating expenses	789,186	941,902
Income from operations	169,027	120,617
Other income, net	35,451	23,662
Income before income taxes, earnings in equity interests, and minority interests	204,478	144,279
Provision for income taxes	(92,358)	(56,973)
Earnings in equity interests	29,149	454,782
Minority interests in operations of consolidated subsidiaries	1,155	75
Net income	\$ 142,424	\$ 542,163
Net income per share — basic	\$ 0.11	\$ 0.41
Net income per share — diluted	\$ 0.10	\$ 0.37
Shares used in per share calculation — basic	1,352,476	1,333,730
Shares used in per share calculation — diluted (Note 2)	1,418,225	1,395,416
Stock-based compensation expense by function:		
Cost of revenues	\$ 2,007	\$ 3,280
Sales and marketing	50,268	65,538
Product development	48,300	48,082
General and administrative	39,431	20,389
Strategic workforce realignment expense reversals	—	(12,284)
Total stock-based compensation expense	\$ 140,006	\$ 125,005

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

YAHOO! INC.
Condensed Consolidated Balance Sheets

	December 31, 2007	March 31, 2008
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,513,930	\$ 2,341,205
Short-term marketable debt securities	487,544	267,129
Accounts receivable, net	1,055,532	1,039,957
Prepaid expenses and other current assets	180,716	190,878
Total current assets	3,237,722	3,839,169
Long-term marketable debt securities	361,998	239,428
Property and equipment, net	1,331,632	1,363,475
Goodwill	4,002,030	4,156,598
Intangible assets, net	611,497	651,774
Other long-term assets	503,945	221,594
Investments in equity interests	2,180,917	2,953,765
Total assets	<u>\$12,229,741</u>	<u>\$13,425,803</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 176,162	\$ 134,133
Accrued expenses and other current liabilities	1,006,188	1,053,271
Deferred revenue	368,470	495,999
Short-term debt	749,628	—
Total current liabilities	2,300,448	1,683,403
Long-term deferred revenue	95,129	307,191
Long-term debt	—	582,954
Other long-term liabilities	28,086	25,693
Deferred and other long-term tax liabilities, net	260,993	314,415
Commitments and contingencies (Note 12)	—	—
Minority interests in consolidated subsidiaries	12,254	12,179
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,534,893 and 1,554,569 shares issued, respectively, and 1,330,828 and 1,346,477 shares outstanding, respectively	1,527	1,548
Additional paid-in capital	9,937,010	10,329,985
Treasury stock at cost, 204,065 and 208,092 shares, respectively	(5,160,772)	(5,257,864)
Retained earnings	4,423,864	4,966,027
Accumulated other comprehensive income	331,202	460,272
Total stockholders' equity	<u>9,532,831</u>	<u>10,499,968</u>
Total liabilities and stockholders' equity	<u>\$12,229,741</u>	<u>\$13,425,803</u>

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	March 31, 2007	March 31, 2008
(Unaudited, in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 142,424	\$ 542,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	94,509	117,557
Amortization of intangible assets	56,493	69,954
Stock-based compensation expense	140,006	137,289
Stock-based strategic workforce realignment expense reversals	—	(12,284)
Tax benefits from stock-based awards	67,691	—
Excess tax benefits from stock-based awards	(52,069)	—
Deferred income taxes	(42,300)	29,636
Earnings in equity interests	(29,149)	(454,782)
Minority interests in operations of consolidated subsidiaries	(1,155)	(75)
Gains from sales of investments, assets, and other, net	(2,857)	(3,307)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	40,214	27,180
Prepaid expenses and other	13,358	(4,446)
Accounts payable	30,980	(44,343)
Accrued expenses and other liabilities	(34,722)	46,235
Deferred revenue	11,277	335,528
Net cash provided by operating activities	<u>434,700</u>	<u>786,305</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(118,019)	(139,793)
Purchases of marketable debt securities	(570,287)	(32,757)
Proceeds from sales and maturities of marketable debt securities	727,996	376,542
Acquisitions, net of cash acquired	(11,579)	(166,289)
Purchases of intangible assets	(6,570)	(8,858)
Other investing activities, net	—	(10,435)
Net cash provided by investing activities	<u>21,541</u>	<u>18,410</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	71,922	126,570
Repurchases of common stock	(595,006)	(79,236)
Structured stock repurchases, net	(250,000)	—
Excess tax benefits from stock-based awards	52,069	—
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	—	(52,493)
Net cash used in financing activities	<u>(721,015)</u>	<u>(5,159)</u>
Effect of exchange rate changes on cash and cash equivalents	3,981	27,719
Net change in cash and cash equivalents	(260,793)	827,275
Cash and cash equivalents at beginning of period	<u>1,569,871</u>	<u>1,513,930</u>
Cash and cash equivalents at end of period	<u>\$1,309,078</u>	<u>\$2,341,205</u>

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows — (Continued)

Supplemental cash flow disclosures:

During the three months ended March 31, 2008, the holders of the Company's zero coupon senior convertible notes (the "Notes") converted \$167 million of the Notes into 8.1 million shares of Yahoo! common stock. See Note 9 — "Long-Term Debt" and Note 17 — "Subsequent Events" for additional information.

	<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>
	<u>2007</u>	<u>2008</u>
	(Unaudited, in thousands)	
Acquisition-related activities:		
Cash paid for acquisitions	\$ 15,873	\$166,546
Cash acquired in acquisitions	(4,294)	(257)
	<u>\$ 11,579</u>	<u>\$166,289</u>
Fair value of common stock and vested stock-based awards issued in connection with acquisitions	<u>\$ 35,004</u>	<u>\$ —</u>

See Note 3 — "Acquisitions" for additional information.

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo!” or the “Company”), is a leading global 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,” “Offerings,” 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. To advertisers and publishers, Yahoo! provides a range of marketing solutions and tools that enable businesses to reach users who visit Yahoo! Properties and its Affiliate sites. Publishers, such as eBay Inc., WebMD, Cars.com, Forbes.com, and the Newspaper Consortium (the Company’s strategic partnership with a consortium of more than 20 leading United States (“U.S.”) newspaper publishing companies), are a subset of its 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. To developers, Yahoo! provides an innovative and easily accessible array of Web Services and Application Programming Interfaces (“APIs”), technical resources, tools, and channels to market.

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

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

The preparation of 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.

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Notes to Condensed Consolidated Financial Statements — (Continued)

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 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.

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). Potentially dilutive securities representing approximately 132 million and 136 million shares of common stock for the three months ended March 31, 2007 and 2008, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive. Potentially dilutive securities for the three months ended March 31, 2007 and 2008 consist of outstanding stock options, shares to be issued under the employee stock purchase plan, and restricted stock awards. The Company also takes into account the effect on consolidated net income per share of potentially dilutive securities of entities in which the Company holds equity interests that are accounted for using the equity method.

See Note 9 — “Long-Term Debt” for additional information related to the Company’s Notes.

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	
	March 31, 2007	March 31, 2008
Basic:		
Numerator:		
Net income for basic calculation	\$ 142,424	\$ 542,163
Denominator:		
Weighted average common shares	1,356,406	1,335,986
Weighted average unvested restricted stock subject to repurchase	(3,930)	(2,256)
Denominator for basic calculation	<u>1,352,476</u>	<u>1,333,730</u>
Net income per share — basic	<u>\$ 0.11</u>	<u>\$ 0.41</u>
Diluted:		
Numerator:		
Net income for basic calculation	\$ 142,424	\$ 542,163
Effect of dilutive securities issued by equity investees	—	(26,447)
Net income for diluted calculation	<u>\$ 142,424</u>	<u>\$ 515,716</u>
Denominator:		
Denominator for basic calculation	1,352,476	1,333,730
Weighted average effect of Yahoo! dilutive securities:		
Restricted stock awards	4,883	10,774
Stock options	24,291	14,792
Convertible notes	<u>36,575</u>	<u>36,120</u>
Denominator for diluted calculation	<u>1,418,225</u>	<u>1,395,416</u>
Net income per share — diluted	<u>\$ 0.10</u>	<u>\$ 0.37</u>

Note 3 ACQUISITIONS**Transactions completed in 2007**

Right Media. On July 11, 2007, the Company acquired Right Media Inc. (“Right Media”), an online advertising exchange. The Company believes the acquisition of Right Media is an integral piece of the Company’s strategy to build the industry’s leading advertising and publishing network and is a key step in executing the Company’s long-term strategy to change how online advertisers and publishers connect to their audiences in one open advertising community. The purchase price exceeded the fair value of net tangible and intangible assets acquired from Right Media 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 remaining equity interests (including all outstanding options and restricted stock units) in Right Media not already owned by the Company. Right Media stockholders were paid in approximately equal parts cash and shares of Yahoo! common stock (approximately 8 million shares) and outstanding Right Media options and restricted stock units were assumed. Assumed Right Media options and restricted stock units are exercisable for, or will settle in, shares of Yahoo! common stock. The acquisition followed the Company’s 20 percent investment in Right Media in October 2006.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

The total purchase price of \$526 million consisted of \$246 million in cash consideration, \$237 million in equity consideration, \$40 million for the initial 20 percent investment, and \$3 million of direct transaction costs. The \$246 million of total cash consideration less cash acquired of \$16 million resulted in a net cash outlay of \$230 million. In connection with the acquisition, the Company issued stock-based awards valued at \$177 million which will be recognized as stock-based compensation expense as the awards vest over a period of up to four years.

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	\$ 15,508
Other tangible assets acquired	26,762
Deferred tax assets	8,422
Amortizable intangible assets:	
Customer contracts and related relationships	42,300
Developed technology and patents	42,400
Trade name, trademark, and domain name	19,200
Goodwill	440,218
Total assets acquired	594,810
Liabilities assumed	(27,678)
Deferred income taxes	(41,560)
Total	<u>\$525,572</u>

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of six years. No amounts have been allocated to in-process research and development and \$440 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the U.S. segment. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

Zimbra. On October 4, 2007, the Company acquired Zimbra, Inc. (“Zimbra”), a provider of e-mail and collaboration software. The Company believes the acquisition of Zimbra will further strengthen its position in Web mail and expand the Company’s presence in universities, small and medium-sized businesses, and service provider partners. The purchase price exceeded the fair value of net tangible and intangible assets acquired from Zimbra 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 Zimbra. Zimbra stockholders were paid in cash. Outstanding Zimbra options and restricted stock units were assumed and are exercisable for, or will settle in, shares of Yahoo! common stock.

The total purchase price of \$302 million consisted of \$290 million in cash consideration, \$11 million in equity assumed, and \$1 million of direct transaction costs. The \$290 million of total cash consideration less cash acquired of \$11 million resulted in a net cash outlay of \$279 million. In connection with the acquisition, the Company issued stock-based awards valued at \$38 million which is being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

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	\$ 10,663
Other tangible assets acquired	18,526
Amortizable intangible assets:	
Customer contracts and related relationships	13,200
Developed technology and patents	65,400
Trade name, trademark, and domain name	700
Goodwill	244,687
Total assets acquired	353,176
Liabilities assumed	(19,003)
Deferred income taxes	(31,720)
Total	<u>\$302,453</u>

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of four years. No amounts have been allocated to in-process research and development and \$245 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the U.S. segment. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

BlueLithium. On October 15, 2007, the Company acquired BlueLithium, Inc. (“BlueLithium”), an online global ad network. The Company believes that BlueLithium complements the Company’s leading advertising tools and capabilities. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from BlueLithium 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 BlueLithium. BlueLithium stockholders were paid in cash. Outstanding BlueLithium 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 \$255 million consisted of \$245 million in cash consideration, \$8 million in equity assumed and \$2 million of direct transaction costs. The \$245 million of total cash consideration less cash acquired of \$10 million resulted in a net cash outlay of \$235 million. In connection with the acquisition, the Company issued stock-based awards valued at \$47 million which is being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

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	\$ 10,235
Other tangible assets acquired	14,212
Amortizable intangible assets:	
Customer contracts and related relationships	30,300
Developed technology and patents	11,000
Trade name, trademark, and domain name	100
In-process research and development	200
Goodwill	224,540
Total assets acquired	290,587
Liabilities assumed	(18,824)
Deferred income taxes	(16,640)
Total	<u>\$255,123</u>

The amortizable intangible assets have useful lives not exceeding six years and a weighted average useful life of five years. \$225 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the U.S. (\$143 million) and International (\$82 million) segments. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

Other Acquisitions — Business Combinations. During the year ended December 31, 2007, the Company acquired two other companies which were accounted for as business combinations. The total purchase price for these two acquisitions was \$108 million and consisted of \$106 million in cash consideration and \$2 million of direct transaction costs. The total cash consideration of \$106 million less cash acquired of \$5 million resulted in net cash outlay of \$101 million. Of the purchase price, \$74 million was allocated to goodwill, \$33 million to amortizable intangible assets, \$5 million to tangible assets, \$5 million to cash acquired, and \$9 million to net assumed liabilities. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

Other Acquisitions — Asset Acquisitions. During the year ended December 31, 2007, the Company acquired five companies which were accounted for as asset acquisitions. The total purchase price for these acquisitions was \$61 million and consisted of \$23 million in cash consideration, \$35 million in equity consideration, \$2 million of assumed liabilities, and \$1 million of direct transaction costs. The total cash consideration of \$23 million less cash acquired of \$3 million resulted in a net cash outlay of \$20 million. For accounting purposes, approximately \$85 million was allocated to amortizable intangible assets, \$29 million to net assumed liabilities, primarily deferred income tax liabilities, \$2 million to tangible assets, and \$3 million to cash acquired. In connection with these acquisitions, the Company also issued stock-based awards valued at \$19 million that will be recognized as stock-based compensation expense over the next three years.

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 leading premium video publishers across the Web. The purchase price exceeded the fair value of the net tangible and intangible assets acquired from Maven and as a result, the Company recorded goodwill in connection with this transaction. Under

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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 is being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

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	<u>87,551</u>
Total assets acquired	170,077
Liabilities assumed	(3,802)
Deferred income taxes	<u>(23,485)</u>
Total	<u>\$142,790</u>

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 intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the U.S. segment. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

During the three months ended March 31, 2008, the Company also completed immaterial asset acquisitions that did not qualify as 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 March 31, 2007
Net revenues	\$1,705,014
Net income	\$ 100,497
Net income per share — basic	\$ 0.07
Net income per share — diluted	\$ 0.07

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. Pro forma disclosures for the Company's 2008 business combinations were not significant.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2007	March 31, 2008	Percent Ownership
Alibaba Group	\$ 1,440,278	\$2,139,584	44%
Alibaba.com	100,804	101,706	1%
Yahoo! Japan	636,164	708,480	33%
Other	3,671	3,995	
Total	<u>\$ 2,180,917</u>	<u>\$2,953,765</u>	

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

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.

As of March 31, 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	\$2,139,584
Proportionate share of net assets	<u>1,591,577</u>
Excess of carrying value of investment over proportionate share of net assets	<u>\$ 548,007</u>
The excess carrying value has been primarily assigned to:	
Goodwill	\$ 502,662
Amortizable intangible assets	46,558
Deferred income taxes	<u>(1,213)</u>
Total	<u>\$ 548,007</u>

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.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

The following table presents Alibaba Group's financial information, as derived from the Alibaba Group condensed consolidated financial statements, which includes summary operating information for the three months ended December 31, 2006 and 2007 and summary balance sheet information as of September 30, 2007 and December 31, 2007 (in thousands):

	Three Months Ended	
	December 31, 2006	December 31, 2007
Operating data: ⁽¹⁾		
Revenues	\$ 60,998	\$ 97,648
Gross profit	\$ 40,288	\$ 62,421
Loss from operations	\$ (32,074)	\$ (27,419)
Net (loss)/income ⁽²⁾	\$ (26,898)	\$ 1,883,257
	September 30, 2007	December 31, 2007
Balance sheet data:		
Current assets	\$ 723,609	\$ 2,519,488
Long-term assets	\$ 1,943,425	\$ 1,803,660
Current liabilities	\$ 452,413	\$ 594,637
Long-term liabilities	\$ 15,369	\$ 14,972

(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 three months ended December 31, 2007 is primarily due to Alibaba Group's sale of an approximate 27 percent ownership interest in Alibaba.com in Alibaba.com's IPO.

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three months ended March 31, 2007 and 2008, these transactions were not material.

Equity Investment in Alibaba.com Limited. As part of the November 6, 2007 IPO on the Hong Kong Stock Exchange of Alibaba.com, the Company purchased an approximate 1 percent direct interest in Alibaba.com for a total purchase price of approximately \$101 million, including \$1 million of transaction costs. The investment in Alibaba.com is being accounted for using the equity method due to the Company's investment in Alibaba Group, which has a controlling interest in Alibaba.com. The total investment is classified as part of the investment in equity interests balance in the condensed consolidated balance sheet. The Company records its share of the results of Alibaba.com one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income. As of March 31, 2008, the difference between the Company's carrying value of its investment in Alibaba.com of \$102 million and its proportionate share of the net assets of Alibaba.com is \$96 million. This excess carrying value has been primarily assigned to goodwill and amortizable intangible assets. The fair value of the Company's approximate 1 percent ownership in Alibaba.com, based upon the quoted stock price as of March 31, 2008 was approximately \$119 million. 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.

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. The fair value of the Company's approximate 33 percent ownership interest in Yahoo! Japan, based upon the quoted stock price as of March 31, 2008 was approximately \$11 billion.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

On September 1, 2007, the Company commenced a 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. The Company no longer recognizes marketing services revenue and traffic acquisition costs (“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 arrangement, the Company records marketing services revenue from Yahoo! Japan for the provision of search marketing services based on a percentage of advertising revenues earned by Yahoo! Japan for the delivery of sponsored search results. These arrangements resulted in a net cost of approximately \$78 million for the three months ended March 31, 2007 and revenues of approximately \$73 million for the three months ended March 31, 2008. As of December 31, 2007 and March 31, 2008, the Company had a net receivable balance from Yahoo! Japan of approximately \$62 million and \$22 million, respectively.

The following table presents Yahoo! Japan’s condensed financial information, as derived from the Yahoo! Japan financial statements for the three months ended December 31, 2006 and 2007, respectively, and as of September 30, 2007 and December 31, 2007, respectively (in thousands):

	Three Months Ended	
	December 31, 2006	December 31, 2007
Operating data:(*)		
Revenues	\$462,993	\$618,748
Gross profit	\$445,168	\$530,687
Income from operations	\$235,216	\$276,316
Net income	\$128,838	\$151,687
	September 30, 2007	December 31, 2007
Balance sheet data:		
Current assets	\$1,131,234	\$1,163,575
Long-term assets	\$1,783,430	\$1,853,245
Current liabilities	\$ 692,337	\$ 656,154
Long-term liabilities	\$ 347,995	\$ 268,642

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

The differences between 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.

Note 5 GOODWILL

The changes in the carrying amount of goodwill for the three months ended March 31, 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(*)	89,623	3,248	92,871
Foreign currency translation adjustments	—	61,697	61,697
Balance as of March 31, 2008	<u>\$ 2,608,471</u>	<u>\$ 1,548,127</u>	<u>\$ 4,156,598</u>

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

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	March 31, 2008		
	Net	Gross Carrying Amount	Accumulated Amortization(1)	Net(2)
Customer, affiliate, and advertiser related relationships	\$ 143,195	\$ 236,584	\$ (97,281)	\$139,303
Developed and acquired technology and intellectual property rights	384,041	760,302	(324,745)	435,557
Trademark, trade name, and domain name	84,261	208,965	(132,051)	76,914
Total intangible assets, net	<u>\$ 611,497</u>	<u>\$ 1,205,851</u>	<u>\$ (554,077)</u>	<u>\$651,774</u>

- (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 March 31, 2008.
- (2) As of December 31, 2007 and March 31, 2008, \$506 million and \$557 million, respectively, of the net intangibles balance were related to the U.S. segment. As of December 31, 2007 and March 31, 2008, \$105 million and \$95 million, respectively, of the net intangibles balance were related to the International segment.

For the three months ended March 31, 2007 and 2008, the Company recognized amortization expense for intangible assets of \$56 million and \$70 million, respectively, including \$29 million in cost of revenues for the three months ended March 31, 2007 and \$46 million in cost of revenues for the three months ended March 31, 2008. 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: nine months ending December 31, 2008: \$200 million; 2009: \$159 million; 2010: \$128 million; 2011: \$81 million; 2012: \$53 million; 2013: \$21 million; and cumulatively thereafter: \$10 million.

During the three months ended March 31, 2007 and 2008, the Company acquired \$7 million and \$9 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 March 31, 2007 and 2008, respectively.

Note 7 OTHER INCOME, NET

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

	Three Months Ended	
	March 31, 2007	March 31, 2008
Interest and investment income	\$ 38,137	\$ 23,167
Investment gains (losses), net	449	(2,210)
Other	(3,135)	2,705
Total other income, net	<u>\$ 35,451</u>	<u>\$ 23,662</u>

Investment gains (losses), net includes realized investment gains and realized investment losses related to declines in values of investments in publicly traded and privately held companies judged to be other than temporary.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 8 COMPREHENSIVE INCOME

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

	<u>Three Months Ended</u>	
	<u>March 31,</u> <u>2007</u>	<u>March 31,</u> <u>2008</u>
Net income	\$142,424	\$542,163
Change in net unrealized losses, net on available-for-sale securities, net of tax and reclassification adjustments	(8,877)	(2,362)
Foreign currency translation adjustment	22,308	131,432
Other comprehensive income	13,431	129,070
Comprehensive income	<u>\$155,855</u>	<u>\$671,233</u>

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

	<u>December 31,</u> <u>2007</u>	<u>March 31,</u> <u>2008</u>
Unrealized gains on available-for-sale securities, net of tax	\$ 26,874	\$ 24,512
Foreign currency translation, net of tax	304,328	435,760
Accumulated other comprehensive income	<u>\$ 331,202</u>	<u>\$460,272</u>

Note 9 LONG-TERM DEBT

In April 2003, the Company issued \$750 million of the Notes due April 1, 2008, resulting in net proceeds to the Company of approximately \$733 million after transaction fees of \$17 million, which had been deferred and were included on the condensed consolidated balance sheets in prepaid expense and other current assets. As of March 31, 2008, the transaction fees were fully amortized. The Notes were issued at par and bear no interest. The Notes were convertible into Yahoo! common stock at a conversion price of \$20.50 per share, which would result in the issuance of an aggregate of approximately 37 million shares, subject to adjustment upon the occurrence of specified events. Each \$1,000 principal amount of the Notes would initially be convertible into 48.78 shares of Yahoo! common stock.

The Notes were convertible on or prior to the final maturity date (1) during any fiscal quarter if the closing sale price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the immediately preceding fiscal quarter exceeded 110 percent of the conversion price on that 30th trading day, (2) during the period beginning January 1, 2008 through the maturity date, if the closing sale price of the Company's common stock on the previous trading day was 110 percent or more of the then current conversion price and (3) upon specified corporate transactions. Upon conversion, the Company had the right to deliver cash in lieu of common stock. The Company may be required to repurchase all of the Notes following a fundamental change of the Company, such as a change of control, prior to maturity at face value. The Company could not redeem the Notes prior to their maturity.

Each \$1,000 principal amount of the Notes was convertible on or prior to April 1, 2008 if the market price of the Company's common stock reaches a specified threshold (\$22.55) for a defined period of time or specified corporate transactions occur. As of March 31, 2008, the market price condition for convertibility of the Notes was satisfied with respect to the fiscal quarters beginning on January 1, 2008 and April 1, 2008. On or before April 1, 2008, the holders of the Notes were able to convert their Notes into shares of Yahoo! common stock at the rate of 48.78 shares of Yahoo! common stock for each Note. The Company would be required to pay the outstanding principal amount of any Notes not converted by the holders on or before April 1, 2008 in cash.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

As of March 31, 2008, \$167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to the holders of the Notes. The \$583 million remaining debt outstanding as of March 31, 2008 was classified as long-term debt as the debt was converted into issued common stock of the Company in April 2008. Since the quarter beginning April 1, 2007, the Notes had been classified as short-term debt as the Company would have had to settle the Notes in cash at maturity, unless conversion was requested by the holders of the Notes.

As of March 31, 2008, the fair value of the Notes was approximately \$0.8 billion based on quoted market prices. The shares issuable upon conversion of the Notes have been included in the computation of diluted net income per share since the Notes were issued.

See Note 17 — “Subsequent Events” for additional information.

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 three months ended March 31, 2008 is summarized as follows (in thousands, except per share amounts):

	<u>Shares</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding at December 31, 2007	180,397	\$ 29.36
Options granted	2,266	\$ 28.32
Options assumed	216	\$ 25.78
Options exercised(*)	(9,531)	\$ 13.32
Options cancelled, forfeited, or expired	(7,239)	\$ 31.44
Outstanding at March 31, 2008	<u>166,109</u>	\$ 30.17

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

As of March 31, 2008, there was \$393 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 2.95 years.

The fair value of option grants was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>Stock Options</u>		<u>Purchase Plan</u>	
	<u>Three Months Ended</u>		<u>Three Months Ended</u>	
	<u>March 31,</u>	<u>March 31,</u>	<u>March 31,</u>	<u>March 31,</u>
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.7%	2.4%	4.8%	4.4%
Expected volatility	30.7%	31.2%	33.0%	32.0%
Expected life (in years)	3.75	3.89	0.90	0.90

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

Restricted stock awards and restricted stock units activity for the three months ended March 31, 2008 is summarized as follows (in thousands, except per share amounts):

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at December 31, 2007	30,227	\$ 29.34
Granted	817	\$ 28.32
Assumed	686	\$ 28.63
Vested	(5,307)	\$ 30.10
Forfeited	<u>(1,947)</u>	<u>\$ 23.54</u>
Unvested at March 31, 2008	<u>24,476</u>	\$ 29.58

During the three months ended March 31, 2008, 5.3 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 1.8 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 \$52 million for the three months ended March 31, 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, 605,000 shares were reacquired by the Company to satisfy the tax withholding obligations and \$18 million was recorded as treasury stock. Payments of \$34 million related to net share settlements of restricted stock units had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued as a result of the vesting and were recorded as a reduction of additional paid-in-capital.

As of March 31, 2008, there was \$370 million of unrecognized stock-based compensation cost related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.32 years.

The excess tax benefits from stock-based awards of \$52 million as reported on the condensed consolidated statement of cash flows in financing activities for the three months ended March 31, 2007 represents the reduction, in income taxes otherwise payable during the period, attributable to the gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods. The reduction in income taxes otherwise payable during the three months ended March 31, 2008 is attributable entirely to the exercise of stock options for which deferred income tax assets were recorded in prior periods. The income tax benefit of such stock option exercises was recorded as a reduction to deferred income tax assets and is reflected in the deferred income taxes line of the cash flows from operating activities section of the condensed consolidated statement of cash flows.

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"). Under this arrangement, for each of the years 2006 to 2008, as the CEO, Mr. Semel was eligible to receive a discretionary annual bonus payable in the form of a fully vested non-qualified stock option for up to 1 million shares with an exercise price equal to the closing trading price of the Company's common stock on the date of the grant.

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.

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Notes to Condensed Consolidated Financial Statements — (Continued)

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.

In the three months ended March 31, 2008, the Company repurchased 3.4 million shares of common stock directly at an average price of \$23.39 per share. Total cash consideration for the repurchased stock was \$79 million.

Upon the vesting of certain restricted stock awards during the three months ended March 31, 2008, 605,000 shares of such vested stock were reacquired by the Company to satisfy tax withholding obligations. These repurchased shares were recorded as \$18 million of treasury stock and accordingly reduced the number of common shares outstanding by 605,000.

These repurchased shares are recorded as part of treasury stock. Treasury stock is accounted for under the cost method.

Note 12 COMMITMENTS AND CONTINGENCIES

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

A summary of gross and net lease commitments as of March 31, 2008 follows (in millions):

	<u>Gross Lease Commitments</u>	<u>Sublease Income</u>	<u>Net Lease Commitments</u>
Nine months ending December 31, 2008	\$ 107	\$ (3)	\$ 104
Years ending December 31,			
2009	141	(3)	138
2010	122	(2)	120
2011	101	(1)	100
2012	90	(1)	89
2013	84	—	84
Due after 5 years	343	—	343
Total gross and net lease commitments	<u>\$ 988</u>	<u>\$ (10)</u>	<u>\$ 978</u>

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 March 31, 2008, these commitments totaled \$275 million, of which \$71 million will be payable in the remainder of 2008, \$111 million will be payable in 2009, and \$93 million will be payable in 2010.

Intellectual Property Rights. In connection with the licensing of certain intellectual property, the Company is obligated to invest up to \$84 million through July 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.

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

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Notes to Condensed Consolidated Financial Statements — (Continued)

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 March 31, 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, 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 United States 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 United States Court of Appeals for the Second Circuit.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court, 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 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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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 of 1934 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.

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 California law, equitable and injunctive relief, restitution, and reimbursement of costs. Discovery has been initiated, and a status conference is set for May 16, 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 of 1934. 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 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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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 Corporation'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. All of 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. The plaintiffs in the Delaware Lawsuits purport to assert class claims on behalf of all Yahoo! stockholders, except defendants and their affiliates and generally allege that defendants breached fiduciary duties by rejecting Microsoft's February 1, 2008 unsolicited proposal to acquire Yahoo! Inc. without fully informing themselves whether Microsoft would offer additional consideration and alleging that defendants are not acting in the best interests of stockholders and are seeking to entrench themselves through a series of defensive initiatives. The complaints in the Delaware Court of Chancery seek unspecified damages, declaratory relief and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs. Pursuant to a case management order, defendants are responding to expedited discovery. On March 24, 2008, the Court denied plaintiff's motion to set an expedited trial date in May 2008.

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. 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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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 of evaluating 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.

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

	Three Months Ended	
	March 31, 2007	March 31, 2008
Revenues by segment:		
United States	\$1,100,757	\$1,307,410
International	571,093	510,192
Total revenues	<u>\$1,671,850</u>	<u>\$1,817,602</u>
Segment operating income before depreciation, amortization, and stock-based compensation expense:		
United States	\$ 341,518	\$ 315,163
International	118,517	117,970
Total segment operating income before depreciation, amortization, and stock-based compensation expense	460,035	433,133
Depreciation and amortization	(151,002)	(187,511)
Stock-based compensation expense	(140,006)	(125,005)
Income from operations	<u>\$ 169,027</u>	<u>\$ 120,617</u>
Capital expenditures, net:		
United States	\$ 100,325	\$ 123,468
International	17,694	16,325
Total capital expenditures, net	<u>\$ 118,019</u>	<u>\$ 139,793</u>
	December 31, 2007	March 31, 2008
Property and equipment, net:		
United States	\$ 1,182,212	\$1,213,334
International	149,420	150,141
Total property and equipment, net	<u>\$ 1,331,632</u>	<u>\$1,363,475</u>

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues in the three months ended March 31, 2007 and 2008.

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Notes to Condensed Consolidated Financial Statements — (Continued)

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

	Three Months Ended	
	March 31, 2007	March 31, 2008
Marketing services:		
Owned and Operated sites	\$ 819,544	\$ 965,739
Affiliate sites	649,075	606,705
Marketing services	1,468,619	1,572,444
Fees	203,231	245,158
Total revenues	<u>\$1,671,850</u>	<u>\$1,817,602</u>

Note 14 INCOME TAXES

The effective tax rate for the three months ended March 31, 2008 was 39.5 percent, compared to 45.2 percent for the same period in 2007. The effective tax rate of 39.5 percent for the three months ended March 31, 2008 differs from the statutory rate of 35.0 percent primarily due to state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rate for the three months ended March 31, 2008 was lower than the rate for the same period in 2007 primarily due to the effect of items recorded in the quarter ended March 31, 2008 related to non-U.S. operations.

In the quarter 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 quarter in connection with the IPO of Alibaba.com. See Note 4 — “Investments in Equity Interests” for additional information.

During the three months ended March 31, 2008, the Company recorded an increase in its total unrecognized tax benefits of approximately \$5 million bringing the balance to \$691 million. Over the next twelve months, the Company’s existing tax positions are expected to generate an increase in total unrecognized tax benefits.

The Company’s federal income tax returns for the years ended December 31, 2003 and December 31, 2004 are under examination by the Internal Revenue Service.

Note 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The fair value for securities is determined based on quoted market prices as of the valuation date. 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.

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

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Notes to Condensed Consolidated Financial Statements — (Continued)

assets. Investments with effective maturities greater than 12 months from the balance sheet date are classified as long-term assets.

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 (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 March 31, 2008 (in thousands):

Assets	Fair Value Measurements at Reporting Date		
	Level 1	Level 2	Total
Money market funds ⁽¹⁾	\$765,098	\$ —	\$ 765,098
Available for sale securities			
U.S. Government and agency securities ⁽¹⁾	—	219,674	219,674
Municipal bonds ⁽¹⁾	—	4,646	4,646
Asset backed-securities ⁽¹⁾	—	32,066	32,066
Commercial paper ⁽¹⁾	—	739,178	739,178
Corporate debt securities ⁽¹⁾	—	336,834	336,834
Corporate equity securities ⁽²⁾	107,571	—	107,571
Total assets at fair value	\$872,669	\$1,332,398	\$2,205,067

- (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 March 31, 2008 includes \$750 million in cash.

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 March 31, 2008, the Company did not have any significant Level 3 financial assets or liabilities.

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Notes to Condensed Consolidated Financial Statements — (Continued)

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. See Note 4 — “Investments in Equity Interests” for additional information.

See Note 9 — “Long-Term Debt” for fair value disclosures related to the Company’s Notes.

Note 16 STRATEGIC WORKFORCE REALIGNMENT

During the three months 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.

As of 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. 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 March 31, 2008, the remaining accrual related to the strategic workforce realignment was approximately \$15 million, which the Company expects to be substantially paid by the end of the second quarter of 2008.

Note 17 SUBSEQUENT EVENTS

Long-Term Debt. In April 2008, the \$583 million of long-term debt outstanding as of March 31, 2008 was converted by the holders of the Notes and 28.4 million shares of Yahoo! common stock were issued.

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 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.

To users, we provide owned and operated online properties and services ("Yahoo! Properties" or "Offerings" or "Owned and Operated sites"). We also extend our marketing platform and access to Internet users beyond Yahoo! Properties through our distribution network of third-party entities (referred to as "Affiliates") who have integrated our advertising offerings into their Websites (referred to as "Affiliate sites") or their other offerings.

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 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.

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 generate revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and Affiliate sites. Additionally, although many of our user services are free, we do charge for a range of premium services that we offer. We classify these revenues as either marketing services or fees revenues. The majority of our offerings are available globally in more than 20 languages. We manage and measure our business geographically. Our principal geographies are the United States and International.

As used below, “Page Views” is defined as our internal estimate of the total number of Web pages viewed by users on Owned and Operated sites. “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 advertisers’ language.

First Quarter Highlights

<u>Operating Highlights</u>	Three Months Ended March 31,		2007-2008 Change
	2007	2008	
	(In thousands)		
Revenues	\$1,671,850	\$1,817,602	\$145,752
Income from operations	\$ 169,027	\$ 120,617	\$(48,410)

<u>Cash Flow Highlights</u>	Three Months Ended March 31,		2007-2008 Change
	2007	2008	
	(In thousands)		
Net cash provided by operating activities	\$ 434,700	\$ 786,305	\$351,605
Net cash provided by investing activities	\$ 21,541	\$ 18,410	\$ (3,131)
Net cash used in financing activities	\$ (721,015)	\$ (5,159)	\$715,856

Our revenue growth for the three months ended March 31, 2008, compared to the prior year, can be attributed to growth in our marketing services business. Marketing services and fees revenues experienced 7 percent and 21 percent year over year growth, respectively.

Our revenues for the three months ended March 31, 2008 increased 9 percent year over year to approximately \$1.8 billion, with fee paying users up 5 percent year over year, and Page Views up 19 percent year over year. Operating income for the three months ended March 31, 2008 declined by \$48 million. The decline reflects year over year increases in operating expenses of \$153 million offset by the impact of additional margin related to year over year revenue growth.

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.

During the three months ended March 31, 2008, we implemented a strategic workforce realignment to more appropriately allocate resources to our key strategic initiatives. As of March 31, 2008, we incurred a net estimated total strategic workforce realignment pre-tax expense of \$17 million.

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Net cash provided by operating activities includes a \$350 million one-time payment related to a commercial arrangement entered into with AT&T Inc.

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 March 31,	
	2007	2008
Revenues	100%	100%
Cost of revenues	43	42
Gross profit	57	58
Operating expenses:		
Sales and marketing	22	23
Product development	14	17
General and administrative	9	9
Amortization of intangibles	2	1
Strategic workforce realignment costs, net	—	1
Total operating expenses	47	51
Income from operations	10	7
Other income, net	2	1
Income before income taxes, earnings in equity interests, and minority interests	12	8
Provision for income taxes	(5)	(3)
Earnings in equity interests	2	25
Minority interests in operations of consolidated subsidiaries	0	0
Net income	9%	30%

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

	Three Months Ended March 31,				Percent Change
	2007	(*)	2008	(*)	
Marketing services:					
Owned and Operated sites	\$ 819,544	49%	\$ 965,739	53%	18%
Affiliate sites	649,075	39%	606,705	34%	(7)%
Marketing services	1,468,619	88%	1,572,444	87%	7%
Fees	203,231	12%	245,158	13%	21%
Total revenues	\$1,671,850	100%	\$1,817,602	100%	9%

(*) 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.

Marketing Services Revenues from Owned and Operated Sites. Marketing services revenues from Owned and Operated sites for the three months ended March 31, 2008 increased by \$146 million, or 18 percent, as compared to the same period 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 months ended March 31, 2008 as compared to the same period in 2007, Page Views increased 19 percent and revenue per Page View decreased 1 percent.

Underlying our marketing services revenues from Owned and Operated sites for the three months ended March 31, 2008 is growth in Display and Search advertising. During the three months ended March 31, 2008, revenues from display advertising on Owned and Operated sites grew 17 percent, as compared to the same period in 2007. During the three months ended March 31, 2008, revenues from search advertising on Owned and Operated sites grew 21 percent, as compared to the same period in 2007.

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 make 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 of this growth in the online audience, we believe advertisers are shifting a greater percentage of their spending from traditional media to the Internet to reach this growing audience.

Marketing Services Revenues from Affiliate sites. Marketing services revenues from Affiliate sites for the three months ended March 31, 2008 decreased \$42 million, or 7 percent, as compared to the same period 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 months ended March 31, 2008 by approximately \$120 million on a year over year basis.

The number of searches on Affiliate sites increased by approximately 18 percent in the three months ended March 31, 2008, as compared to the same period 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 in the three months ended March 31, 2008, as compared to the same period 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 months ended March 31, 2008 increased \$42 million, or 21 percent, as compared to the same period in 2007. The year over year growth is associated with an increase in the number of paying users for our fee-based services, which numbered 17.4 million as of March 31, 2008, compared to 16.5 million as of March 31, 2007, an increase of 5 percent. 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. Adjusting the number of fee paying users as of March 31, 2007 to remove the impact of renewed broadband relationships, our fee paying users would have been 15.3 million, compared to 17.4 million as

of March 31, 2008, an increase of 14 percent. Our increased base of paying users grew across most of our Offerings. Our fee-based services include Internet broadband services, sports, music, games, personals, and premium mail offerings, as well as our services for small businesses. Average monthly revenues per paying user remained consistent at approximately \$3 for both the three months ended March 31, 2008 and 2007, respectively. Recently, we have been working with our broadband Internet access partners (“partners”) to renew and extend our relationships. As we renew these access relationships, we are seeking to add new opportunities to improve on our historic strengths in portal, search, and mail. The market has moved to an environment in which advertising revenue sharing is the prevailing model. We are evolving our partnerships accordingly and our partners are re-signing with us due to the strategic importance of our relationships and the products we offer. 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.

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

	Three Months Ended March 31,				Percent Change
	2007	(*)	2008	(*)	
Cost of revenues	\$713,637	43%	\$755,083	42%	6%
Sales and marketing	\$367,419	22%	\$424,591	23%	16%
Product development	\$239,500	14%	\$305,606	17%	28%
General and administrative	\$155,165	9%	\$171,080	9%	10%
Amortization of intangibles	\$ 27,102	2%	\$ 23,740	1%	(12)%
Strategic workforce realignment costs, net	—	—	\$ 16,885	1%	N/A

(*) Percent of total revenues.

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

	Three Months Ended March 31,	
	2007	2008
Cost of revenues	\$ 2,007	\$ 3,280
Sales and marketing	50,268	65,538
Product development	48,300	48,082
General and administrative	39,431	20,389
Strategic workforce realignment expense reversals	—	(12,284)
Total stock-based compensation expense	<u>\$140,006</u>	<u>\$125,005</u>

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 consists 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).

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

	Three Months Ended March 31,				Percent Change
	2007	(*)	2008	(*)	
TAC	\$488,774	29%	\$465,544	26%	(5)%
Other cost of revenues	224,863	14%	289,539	16%	29%
Cost of revenues	<u>\$713,637</u>	<u>43%</u>	<u>\$755,083</u>	<u>42%</u>	6%

(*) Percent of total revenues.

Cost of revenues for the three months ended March 31, 2008 increased \$41 million, or 6 percent, as compared to the same period in 2007. The increase included \$65 million in other costs of revenues offset by a \$23 million decrease in TAC. The year over year decrease in TAC of \$23 million, or 5 percent for the three months ended March 31, 2008, was mainly due to the sale of Overture Japan to Yahoo! Japan offset by an increase in average TAC rates related to new contracts and the changes in partner mix. The year over year increase of \$65 million for the three months ended March 31, 2008 in other cost of revenues included increases of \$20 million in amortization of technology, developed technology, and intellectual property rights acquired through acquisitions and \$13 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 \$15 million, as well as an increase of \$12 million due to increased compensation expense related to additional headcount and increased content costs related to our 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.

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 March 31, 2008 increased \$57 million, or 16 percent, as compared to the same period in 2007. The year over year increase in sales and marketing expenses for the three months ended March 31, 2008 was mainly due to increased compensation expense. Compensation expense increased approximately \$51 million for the three months ended March 31, 2008, including an additional \$15 million of stock-based compensation expense due to a net increase in our sales and marketing headcount.

Sales and marketing expenses as a percentage of revenues were 23 percent (including 4 percent related to stock-based compensation expense) and 22 percent (including 3 percent related to stock-based compensation expense) for the first quarter of 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 March 31, 2008 increased \$66 million, or 28 percent, as compared to the same period in 2007. Approximately \$56 million of the increase for the three months ended March 31, 2008 was related to compensation expense. The increased compensation expense reflected our continued net hiring of engineering talent to further develop and enhance new and existing offerings

and services on Yahoo! Properties. Other product and development expenses increased approximately \$11 million primarily due to increased outsourced services, increased depreciation expense due to our continued investments in information technology assets and server equipment, and expenses related to new and expanded facilities.

Product development expenses as a percentage of revenues were 17 percent (including 3 percent related to stock-based compensation expense) and 14 percent (including 3 percent related to stock-based compensation expense) for the first quarter of 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 March 31, 2008 increased \$16 million, or 10 percent, as compared to the same period in 2007. The increase was mainly due to an additional \$25 million in outsourced service provider expenses. Of the \$25 million increase, we incurred incremental costs of \$14 million primarily for outside advisors related to Microsoft Corporation's ("Microsoft") unsolicited proposal, other strategic alternatives, and related litigation defense costs. We expect to continue incurring outside advisor costs related to Microsoft's unsolicited proposal, other strategic alternatives, and related litigation defense costs. We also incurred \$6 million in legal settlement expenses. Compensation expense increased approximately \$9 million due to a net increase in our general and administrative headcount. These increases were offset by a \$19 million decrease in stock-based compensation expense as a result of expense included during the three months ended March 31, 2007 for certain executives who have since left the Company, in which no similar expense was recorded in the current period.

General and administrative expenses as a percentage of revenues were 9 percent (including 1 percent related to stock-based compensation expense) and 9 percent (including 2 percent related to stock-based compensation expense) for the first quarter of 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 \$24 million for the three months ended March 31, 2008, compared to \$27 million for the same period in 2007. Amortization of intangibles was 1 percent and 2 percent of revenues for the first quarters of 2008 and 2007, respectively. The year over year decrease in amortization of intangibles was primarily the result of more intangible assets being fully amortized as of March 31, 2008 compared to March 31, 2007.

During the three months ended March 31, 2008 and 2007, we acquired \$9 million and \$7 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 March 31, 2008 and 2007.

Strategic Workforce Realignment Costs, Net. During the three months 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.

As of March 31, 2008, we incurred total pre-tax cash charges of approximately \$29 million in severance pay expenses and related cash expense in connection with the workforce realignment. 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 United States segment and \$4 million was related to the International segment. As of March 31, 2008, the remaining accrual related to the strategic workforce realignment was approximately \$15 million, which we expect to be substantially paid by the end of the second quarter of 2008.

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

	Three Months Ended	
	March 31,	
	2007	2008
Interest and investment income	\$38,137	\$23,167
Investment gains (losses), net	449	(2,210)
Other	(3,135)	2,705
Total other income, net	<u>\$35,451</u>	<u>\$23,662</u>

Other income, net was \$24 million for the three months ended March 31, 2008, a decrease of \$12 million, as compared to the same period in 2007. Interest and investment income for the first quarter of 2008 decreased mainly from lower average invested balances as well as lower average interest rates, compared to the same period in 2007. Average interest rates were approximately 3.6 percent in the first quarter of 2008, compared to 4.6 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 rate for the three months ended March 31, 2008 was 39.5 percent, compared to 45.2 percent for the same period in 2007. These effective tax rates differ from the amounts computed by applying the federal statutory income tax rate primarily due to state taxes, the effect of non-U.S. operations, and non-deductible stock-based compensation expense. The effective tax rate in 2008 was lower than the rate for the same period in 2007 primarily due to the effect of items recorded in the quarter ended March 31, 2008 related to non-U.S. operations. We currently expect the effective tax rate for fiscal year 2008 to be 44 percent to 46 percent.

During the three months ended March 31, 2008, we recorded an increase in our total unrecognized tax benefits of approximately \$5 million bringing the balance to \$691 million. Over the next twelve months, our existing tax positions are expected to generate an increase in total unrecognized tax benefits.

Earnings in Equity Interests. Earnings in equity interests for the three months ended March 31, 2008 was \$455 million (including a \$401 million net non-cash gain related to Alibaba Group Holding Limited's ("Alibaba Group") initial public offering ("IPO") of Alibaba.com Limited ("Alibaba.com"), net of tax), as compared to \$29 million for the same period in 2007. Earnings in equity interests consists of our share of the net income or loss of our equity investments in Yahoo! Japan and Alibaba Group. See Note 4 — "Investments in Equity Interests" 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 \$0.1 million for the three months ended March 31, 2008 and \$1 million for the three months ended March 31, 2007. Minority interests recorded for the three months ended March 31, 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 United States and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources. 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

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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 March 31,				Percent Change
	2007	(*)	2008	(*)	
Revenues by segment:					
United States	\$1,100,757	66%	\$1,307,410	72%	19%
International	571,093	34%	510,192	28%	(11)%
Total revenues	<u>\$1,671,850</u>	<u>100%</u>	<u>\$1,817,602</u>	<u>100%</u>	9%

(*) Percent of total revenues.

	Three Months Ended		Percent Change
	March 31,		
	2007	2008	
Segment operating income before depreciation, amortization, and stock-based compensation expense:			
United States	\$ 341,518	\$ 315,163	(8)%
International	<u>118,517</u>	<u>117,970</u>	0%
Total segment operating income before depreciation, amortization, and stock-based compensation expense	460,035	433,133	(6)%
Depreciation and amortization	(151,002)	(187,511)	24%
Stock-based compensation expense	<u>(140,006)</u>	<u>(125,005)</u>	(11)%
Income from operations	<u>\$ 169,027</u>	<u>\$ 120,617</u>	(29)%

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues for the three months ended March 31, 2008 or 2007, respectively.

United States. United States revenues for the three months ended March 31, 2008 increased \$207 million, or 19 percent, as compared to the same period in 2007. Our year over year increases in revenues were a result of growth in advertising across the majority of Yahoo! Properties and in our fee-based services. Our expanding user base which has been attracting more advertisers has been contributing to our growth in our advertising revenues. The growth in our fee-based services is due to the increase in our paying users for both existing and new offerings. United States operating income before depreciation, amortization, and stock-based compensation expense for the three months ended March 31, 2008 decreased \$26 million, or 8 percent compared to the same period in 2007.

International. International revenues for the three months ended March 31, 2008 decreased \$61 million, or 11 percent, as compared to the same period in 2007. Most of the international revenues decrease is the result of the sale of Overture Japan to Yahoo! Japan for the three months ended March 31, 2008. International operating income before depreciation, amortization, and stock-based compensation expense for the three months ended March 31, 2008 decreased less than \$1 million, or less than 1 percent compared to the same period in 2007.

International revenues accounted for approximately 28 percent of total revenues in the three months ended March 31, 2008, compared to 34 percent in the same period in 2007.

The performance of our international 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. 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 United States Dollars at the average exchange rates in each applicable period. To the extent the United States Dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues, operating expenses, and net income for our

International segment. Similarly, our revenues, operating expenses, and net income will increase for our International segment if the United States dollar weakens against foreign currencies. Using the average foreign currency exchange rates for the three months ended March 31, 2007, our international revenues for the three months ended March 31, 2008 would have been lower than we reported by approximately \$26 million.

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 the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

Revenue Recognition. Our revenues are generated from marketing services and fees. Marketing services revenues is generated from several offerings including: the display of textual, rich media advertisements, display of text based links to advertisers' websites, listing based services, and commerce based transactions. Fees revenues include revenues from a variety of consumer and business fee-based services. While the majority of our revenue transactions contain standard business terms and conditions, there are certain transactions that contain non-standard business terms and conditions. In addition, we may enter into certain sales transactions that involve multiple element arrangements (arrangements with more than one deliverable). We also enter into arrangements to purchase goods and/or services from certain customers. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting for these transactions including: (1) whether an arrangement exists; (2) how the arrangement consideration should be allocated among potential multiple elements; (3) when to recognize revenue on the deliverables; (4) whether all elements of the arrangement have been delivered; (5) whether the arrangements should be reported gross as a principal versus net as an agent; and (6) whether we receive a separately identifiable benefit from purchase arrangements with our customers for which we can reasonably estimate fair value; and (7) whether the arrangement should be characterized as revenue or a reimbursement of costs incurred. In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

Deferred Income Tax Asset Valuation Allowance. We record a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. In evaluating our ability to recover our deferred income tax assets, we consider all available positive and negative evidence, including our operating results, on-going tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. In the event that we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are supportable.

Goodwill and Other Intangible Assets. Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, and determining appropriate discount rates, growth rates, and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment. See Note 5 — “Goodwill” in the Notes to the condensed consolidated financial statements for additional information. Based on our 2007 impairment test, there would have to be a significant unfavorable change to our assumptions used in such calculations for an impairment to exist.

We amortize other intangible assets over their estimated useful lives. We record an impairment charge on these assets when we determine that their carrying value may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted future cash flows resulting from the use of the asset and its eventual disposition. When there is existence of one or more indicators of impairment, we measure any impairment of intangible assets based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our business model. Our estimates of future cash flows attributable to our other intangible assets require significant judgment based on our historical and anticipated results and are subject to many factors. Different assumptions and judgments could materially affect the calculation of the fair value of our other intangible assets which could trigger impairment.

Investments in Equity Interests. We account for investments in entities in which we can exercise significant influence but do not own a majority equity interest or otherwise control using the equity method. In accounting for these investments, we record our proportionate share of these entities’ net income or loss, one quarter in arrears.

We review all of our investments in equity interests for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investment may not be fully recoverable. The impairment review requires significant judgment to identify events or circumstances that would likely have a significant adverse effect on the fair value of the investment. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of the fair value of the investment involves considering factors such as the following: the stock prices of public companies in which we have an equity investment, current economic and market conditions, the operating performance of the companies including current earnings trends and undiscounted cash flows, quoted stock prices of comparable public companies, and other company specific information including recent financing rounds. The fair value determination, particularly for investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary.

Stock-Based Compensation Expense. We recognize stock-based compensation expense net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the expected pre-vesting forfeiture rate. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We estimate the volatility of our common stock on the date of grant based on the implied volatility of publicly traded options on our common stock, with a term of one year or greater. We believe that implied volatility calculated based on actively traded options on our common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility for the three months ended March 31, 2008 and 2007 was based on a market-based implied volatility. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are

required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of certain awards will be achieved, and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience of our stock-based awards that are granted and subsequently forfeited since they are unvested at the time of termination. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 10 — “Stock-Based Compensation” in the Notes to the condensed consolidated financial statements for additional information.

Recent Accounting Pronouncements

In February 2008, the 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 interim periods within those fiscal years for items within the scope of this FSP. We are currently evaluating the impact of adopting FSP FAS 157-2 for non-financial assets and non-financial liabilities on our 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 us on January 1, 2009. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our consolidated financial position, cash flows, and results of operations.

Liquidity and Capital Resources

	As of December 31, 2007	As of March 31, 2008
(In thousands)		
Cash and cash equivalents	\$ 1,513,930	\$ 2,341,205
Short-term marketable debt securities	487,544	267,129
Long-term marketable debt securities	361,998	239,428
Total cash, cash equivalents, and marketable debt securities	<u>\$ 2,363,472</u>	<u>\$ 2,847,762</u>
Percentage of total assets	<u>19%</u>	<u>21%</u>

	Three Months Ended March 31,	
	2007	2008
(In thousands)		
Cash Flow Highlights		
Net cash provided by operating activities	\$ 434,700	\$ 786,305
Net cash provided by investing activities	\$ 21,541	\$ 18,410
Net cash used in financing activities	\$ (721,015)	\$ (5,159)

Our operating activities for the three months ended March 31, 2008 and 2007 generated adequate cash to meet our operating needs. As of March 31, 2008, we had cash, cash equivalents, and marketable debt securities totaling \$2.8 billion, compared to \$2.4 billion at December 31, 2007. During the three months ended March 31, 2008, we used \$79 million in direct stock repurchases and \$52 million for tax withholdings related to net share settlements of restricted stock awards and restricted stock units. Additionally, we invested \$140 million in net capital expenditures and \$166 million in net acquisitions. The cash used for these investments was offset by \$786 million of cash generated from operating activities (including a \$350 million one-time payment from AT&T Inc. recorded in deferred revenue), and \$127 million 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.

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 March 31, 2008 mainly due to the net impact of non-cash adjustments to income. In the three months ended March 31, 2008 and 2007, operating cash flows were positively impacted by changes in working capital balances including a one-time payment from AT&T Inc., which is recorded in deferred revenue.

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 three months ended March 31, 2008, we invested \$140 million in net capital expenditures, \$9 million to purchase intangible assets, a net \$166 million in acquisitions, and a net \$10 million in other investing activities. In the three months ended March 31, 2007, we invested \$118 million in net capital expenditures and a net \$12 million in acquisitions.

Cash used in financing activities is driven by our financing activities relating to stock repurchases and employee option exercises. During the three months ended March 31, 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, \$52 million was used for tax withholdings related to net share settlements of restricted stock awards and restricted stock units (\$18 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. During the three months ended March 31, 2007, we used \$595 million in the direct repurchase of 19.9 million shares of our common stock at an average price of \$29.91 per share. We also entered into a structured stock repurchase transaction, which settles 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. Additionally, we had cash proceeds from employee option exercises of \$127 million for the three months ended March 31, 2008, as compared to \$72 million for the same period in 2007.

The excess tax benefits from stock-based awards of \$52 million as reported on the condensed consolidated statement of cash flows in financing activities for the three months ended March 31, 2007 represents the reduction, in income taxes otherwise payable during the period, attributable to the gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods. The reduction in income taxes otherwise payable during the three months ended March 31, 2008 is attributable entirely to the exercise of stock options for which deferred income tax assets were recorded in prior periods. The income tax benefit of such stock option exercises was recorded as a reduction to deferred income tax assets and is reflected in the deferred income taxes line of the cash flows from operating activities section of the condensed consolidated statement of cash flows.

Financing

In April 2003, we issued \$750 million of zero coupon senior convertible notes (“the Notes”) which mature on April 1, 2008. These Notes were convertible into Yahoo! common stock at a conversion price of \$20.50 per share, subject to adjustment upon the occurrence of certain events. Each \$1,000 principal amount of the Notes was convertible on or prior to April 1, 2008 if the market price of our common stock reaches a specified threshold (\$22.55) for a defined period of time or specified corporate transactions occur. As of March 31, 2008, the market price condition for convertibility of the Notes was satisfied with respect to the fiscal quarters beginning on January 1, 2008 and April 1, 2008. On or before April 1, 2008, holders of the Notes were able to convert their Notes into shares of Yahoo! common stock at the rate of 48.78 shares of Yahoo! common stock for each Note.

As of March 31, 2008, \$167 million of the Notes were converted and 8.1 million shares of Yahoo! common stock were issued to holders of the Notes. The \$583 million remaining debt outstanding as of March 31, 2008 was classified as long-term debt as the debt was subsequently exchanged for long-term equity. Since the quarter beginning April 1, 2007, the debt had been classified as short-term debt as we would have had to settle the Notes in cash at maturity, unless conversion was requested by the holders of the Notes. This price threshold expired on March 31, 2008. See Note 9 — “Long-Term Debt” in the Notes to the condensed consolidated financial statements for additional information. In April 2008, the remaining \$583 million of long-term debt was converted by holders of the Notes and an additional 28.4 million shares of our common stock were issued. See Note 17 — “Subsequent Events” in the Notes to the condensed consolidated financial statements.

Stock repurchases

In October 2006, following the completion of the \$3.0 billion share repurchase program that was authorized in March 2005, our Board of Directors authorized a new stock repurchase program for us to repurchase up to \$3.0 billion of our 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.

In the three months ended March 31, 2008, we repurchased 3.4 million shares of common stock directly at an average price of \$23.39 per share. Total cash consideration for the repurchased stock was \$79 million. See Note 11 — “Stock Repurchase Programs” in the Notes to the condensed consolidated financial statements for additional information.

In addition, upon the vesting of certain restricted stock awards during the three months ended March 31, 2008, we reacquired 605,000 shares of such vested stock to satisfy tax withholding obligations. These repurchased shares were recorded as \$18 million of treasury stock and reduced the number of common shares outstanding by 605,000 accordingly.

Treasury stock is accounted for under the cost method.

Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$140 million for the three months ended March 31, 2008, compared to \$118 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 operating 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

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

A summary of gross lease commitments as of March 31, 2008 is as follows (in millions):

	<u>Gross Lease Commitments</u>
Nine months ending December 31, 2008	\$ 107
Years ending December 31,	
2009	141
2010	122
2011	101
2012	90
2013	84
Due after 5 years	343
Total gross lease commitments	<u>\$ 988</u>

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 March 31, 2008, these commitments totaled \$275 million, of which \$71 million will be payable in the remainder of 2008, \$111 million will be payable in 2009, and \$93 million will be payable in 2010.

Intellectual Property Rights. In connection with the licensing of certain intellectual property, we are obligated to invest up to \$84 million through July 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.

Income Taxes. As of March 31, 2008, the unrecognized tax benefits that resulted in an accrued liability amounted to \$252 million and are classified as “deferred and other long-term tax liabilities” on our condensed consolidated balance sheets. As of March 31, 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.

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 United States 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. As of March 31, 2008 and December 31, 2007, we had investments in short-term marketable debt securities of approximately \$267 million and \$488 million, respectively. Such investments had a weighted-average yield of approximately 4.5 percent for both periods. As of March 31, 2008 and December 31, 2007, we had investments in long-term marketable debt securities of approximately \$239 million and \$362 million, respectively. Such investments had a weighted average yield of approximately 4.8 percent and 5.0 percent, respectively. A hypothetical 100 basis point increase in interest rates would result in an approximate \$2 million and \$4 million decrease, in the fair value of our available-for-sale debt securities as of March 31, 2008 and December 31, 2007, respectively.

The fair market value of the Notes issued by Yahoo! and due on April 1, 2008 is subject to interest rate risk and market risk due to the convertible feature of the Notes. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of the Notes will also increase as the market price of the Yahoo! stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of the Notes but do not impact our financial position, cash flows, or results of operations. As of March 31, 2008 and December 31, 2007, the fair value of the Notes were approximately \$0.8 billion and \$0.9 billion, respectively, based on quoted market prices. See Note 9 — “Long-Term Debt” in the Notes to the condensed consolidated financial statements for additional information.

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 months ended March 31, 2007, our international revenues for the three months ended March 31, 2008 would have been lower than we reported by approximately \$26 million and our international segment operating income before depreciation, amortization, and stock-based compensation expense would have been lower than we reported by \$8 million.

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 United States 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 months ended March 31, 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 equivalents and current and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of March 31, 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 March 31, 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 \$11 million and \$10 million as of March 31, 2008 and 2007, respectively.

Item 4. Controls and Procedures

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

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

From time to time, third-parties assert patent infringement claims against Yahoo!. Currently, we are engaged in lawsuits regarding patent issues and have been notified of other potential patent disputes. In addition, from time to time we are 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 our e-mail, message boards, auction sites, shopping services, and other communications and community features.

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label, 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 United States 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 United States Court of Appeals for the Second Circuit.

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court, 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 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. We intend 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 us 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 Yahoo!'s common stock between April 8, 2004 and July 18, 2006. Plaintiffs allege that defendants engaged in a scheme to inflate Yahoo!'s share price by making false and misleading statements regarding Yahoo!'s operations, financial results, and future business prospects in violation of Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5. Plaintiffs also allege that the individual defendants engaged in insider trading in violation of the 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.

On May 15, 2007, a stockholder derivative complaint was filed in the California Superior Court, Santa Clara County, by Greg Brockwell against members of Yahoo!'s Board of Directors and selected officers. Brockwell seeks to prosecute the action on behalf of Yahoo!, which is named as a "nominal defendant," and to obtain relief on behalf of Yahoo!. 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 Yahoo!, treble damages under California law, equitable and injunctive relief, restitution, and reimbursement of costs. Discovery has been initiated, and a status conference is set for May 16, 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 of 1934. 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's 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. All of 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. The plaintiffs in the Delaware Lawsuits purport to assert class claims on behalf of all Yahoo! stockholders, except defendants and their affiliates and generally allege that defendants breached fiduciary duties by rejecting Microsoft's February 1, 2008, unsolicited proposal to acquire Yahoo! Inc. without fully

informing themselves whether Microsoft would offer additional consideration and alleging that defendants are not acting in the best interests of stockholders and are seeking to entrench themselves through a series of defensive initiatives. The complaints in the Delaware Court of Chancery seek unspecified damages, declaratory relief and injunctive relief, as well as an award of plaintiffs' attorneys' fees and costs. Pursuant to a case management order, defendants are responding to expedited discovery. On March 24, 2008, the Court denied plaintiff's motion to set an expedited trial date in May 2008.

We may incur substantial expenses in defending against such claims, and it is not presently possible to accurately forecast their outcome. We do not believe, based on current knowledge, that any of the foregoing legal proceedings or claims are likely to have a material adverse effect on our financial position, results of operations, or cash flows. In the event of a determination adverse to Yahoo! Inc. or its subsidiaries, we may incur substantial monetary liability, and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations, or cash flows.

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.

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 March 31, 2008, 87 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
- 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.

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. 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 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, 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 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;
- 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, 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.

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.

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.

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 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 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.

Potential continuing uncertainty resulting from Microsoft's recent unsolicited acquisition proposal 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 its stockholders. On May 3, 2008, Microsoft withdrew its proposal to acquire the Company. The review and consideration of the Microsoft proposal 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 another proposal, or take other actions, to acquire the Company, 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 proposal as more fully described in Part II, Item 1 "Legal Proceedings" of this Quarterly Report on Form 10-Q. 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 March 31, 2008, the closing sale prices of our common stock on the Nasdaq Global Select Market ranged from \$19.05 to \$29.98 per share and the closing sale price on May 7, 2008 was \$25.64 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 making and withdrawal of its unsolicited proposal 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 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 of 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 of control or management.

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

Stock repurchase activity during the three months ended March 31, 2008 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased (1) (2)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (in 000s) (1) (2)</u>
January 1 — January 31, 2008	3,387,811	\$ 23.39	3,387,811	\$ 1,086,843
February 1 — February 29, 2008	—	—	—	\$ 1,086,843
March 1 — March 31, 2008	—	—	—	\$ 1,086,843
Total	<u>3,387,811</u>	<u>\$ 23.39</u>	<u>3,387,811</u>	

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- (1) The shares repurchased in the three months ended March 31, 2008 were under our stock repurchase program that was announced in October 2006 with an authorized level of \$3.0 billion. This program will expire in October 2011.
- (2) Excludes 605,000 shares delivered by employees to satisfy tax-withholding obligations upon the vesting of restricted stock awards.

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

Exhibits are incorporated herein by reference or are filed with this report as indicated below (numbered in accordance with Item 601 of Regulation S-K):

<u>Exhibit Number</u>	<u>Description</u>
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.
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.)
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on April 10, 2003 [the April 10, 2003 Form 8-K] and incorporated herein by reference.)
4.10	Registration Rights Agreement, dated as of April 9, 2003 among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference.)
10.14*	Summary of Compensation Payable to Named Executive Officers.
10.18	Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees (Filed as Exhibit 10.18 to the Registrant's Annual Report on Form 10-K, filed February 27, 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 May 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 May 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 May 8, 2008.

* Filed herewith.

** 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.

SIGNATURES

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

YAHOO! INC.

Dated: May 8, 2008

By: /s/ BLAKE JORGENSEN

Blake Jorgensen
Chief Financial Officer (Principal Financial Officer)

Dated: May 8, 2008

By: /s/ MICHAEL MURRAY

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

YAHOO! INC.
Index to Exhibits

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32 *	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 8, 2008.

* Filed herewith.

** 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.

**AMENDED AND RESTATED BYLAWS
OF
YAHOO! INC.**

(Effective March 3, 2008)

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**BYLAWS
OF
YAHOO! INC.**

(hereinafter called the “Corporation”)

**ARTICLE I
CORPORATE OFFICES**

1.1 Registered Office.

The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

1.2 Other Offices.

The Board of Directors may at any time establish other offices at any place or places where the Corporation is qualified to do business.

**ARTICLE II
MEETINGS OF STOCKHOLDERS**

2.1 Place of Meetings.

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board of Directors. The Board of Directors may, in its sole discretion, determine that a meeting of the stockholders shall not be held at any place, but may instead be held solely by means of remote communication in the manner authorized by the General Corporation Law of the State of Delaware (the “DGCL”). In the absence of any designation, stockholders’ meetings shall be held at the registered office of the Corporation.

2.2 Annual Meeting.

The annual meeting of stockholders shall be held each year on a date and at a time designated by the Board of Directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 Special Meeting.

A special meeting of the stockholders may be called at any time only by the Board of Directors, or by the chairman of the board, or by the chief executive officer. At a special meeting of stockholders, only such business shall be conducted as shall be specified in the notice of meeting (or any supplement thereto).

2.4 Notice of Stockholder Meetings; Affidavit of Notice.

All notices of meetings of stockholders shall be sent or otherwise given in accordance with this Section 2.4 of these Bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting (or such longer or shorter time as is required by Sections 2.5 or 2.6 of these Bylaws, if applicable). The notice shall specify the place, if any, date, and hour of the meeting, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at the address as it appears on the records of the Corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

To the extent permitted by the DGCL and without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under applicable law, the Certificate of Incorporation or these Bylaws shall be effective if given by a form of electronic transmission if consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed to be revoked if (a) the Corporation is unable to deliver by electronic transmission 2 consecutive notices by the Corporation in accordance with such consent and (b) such inability becomes known to the secretary or assistant secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, that the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given by electronic transmission, as described above, shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network, together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder.

For purposes of Sections 2.5 and 2.6, “public announcement” of the date of a meeting of stockholders shall mean disclosure in a press release reported by Business Wire, Dow Jones News Service, Associated Press or a comparable national news service. “Electronic transmission” shall mean any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

2.5 Advance Notice of Stockholder Nominees.

Only persons who are nominated in accordance with the procedures set forth in this Section 2.5 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors (or any duly authorized committee thereof) or by any stockholder of the Corporation who was a stockholder of record at the time of giving of such stockholder's notice provided for in this Section 2.5, who is entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Section 2.5. In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the secretary of the Corporation. To be timely, a stockholder's notice shall be received by the secretary at the principal executive offices of the Corporation (a) in the case of the annual meeting not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 25 days before or after such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public announcement of the date of such meeting is first made, whichever first occurs; provided further, however, that with respect to the 2008 annual meeting, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public announcement of the date of such meeting is first made, whichever first occurs; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the 10th day following the day on which notice of the date of the special meeting was mailed or public announcement of the date of the special meeting is first made, whichever first occurs. In no event shall the public announcement of an adjournment or postponement of a meeting of stockholders commence a new time period (or extend any time period) for the giving of a stockholder's notice as described above. To be in proper written form, such stockholder's notice shall set forth: (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person; (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such person; and (iv) any other information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made (i) the name and address, as they appear on the Corporation's books, of such stockholder, and of such beneficial owner; (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such stockholder and such beneficial owner; (iii) a description of any arrangements or understandings between such stockholder and each proposed nominee and any other person (including their names) pursuant to which the nomination(s) are to be made by such stockholder and such beneficial

owner; (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (v) any other information relating to such stockholder and such beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors, or may otherwise be required, in each case pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.5. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of the Corporation. Notwithstanding the foregoing provisions of this Section 2.5, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the meeting of stockholders of the Corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 2.5, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders. The chairperson of the meeting shall determine whether a nomination was not made in accordance with the procedures prescribed by the Bylaws, and if he or she should so determine, he or she shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

2.6 Advance Notice Provision for Proposing Business at the Annual Meeting.

(a) No business may be transacted by the stockholders other than at a duly called meeting of stockholders (i) pursuant to the Corporation's notice with respect to such meeting; (ii) by or at the direction of the Board of Directors; or (iii) at the annual meeting by any stockholder of the Corporation who was a stockholder of record at the time of giving of such stockholder's notice provided for in this Section 2.6, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 2.6.

(b) In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a) of this Section 2.6, the stockholder must have given timely notice thereof in proper written form to the secretary of the Corporation and such business must be a proper matter for stockholder action under the DGCL. To be timely, a stockholder's notice shall be received by the secretary at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of stockholders; provided, however, that in the event that the annual meeting is called for a date that is not within 25 days before or after such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was made or such public announcement of the date of such meeting is first made, whichever first occurs. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for

the giving of a stockholder's notice as described above. To be in proper written form, such stockholder's notice shall set forth: (a) as to each matter that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend these Bylaws, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (b) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner; (ii) the class and number of shares of capital stock of the Corporation which are beneficially owned by such stockholder and such beneficial owner; (iii) a description of any arrangements or understandings between such stockholder and any other person (including their names) in connection with the proposal of such business by such stockholders and any material interest in such business of such stockholder and the such beneficial owner; (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting; and (v) any other information relating to such stockholder and such beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for such matters, or may otherwise be required, in each case pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. The foregoing notice requirements of this Section 2.6 shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his, her or its intention to present a proposal at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such stockholder's proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting. Notwithstanding the foregoing provisions of this Section 2.6, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual meeting of stockholders of the Corporation to present the proposed business, such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 2.6, to be considered a qualified representative of the stockholder, a person must be a duly authorized officer, manager or partner of such stockholder or must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of stockholders.

(c) Only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.6. The chairperson of the meeting shall determine whether any business proposed to be transacted by the stockholders has not been properly brought before the meeting and, if he or she should so determine, the chairperson shall declare that such proposed business or was not properly brought before the meeting and such business shall not be presented for stockholder action at the meeting.

2.7 Quorum.

The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (a) the chairperson of the meeting or (b) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, in the manner provided in Section 2.8, until a quorum is present or represented.

2.8 Adjourned Meeting; Notice.

Any meeting of stockholders may be adjourned from time to time to reconvene at the same or some other place. When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time and place, if any, thereof and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting in accordance with Section 2.4.

2.9 Conduct of Business.

The Board of Directors of the Corporation may adopt by resolution such rules and regulations for the conduct of any meeting of the stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairperson and secretary of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairperson or secretary, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairperson of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter or matters to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairperson of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

2.10 Voting.

(a) The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these Bylaws, subject to the provisions of Sections 217 and 218 of the DGCL (relating to voting rights of fiduciaries, pledgors and joint owners of stock and to voting trusts and other voting agreements).

(b) Except as may be otherwise provided in the Certificate of Incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

(c) Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any question brought before any meeting of the stockholders, other than the election of directors, shall be decided by the vote of the holders of a majority of the Corporation's capital stock represented and entitled to vote thereon, voting as a single class. Such votes may be cast in person or by proxy as provided in Section 2.13.

2.11 Waiver of Notice.

Whenever notice is required to be given under any provision of the DGCL or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice or a waiver by electronic transmission by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting, present in person or represented by proxy, shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the stockholders need be specified in any waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

2.12 Record Date for Stockholder Notice; Voting.

In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If the Board of Directors does not so fix a record date:

(a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(b) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.13 Proxies.

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by a written proxy, signed by the stockholder and filed with the secretary of the Corporation, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or other means of electronic transmission) by the stockholder or the stockholder's attorney-in-fact. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(e) of the DGCL.

2.14 List of Stockholders Entitled to Vote.

The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either (a) at the principal executive offices of the Corporation, or (b) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.15 Stock Ledger.

The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to (i) examine the stock ledger, the list required by Section 2.14 or the books of the Corporation; (ii) receive dividends; or (iii) vote in person or by proxy at any meeting of stockholders. The Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise required by applicable law.

2.16 Inspectors of Election.

In advance of any meeting of stockholders, the Board of Directors, by resolution, the chairman of the board, the chief executive officer or the president shall appoint one or more inspectors to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the chairperson of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by applicable law, inspectors may be, among other things, officers, employees or agents of the Corporation. Each inspector, before entering upon the discharge of the duties of inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by applicable law.

ARTICLE III **DIRECTORS**

3.1 Powers.

Subject to the provisions of the DGCL and any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

3.2 Number of Directors.

The number of directors constituting the entire Board of Directors shall be determined, from time to time, by a resolution of the Board of Directors, subject to Section 3.4 of these Bylaws. No reduction of the authorized number of directors shall have the effect of removing any director before such director's term of office expires.

3.3 Election, Qualification and Term of Office of Directors.

Except as provided in Section 3.4 of these Bylaws, directors shall be elected by a "majority of votes cast" (as defined herein) at each annual meeting of stockholders to hold office until the next annual meeting, unless the election is contested, in which case directors shall be elected by a plurality of votes cast. An election shall be contested if, as determined by the Board of Directors, the number of nominees exceeds the number of directors to be elected. Each director, including a director elected to fill a vacancy, shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation (including resignation pursuant to the resignation policy set forth in the Corporation's Corporate Governance Guidelines) or removal. For the purposes of this Section, a "majority of votes cast" means that the number of shares voted "for" a director exceeds the number of votes cast "against" that director. Directors need not be stockholders unless so required by the Certificate of Incorporation

or these Bylaws, wherein other qualifications for directors may be prescribed. Elections of directors need not be by written ballot.

3.4 Resignation and Vacancies.

Any director may resign at any time upon written notice or by electronic transmission to the attention of the secretary of the Corporation. Such notice shall take effect at the time therein specified or, if no time is specified immediately, and, unless specified in such notice, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies. Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

Unless otherwise provided in the Certificate of Incorporation or these Bylaws:

(a) Vacancies arising through death, resignation, removal, an increase in the number of directors or otherwise may be filled only by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified, or until their earlier death, resignation or removal.

(b) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death, resignation, removal or other cause, the Corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the Certificate of Incorporation or these Bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

3.5 Place of Meetings; Meetings by Telephone or Remote Communication.

The Board of Directors of the Corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference

telephone or other remote communication by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.6 Regular Meetings.

Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

3.7 Special Meetings; Notice.

Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairman of the board, the chief executive officer, the president, the secretary or any two or more directors.

Notice of the time and place of special meetings may be given personally or by mail, telegram, telex, facsimile, cable or by means of electronic transmission. If the notice is mailed, it shall be sent by first class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the Corporation and deposited in the United States mail at least four days before the time of the holding of the meeting. If the notice is delivered personally or by telephone, telegram, telex, facsimile, cable or electronic means it shall be delivered by such means at least 24 hours before the time of the holding of the meeting, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate under the circumstances. Notice given by electronic transmission shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the director has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the director has consented to receive notice; (iii) if by a posting on an electronic network, together with separate notice to the director of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the director. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify (a) the purpose or (b) the place of the meeting, if the meeting is to be held at the principal executive office of the Corporation.

3.8 Quorum.

At all meetings of the Board of Directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum is not present at any meeting of the Board of Directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

3.9 Waiver of Notice.

Whenever notice is required to be given under any provision of the DGCL or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any waiver of notice unless so required by the Certificate of Incorporation or these Bylaws.

3.10 Board Action by Written Consent without a Meeting.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Written consents representing actions taken by the board or committee may be executed by telex, telecopy or other facsimile transmission, and such facsimile shall be valid and binding to the same extent as if it were an original.

3.11 Fees and Compensation of Directors.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws or applicable law, the Board of Directors shall have the authority to fix the compensation of directors. No such compensation shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

3.12 Removal of Directors.

Unless otherwise restricted by applicable law, by the Certificate of Incorporation or by these Bylaws, any director or the entire Board of Directors may be removed from office, with or without cause, only by the affirmative vote of holders of at least a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

3.13 Chairman and Vice Chairman of the Board of Directors.

The Corporation may also have, at the discretion of the Board of Directors, a chairman of the board and a vice chairman of the board, who shall not be considered officers of the Corporation.

3.14 Interested Directors.

No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because any such director's or officer's vote is counted for such purpose if: (a) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (b) the material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

ARTICLE IV **COMMITTEES**

4.1 Committees of Directors.

The Board of Directors may designate one or more committees, with each committee to consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent permitted by law or provided in the resolution of the Board of Directors establishing such committee, in any subsequent resolution of the Board of Directors or in the Bylaws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it. The

provisions of this Section 4.1 shall in no way limit the ability of the Board of Directors to designate such other committees in any manner permitted by applicable law.

4.2 Committee Minutes.

Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

4.3 Meetings and Action of Committees.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (board action without a meeting) of these Bylaws, with such changes in the context of such provisions as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the Board of Directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the Board of Directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the governance of any committee not inconsistent with the provisions of these Bylaws.

**ARTICLE V
OFFICERS**

5.1 Officers.

The officers of the Corporation shall consist of a chief executive officer, a president, one or more vice presidents, a secretary and a chief financial officer and such other officers as the Board of Directors may deem expedient. Any number of offices may be held by the same person unless otherwise prohibited by applicable law, the Certificate of Incorporation or these Bylaws.

5.2 Appointment of Officers.

The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these Bylaws, shall be appointed by the Board of Directors, subject to the rights, if any, of an officer under any contract of employment. Such officers shall exercise such powers, perform such duties and hold office for such terms as shall be determined from time to time by the Board of Directors, until such officer's successor is elected and qualified, or until such officer's earlier death, resignation or removal.

5.3 Subordinate Officers.

In addition to the officers appointed by the Board of Directors in accordance with the provisions of Section 5.1 of these Bylaws, the Corporation may have a treasurer and one or more appointed vice presidents, assistant secretaries, assistant treasurers or other officers who shall also be officers of the Corporation (each an "Appointed Officer"). The chief executive officer shall have the power to appoint and remove any Appointed Officer and agents as the business of the Corporation may require, each of whom shall perform such duties and have such authority as the chief executive officer may from time to time determine, until such officer's successor is elected and qualified, or until such officer's earlier death, resignation or removal.

5.4 Removal and Resignation of Officers.

Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board of Directors at any regular or special meeting of the Board of Directors or, except in the case of an officer chosen by the Board of Directors, by the chief executive officer or any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice, or by electronic transmission, to the attention of the secretary of the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

5.5 Vacancies in Offices.

Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors or, except in the case of an officer chosen by the Board of Directors, by the chief executive officer or any officer upon whom such power may be conferred by the Board of Directors.

5.6 Chief Executive Officer.

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if any, the chief executive officer of the Corporation shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the Corporation. He or she, or his or her designee, shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the Board of Directors and shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

5.7 President.

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if any, or the chief executive officer, the president shall have general supervision, direction, and control of the business and other officers of the Corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation and such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

5.8 Vice Presidents.

In the absence or disability of the chief executive officer and president, the vice presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a vice president designated by the Board of Directors, shall perform all the duties of the chief executive officer and when so acting shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these Bylaws, the chief executive officer or the chairman of the board.

5.9 Secretary.

The secretary shall keep or cause to be kept, at the principal executive office of the Corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the Corporation or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates (if any) evidencing such shares, and the number and date of cancellation of every such certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required to be given by law or by these Bylaws. He or she shall keep the seal of the Corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

5.10 Chief Financial Officer.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses,

capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit or direct the treasurer to deposit all moneys and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board of Directors. He or she shall disburse or direct the treasurer to disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the president, the chief executive officer, or the directors, upon request, an account of all his or her transactions as chief financial officer and of the financial condition of the Corporation, and shall have other powers and perform such other duties as may be prescribed by the Board of Directors or the Bylaws.

5.11 Representation of Securities of Other Entities.

The chairman of the board, the chief executive officer, the president, any vice president, the chief financial officer, the secretary or assistant secretary of this Corporation, or any other person authorized by the Board of Directors or the chief executive officer or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this Corporation all rights incident to any and all securities of any other entity or entities standing in the name of this Corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by the person having such authority.

5.12 Authority and Duties of Officers.

In addition to the foregoing authority and duties, all officers of the Corporation shall respectively have such authority and perform such duties in the management of the business of the Corporation as may be designated from time to time by the Board of Directors or these Bylaws.

ARTICLE VI
INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS

The Corporation shall indemnify its directors and officers to the fullest extent authorized or permitted by applicable law, as now or hereafter in effect, and such right to indemnification shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of his or her heirs, executors and personal and legal representatives; provided, however, that, except for proceedings to enforce rights to indemnification, the Corporation shall not be obligated to indemnify any director or officer (or his or her heirs, executors or personal or legal representatives) in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors. The right to indemnification conferred by this Article VI shall include the right to be paid by the Corporation the expenses incurred in defending or otherwise participating in any proceeding in advance of its final disposition upon receipt by the Corporation of an undertaking by or on behalf of the director or officer receiving advancement to

repay the amount advanced if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation under this Article VI.

For purposes of this Article VI, a “director” or “officer” of the Corporation includes any person (a) who is or was a director or officer of the Corporation, (b) who is or was serving at the request of the Corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, or (c) who was a director or officer of a Corporation which was a predecessor corporation of the Corporation or of another enterprise at the request of such predecessor corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VI to directors and officers of the Corporation.

The rights to indemnification and to the advancement of expenses conferred in this Article VI shall not be exclusive of any other right which any person may have or hereafter acquire under this Certificate of Incorporation, the Bylaws of the Corporation, any statute, agreement, vote of stockholders or disinterested directors or otherwise.

Any repeal or modification of this Article VI by the stockholders of the Corporation shall not adversely affect any rights to indemnification and to the advancement of expenses of a director, officer, employee or agent of the Corporation existing at the time of such repeal or modification with respect to any acts or omissions occurring prior to such repeal or modification.

ARTICLE VII

RECORDS AND REPORTS

7.1 Maintenance and Inspection of Records.

The Corporation shall, either at its principal executive offices or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these Bylaws as amended to date, accounting books, and other records.

To the extent required by the DGCL, any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation’s stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person’s interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in Delaware or at its principal executive offices.

7.2 Inspection by Directors.

Any director shall have the right to examine the Corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the Corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VIII **GENERAL MATTERS**

8.1 Disbursements .

From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the Corporation, and only the persons so authorized shall sign or endorse those instruments.

8.2 Execution of Corporate Contracts and Instruments.

The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

8.3 Share Certificates and Uncertificated Shares.

The shares of the Corporation may be represented by certificates or uncertificated, as provided under the DGCL. Every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the Corporation by (i) the chairman or vice-chairman of the Board of Directors, or the chief executive officer or the president or a vice-president, and (ii) by the chief financial officer, or the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be an officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

The Corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the Corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the Corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

8.4 Special Designation on Certificates.

If the Corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate (if any) that the Corporation may issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of such certificate (if any) that the Corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

8.5 Lost Certificates.

Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Corporation and canceled at the same time. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or the owner's legal representative, upon the making of an affidavit of fact by the person claiming the stock certificate to be lost, stolen or destroyed, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

8.6 Construction; Definitions.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

8.7 Dividends.

The Board of Directors, subject to any restrictions contained in (a) the DGCL; or (b) the Certificate of Incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the Corporation's capital stock.

The Board of Directors may set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and may abolish or modify any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the Corporation, and meeting contingencies.

8.8 Fiscal Year.

The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors and may be changed by the Board of Directors.

8.9 Seal.

The Corporation may adopt a corporate seal, which may be altered at pleasure, and may use the same by causing it or a facsimile thereof, to be impressed or affixed or in any other manner reproduced.

8.10 Transfer of Stock.

Stock of the Corporation shall be transferable in the manner prescribed by applicable law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation by the holder thereof or by such person's attorney authorized by power of attorney duly executed and filed with the secretary or transfer agent of the Corporation, and in the case of stock represented by a certificate, upon the surrender of the certificate therefor, properly endorsed for transfer or accompanied by a duly executed stock transfer power and payment of all necessary transfer taxes; provided, however, that such surrender and endorsement or payment of taxes shall not be required in any case in which the officers of the Corporation shall determine to waive such requirement. In the case of stock represented by a certificate, every certificate exchanged, returned or surrendered to the Corporation shall be marked "Cancelled," with the date of cancellation, by the secretary or assistant secretary of the Corporation or the transfer agent thereof. No transfer of stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

8.11 Stock Transfer Agreements.

The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

8.12 Transfer Agent.

The Corporation may from time to time maintain one or more transfer offices or agencies and registry offices or agencies at such place or places as may be determined from time to time by the Board of Directors.

**ARTICLE IX
AMENDMENTS**

Subject to the Certificate of Incorporation, these Bylaws may be altered, amended or repealed in whole or in part, or new Bylaws may be adopted by the stockholders entitled to vote or by the Board of Directors. The fact that such power has been so conferred upon the Board of Directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal Bylaws. All such amendments must be approved by either the holders of a majority of the capital stock entitled to vote thereon or by a majority of the Board of Directors then in office, except as otherwise provided in the Certificate of Incorporation.

Summary of Compensation Payable to Named Executive Officers

Base Salary . The Compensation Committee (the “Committee”) of the Board of Directors of Yahoo! Inc. (“Yahoo!”) has previously approved the annual base salaries of Yahoo!’s principal executive officer, Yahoo!’s principal financial officer and Yahoo!’s other executive officers who were named in the Summary Compensation Table of Yahoo!’s Amendment No. 1 to Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 29, 2008 and are currently employed by Yahoo! (together, the “Named Executive Officers”). The following table shows the current annualized base salary rate for 2008 for each of the Named Executive Officers:

Name and Principal Position	Salary
Jerry Yang Chief Executive Officer and Chief Yahoo	\$ 1
Susan Decker President	\$815,000
Blake Jorgensen Chief Financial Officer	\$500,000
Michael J. Callahan Executive Vice President, General Counsel and Secretary	\$420,000
Michael A. Murray Senior Vice President, Finance and Chief Accounting Officer	\$375,000

Bonus . In addition to receiving a base salary, Yahoo!’s Named Executive Officers are also generally eligible to receive an annual bonus. Ms. Decker and Mr. Jorgensen have specific target bonuses pursuant to their employment arrangements with Yahoo!. Ms. Decker’s annual target cash bonus is 150% of her base salary for the year. Mr. Jorgensen’s annual target cash bonus is 100% of his base salary for the year. In each case, however, the amount of an executive’s annual bonus, if any, will be determined by the Committee based on the executive’s and Yahoo!’s performance for the relevant year.

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

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

I, Jerry Yang, certify that:

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

Dated: May 8, 2008

By: /s/ Jerry Yang
Jerry Yang
Chief Executive Officer

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

I, Blake Jorgensen, certify that:

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

Dated: May 8, 2008

By: /s/ Blake Jorgensen
Blake Jorgensen
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the "Company") for the quarter ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jerry Yang, as Chief Executive Officer of the Company, and Blake Jorgensen, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

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

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

 /s/ JERRY YANG

Name: Jerry Yang
Title: Chief Executive Officer
Dated: May 8, 2008

 /s/ BLAKE JORGENSEN

Name: Blake Jorgensen
Title: Chief Financial Officer
Dated: May 8, 2008

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