

YAHOO INC

FORM 10-Q (Quarterly Report)

Filed 08/08/08 for the Period Ending 06/30/08

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|-------------|--|
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| Telephone | 4083493300 |
| CIK | 0001011006 |
| Symbol | YHOO |
| SIC Code | 7373 - Computer Integrated Systems Design |
| Industry | Advertising |
| Sector | Services |
| 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 June 30, 2008

Or

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

For the transition period from to

Commission file number 000-28018

YAHOO! INC.

(Exact name of Registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

| Class | Outstanding at July 31, 2008 |
|---------------------------------|------------------------------|
| Common Stock, \$0.001 par value | 1,385,789,773 |

YAHOO! INC.

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PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (unaudited)

YAHOO! INC.

Condensed Consolidated Statements of Income

| | Three Months Ended | | Six Months Ended | |
|--|--|------------------|------------------|------------------|
| | June 30, 2007 | June 30, 2008 | June 30, 2007 | June 30, 2008 |
| | (Unaudited, in thousands except per share amounts) | | | |
| Revenues | \$1,697,920 | \$1,798,085 | \$3,369,770 | \$3,615,687 |
| Cost of revenues | 683,012 | 765,911 | 1,396,649 | 1,520,994 |
| Gross profit | 1,014,908 | 1,032,174 | 1,973,121 | 2,094,693 |
| Operating expenses: | | | | |
| Sales and marketing | 390,430 | 404,899 | 757,849 | 829,490 |
| Product development | 281,086 | 314,719 | 520,586 | 620,325 |
| General and administrative | 133,258 | 188,811 | 288,423 | 359,891 |
| Amortization of intangibles | 25,177 | 23,224 | 52,279 | 46,964 |
| Strategic workforce realignment costs, net | — | — | — | 16,885 |
| Total operating expenses | 829,951 | 931,653 | 1,619,137 | 1,873,555 |
| Income from operations | 184,957 | 100,521 | 353,984 | 221,138 |
| Other income, net | 30,736 | 24,674 | 66,187 | 48,336 |
| Income before income taxes, earnings in equity interests, and minority interests | 215,693 | 125,195 | 420,171 | 269,474 |
| Provision for income taxes | (87,732) | (47,693) | (180,090) | (104,666) |
| Earnings in equity interests | 32,106 | 54,927 | 61,255 | 509,709 |
| Minority interests in operations of consolidated subsidiaries | 500 | (1,214) | 1,655 | (1,139) |
| Net income | \$ 160,567 | \$ 131,215 | \$ 302,991 | \$ 673,378 |
| Net income per share — basic | \$ 0.12 | \$ 0.10 | \$ 0.23 | \$ 0.50 |
| Net income per share — diluted | \$ 0.11 | \$ 0.09 | \$ 0.21 | \$ 0.46 |
| Shares used in per share calculation — basic | 1,339,594 | 1,372,629 | 1,346,035 | 1,353,180 |
| Shares used in per share calculation — diluted | 1,403,819 | 1,399,277 | 1,410,779 | 1,393,821 |
| Stock-based compensation expense by function: | | | | |
| Cost of revenues | \$ 2,357 | \$ 3,549 | \$ 4,364 | \$ 6,829 |
| Sales and marketing | 52,110 | 56,306 | 102,378 | 121,844 |
| Product development | 64,451 | 46,442 | 112,751 | 94,524 |
| General and administrative | 9,861 | 16,871 | 49,292 | 37,260 |
| Strategic workforce realignment expense reversals | — | — | — | (12,284) |
| Total stock-based compensation expense | \$ 128,779 | \$ 123,168 | \$ 268,785 | \$ 248,173 |

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

YAHOO! INC.
Condensed Consolidated Balance Sheets

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

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

| | Six Months Ended | |
|---|---------------------|---------------------|
| | June 30, 2007 | June 30, 2008 |
| (Unaudited, in thousands) | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 302,991 | \$ 673,378 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 197,511 | 243,470 |
| Amortization of intangible assets | 113,384 | 147,398 |
| Stock-based compensation expense | 268,785 | 260,457 |
| Stock-based strategic workforce realignment expense reversals | — | (12,284) |
| Tax benefits from stock-based awards | 164,655 | 31,133 |
| Excess tax benefits from stock-based awards | (134,491) | — |
| Deferred income taxes | (90,839) | 37,527 |
| Earnings in equity interests | (61,255) | (509,709) |
| Dividends received | 15,156 | 18,942 |
| Minority interests in operations of consolidated subsidiaries | (1,655) | 1,139 |
| (Gains) / losses from sales of investments, assets, and other, net | 1,522 | (3,910) |
| Changes in assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable, net | 43,365 | 23,636 |
| Prepaid expenses and other | (12,519) | (1,749) |
| Accounts payable | 31,078 | (39,452) |
| Accrued expenses and other liabilities | (15,839) | 54,616 |
| Deferred revenue | 18,454 | 287,551 |
| Net cash provided by operating activities | <u>840,303</u> | <u>1,212,143</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of property and equipment, net | (262,695) | (315,690) |
| Purchases of marketable debt securities | (993,039) | (889,467) |
| Proceeds from sales of marketable debt securities | 274,094 | 199,301 |
| Proceeds from maturities of marketable debt securities | 1,070,658 | 370,977 |
| Acquisitions, net of cash acquired | (36,011) | (179,847) |
| Purchases of intangible assets | (19,914) | (51,160) |
| Other investing activities, net | — | (7,639) |
| Net cash provided by (used in) investing activities | <u>33,093</u> | <u>(873,525)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock | 203,725 | 317,445 |
| Repurchases of common stock | (1,013,181) | (79,236) |
| Structured stock repurchases, net | (250,000) | — |
| Excess tax benefits from stock-based awards | 134,491 | — |
| Tax withholdings related to net share settlements of restricted stock awards and restricted stock units | (3,708) | (56,612) |
| Other financing activities, net | — | (74) |
| Net cash (used in) provided by financing activities | <u>(928,673)</u> | <u>181,523</u> |
| Effect of exchange rate changes on cash and cash equivalents | 11,218 | 17,299 |
| Net change in cash and cash equivalents | (44,059) | 537,440 |
| Cash and cash equivalents at beginning of period | <u>1,569,871</u> | <u>1,513,930</u> |
| Cash and cash equivalents at end of period | <u>\$ 1,525,812</u> | <u>\$ 2,051,370</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 six months ended June 30, 2008, the holders of the Company's zero coupon senior convertible notes (the "Notes") converted \$750 million of the Notes into 36.6 million shares of Yahoo! common stock. See Note 9 — "Debt" for additional information.

| | <u>Six Months Ended</u> | |
|---|----------------------------------|--------------------------------|
| | <u>June 30,</u> <u>2007</u> | <u>June 30,</u> <u>2008</u> |
| | <u>(Unaudited, in thousands)</u> | |
| Acquisition-related activities: | | |
| Cash paid for acquisitions | \$41,767 | \$180,342 |
| Cash acquired in acquisitions | (5,756) | (495) |
| | <u>\$36,011</u> | <u>\$179,847</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” or “Owned and Operated sites”). Yahoo! also extends its marketing platform and access to Internet users beyond Yahoo! Properties through its distribution network of third-party entities (referred to as “Affiliates”) who have integrated the Company’s advertising offerings into their Websites (referred to as “Affiliate sites”) or their other offerings.

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

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

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States (“GAAP”) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to uncollectible receivables, the useful lives of long-lived assets including property and equipment, investment fair values, goodwill and other intangible assets, investments in equity interests, income taxes, and contingencies. In addition, the Company uses assumptions when employing the Black-Scholes option valuation model to calculate the fair value of stock-based awards granted. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results may differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2007 was derived from the Company’s audited financial statements for the year ended December 31, 2007, but does not include all disclosures required by GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Recent Accounting Pronouncements

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

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

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

Note 2 BASIC AND DILUTED NET INCOME PER SHARE

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

The Company takes into account the effect on consolidated net income per share of dilutive securities of entities in which the Company holds equity interests that are accounted for using the equity method. Potentially dilutive securities representing approximately 129 million and 133 million shares of common stock for the three and six months ended June 30, 2008, respectively, and 133 million for both the three and six months ended June 30, 2007, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share amounts):

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

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

Note 3 ACQUISITIONS**Transactions completed in 2007**

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

(*) Includes asset acquisitions and other business combinations.

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

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

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

Transactions completed in 2008

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

The total purchase price of \$143 million consisted of \$141 million in cash consideration and \$2 million of direct transaction costs. In connection with the acquisition, the Company issued stock-based awards valued at \$21 million which are being recognized as stock-based compensation expense as the awards vest over a period of up to four years.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

| | |
|--|------------------|
| Cash acquired | \$ 257 |
| Other tangible assets acquired | 16,869 |
| Amortizable intangible assets: | |
| Customer contracts and related relationships | 7,100 |
| Developed technology and patents | 57,100 |
| Trade name, trademark, and domain name | 1,200 |
| Goodwill | 87,549 |
| Total assets acquired | 170,075 |
| Liabilities assumed | (3,720) |
| Deferred income taxes | (23,485) |
| Total | <u>\$142,870</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 identifiable intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the United States (“U.S.”) segment. The Company may make additional adjustments to the purchase price allocation related to goodwill and tangible assets acquired.

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

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

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

| | <u>December 31,</u> <u>2007</u> | <u>June 30,</u> <u>2008</u> | <u>Percent</u> <u>Ownership of</u> <u>Common Stock</u> |
|---------------|------------------------------------|--------------------------------|--|
| Alibaba Group | \$ 1,440,278 | \$2,196,280 | 44% |
| Alibaba.com | 100,804 | 104,509 | 1% |
| Yahoo! Japan | 636,164 | 833,543 | 33% |
| Other | 3,671 | 4,266 | |
| Total | <u>\$ 2,180,917</u> | <u>\$3,138,598</u> | |

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

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

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

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | <u>March 31,</u> <u>2007</u> | <u>March 31,</u> <u>2008</u> | <u>March 31,</u> <u>2007</u> | <u>March 31,</u> <u>2008</u> |
| Operating data ⁽¹⁾: | | | | |
| Revenues | \$ 67,660 | \$106,336 | \$128,658 | \$ 203,984 |
| Gross profit | \$ 50,276 | \$ 76,152 | \$ 90,564 | \$ 138,573 |
| Loss from operations | \$ (5,705) | \$ (7,663) | \$ (37,779) | \$ (35,082) |
| Net (loss) / income ⁽²⁾ | \$ (6,244) | \$ 9,000 | \$ (33,142) | \$1,892,257 |
| Balance sheet data: | | | | |
| Current assets | | | <u>\$ 723,609</u> | <u>\$2,649,927</u> |
| Long-term assets | | | <u>\$ 1,943,425</u> | <u>\$1,881,490</u> |
| Current liabilities | | | <u>\$ 452,413</u> | <u>\$ 679,174</u> |
| Long-term liabilities | | | <u>\$ 15,369</u> | <u>\$ 15,958</u> |

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

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three and six months ended June 30, 2007 and 2008, respectively, these transactions were not material.

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

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

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

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

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|----------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| | <u>March 31,</u> <u>2007</u> | <u>March 31,</u> <u>2008</u> | <u>March 31,</u> <u>2007</u> | <u>March 31,</u> <u>2008</u> |
| Operating data(*): | | | | |
| Revenues | \$482,360 | \$704,071 | \$945,352 | \$1,322,819 |
| Gross profit | \$463,882 | \$598,903 | \$909,050 | \$1,129,590 |
| Income from operations | \$247,490 | \$320,249 | \$482,706 | \$ 596,565 |
| Net income | \$133,948 | \$153,423 | \$262,786 | \$ 305,110 |
| | | | | |
| | | | <u>September 30,</u> <u>2007</u> | <u>March 31,</u> <u>2008</u> |
| Balance sheet data: | | | | |
| Current assets | | | \$ 1,131,234 | \$1,654,826 |
| Long-term assets | | | \$ 1,783,430 | \$2,068,145 |
| Current liabilities | | | \$ 692,337 | \$ 896,110 |
| Long-term liabilities | | | \$ 347,995 | \$ 302,242 |

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

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

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

Note 5 GOODWILL

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

| | <u>United States</u> | <u>International</u> | <u>Total</u> |
|--|----------------------|----------------------|--------------------|
| Balance as of January 1, 2008 | \$2,518,848 | \$1,483,182 | \$4,002,030 |
| Acquisitions and other(*) | 91,984 | 3,248 | 95,232 |
| Foreign currency translation adjustments | — | 53,704 | 53,704 |
| Balance as of June 30, 2008 | <u>\$2,610,832</u> | <u>\$1,540,134</u> | <u>\$4,150,966</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 | June 30, 2008 | | |
|--|-------------------|-----------------------|---|--------------------|
| | Net | Gross Carrying Amount | Accumulated Amortization ⁽¹⁾ | Net ⁽²⁾ |
| Customer, affiliate, and advertiser related relationships | \$ 143,195 | \$ 213,084 | \$ (85,165) | \$127,919 |
| Developed and acquired technology and intellectual property rights | 384,041 | 765,648 | (343,565) | 422,083 |
| Trademark, trade name, and domain name | 84,261 | 207,258 | (141,663) | 65,595 |
| Total intangible assets, net | <u>\$ 611,497</u> | <u>\$ 1,185,990</u> | <u>\$ (570,393)</u> | <u>\$615,597</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 June 30, 2008.
- (2) As of December 31, 2007 and June 30, 2008, \$506 million and \$535 million, respectively, of the net intangibles balance were related to the U.S. segment. As of December 31, 2007 and June 30, 2008, \$105 million and \$81 million, respectively, of the net intangibles balance were related to the International segment.

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

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

Note 7 OTHER INCOME, NET

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

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

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

Note 8 COMPREHENSIVE INCOME

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

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

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

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

Note 9 DEBT

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

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

Note 10 STOCK-BASED COMPENSATION

Stock Options. The Company's Amended and Restated 1995 Stock Plan and other stock-based award plans assumed through acquisitions are collectively referred to as the "Plans". Stock option activity under the Company's Plans and the Amended and Restated 1996 Directors' Stock Plan for the six months ended June 30, 2008 is summarized as follows (in thousands, except per share amounts):

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

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

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

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

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

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

During the six months ended June 30, 2008, 6.0 million previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld of approximately 2.0 million was based on the value of the restricted stock awards on their vesting date as determined by the Company's closing stock price. Total payments for the employees' tax obligations to the relevant taxing authorities were \$57 million for the six months ended June 30, 2008 and are reflected as a financing activity within the condensed consolidated statements of cash flows. Upon the vesting of shares of certain restricted stock awards, 0.7 million shares were reacquired by the Company to satisfy the tax withholding obligations and \$20 million was recorded as treasury stock. Payments of \$37 million related to net share settlements of restricted stock units had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued as a result of the vesting and were recorded as a reduction of additional paid-in-capital.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

Note 11 STOCK REPURCHASE PROGRAMS

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

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

Note 12 COMMITMENTS AND CONTINGENCIES

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

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

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

| | <u>Gross Lease Commitments</u> | <u>Sublease Income</u> | <u>Net Lease Commitments</u> |
|---------------------------------------|------------------------------------|----------------------------|----------------------------------|
| Six months ending December 31, 2008 | \$ 76 | \$ (4) | \$ 72 |
| Years ending December 31, | | | |
| 2009 | 151 | (4) | 147 |
| 2010 | 130 | (2) | 128 |
| 2011 | 109 | (2) | 107 |
| 2012 | 95 | — | 95 |
| 2013 | 86 | — | 86 |
| Due after 5 years | 344 | — | 344 |
| Total gross and net lease commitments | <u>\$ 991</u> | <u>\$ (12)</u> | <u>\$ 979</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 June 30, 2008, these commitments totaled \$440 million, of which \$68 million will be payable in the remainder of 2008, \$160 million will be payable in 2009, \$161 million will be payable in 2010, and \$51 million will be payable in 2011.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

As of June 30, 2008, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

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

On May 24, 2001, Arista Records, Inc., Bad Boy Records, BMG Music d/b/a The RCA Records Label, Capitol Records, Inc., Virgin Records America, Inc., Sony Music Entertainment, Inc., UMG Recordings, Inc., Interscope Records, Motown Record Company, L.P., and Zomba Recording Corporation filed a lawsuit alleging copyright infringement against LAUNCH Media, Inc. ("LAUNCH") in the U.S. District Court for the Southern District of New York. The plaintiffs alleged, among other things, that the consumer-influenced portion of LAUNCH's LAUNCHcast service is "interactive" within the meaning of Section 114 of the Copyright Act and therefore does not qualify for the compulsory license provided for by the Copyright Act. The complaint sought declaratory and injunctive relief and damages for the alleged infringement. After the lawsuit was commenced, Yahoo! entered into an agreement to acquire LAUNCH, which closed in August 2001, and since that time LAUNCH has been a wholly owned subsidiary of Yahoo!. Because LAUNCH settled the LAUNCH litigation as to all other plaintiffs, BMG Music d/b/a/The RCA Records Label was the sole remaining plaintiff in this proceeding. On April 27, 2007, after a two week jury trial, the jury returned a unanimous verdict in favor of LAUNCH finding no liability. The plaintiff has filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court for the Southern District of New York against certain underwriters involved in Overture Services Inc.'s ("Overture") IPO, Overture, and certain of Overture's current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the "Securities Exchange Act") involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted IPOs of their common stock since the mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint. On July 15, 2002, the issuers filed an omnibus motion to dismiss for failure to comply with applicable pleading standards. On October 8, 2002, the Court entered an Order of Dismissal as to all of the individual defendants in the Overture IPO litigation, without prejudice. On February 19, 2003, the Court denied the motion to dismiss the claims against certain defendants, including Overture. In June 2004, a stipulation of settlement and release of claims against the issuer defendants, including Overture, was submitted to the Court for approval. While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The district court directed that the litigation proceed within a number of "focus cases" rather than in all of the 310 cases that had been consolidated. Overture's case is not one of these focus cases. On October 13, 2004, the district court certified these focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit overturned the district court's class certification decision. Since class certification, which was a condition of the settlement, was not met, the parties stipulated to terminate the settlement. On June 25, 2007, the Court entered an order terminating the proposed settlement based upon this stipulation. Plaintiffs amended complaints in the six cases. On March 26, 2008, the district court denied the motions to dismiss except as to Section 11 claims raised by some plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. Initial briefing on the class certification motion was completed in April 2008. The Company intends to defend the case vigorously.

In May 2007, two purported class actions were commenced by plaintiffs Ellen Brodsky and Manfred Hacker, asserting claims arising under the federal securities laws against the Company and certain individual defendants. These actions were ordered consolidated in the U.S. District Court for the Central District of California and, on December 21, 2007, a Consolidated Amended Complaint was filed against Yahoo! and certain individual defendants, including current and former officers and a former director and officer. Plaintiffs purport to represent a class of persons who purchased the Company's common stock between April 8, 2004 and July 18, 2006. Plaintiffs allege that defendants engaged in a scheme to inflate the Company's share price by making false and misleading statements regarding the Company's operations, financial results, and future business prospects in violation of Section 10(b) of the Securities Exchange Act and SEC Rule 10b-5. Plaintiffs also allege that the individual defendants engaged in insider trading in violation of Section 20(A) of the Securities Exchange Act, and as control persons are subject to liability under Section 20(A) of the Securities Exchange Act. The Consolidated Amended Complaint seeks compensatory damages, injunctive relief, disgorgement of alleged insider trading proceeds, and other equitable relief. On March 10, 2008, the Court granted defendants' motion to transfer the action to the U.S. District Court for the Northern District of California. Defendants filed a motion to dismiss the Consolidated Amended Complaint which will be heard on September 18, 2008, in conjunction with a case management conference.

On May 15, 2007, a stockholder derivative complaint was filed in the California Superior Court, Santa Clara County, by Greg Brockwell against members of the Company's Board of Directors and selected officers. Brockwell seeks to prosecute the action on behalf of the Company, which is named as a "nominal defendant," and to obtain relief on behalf of the Company. The complaint alleges breaches of state law, including breaches of fiduciary duties, waste of corporate assets, unjust enrichment and violations of the California Corporations Code between April 2004 and the present. The derivative complaint alleges facts substantially similar to the Consolidated Amended Complaint in the federal class action litigation, and seeks, on behalf of the Company, treble damages under

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Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

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

The proposed Second Amended and Consolidated Complaint generally alleges that defendants breached fiduciary duties in connection with consideration of proposals by Microsoft to purchase all or part of Yahoo!, adoption of severance plans, the June 12, 2008 agreement between Google Inc. and Yahoo! and purports to allege claims relating to alleged false and misleading statements in Yahoo!'s proxy statement. With regard to the proxy statement, plaintiffs allege that the proxy statement falsely discloses that the severance plans were designed to help retain the Company's employees, maintain a stable work environment and provide certain economic benefits to the employees in the event their employment is actually or constructively terminated in connection with a change in

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Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

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

Note 13 SEGMENTS

The Company manages its business geographically. The primary areas of measurement and decision-making are the U.S. and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources. Segment operating income before depreciation, amortization, and stock-based compensation expense includes income from operations before depreciation, amortization, and stock-based compensation expense. Management believes that segment operating income before depreciation, amortization, and stock-based compensation expense is an appropriate measure to evaluate the operational performance of the Company's segments. However, this measure should be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with GAAP.

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Notes to Condensed Consolidated Financial Statements — (Continued)

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

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

| | December 31, 2007 | June 30, 2008 |
|-------------------------------------|----------------------|--------------------|
| Property and equipment, net: | | |
| United States | \$ 1,182,212 | \$1,267,521 |
| International | 149,420 | 148,280 |
| Total property and equipment, net | <u>\$ 1,331,632</u> | <u>\$1,415,801</u> |

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

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

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Notes to Condensed Consolidated Financial Statements — (Continued)

Note 14 INCOME TAXES

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

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

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

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

Note 15 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Effective January 1, 2008, the Company adopted SFAS 157 for financial assets and liabilities. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements by establishing a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

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Notes to Condensed Consolidated Financial Statements — (Continued)

(Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Basis of Fair Value Measurement

- Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

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

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

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

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

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

The fair value of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair value of the Company's Level 2 financial assets are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. As of June 30, 2008, the Company did not have any significant Level 3 financial assets or liabilities.

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

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Notes to Condensed Consolidated Financial Statements — (Continued)

Note 16 STRATEGIC WORKFORCE REALIGNMENT

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

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

Note 17 SUBSEQUENT EVENTS

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

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

Forward-Looking Statements

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

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

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

Overview

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

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

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

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

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

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

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

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

Second Quarter Highlights

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

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

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

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

Net cash provided by operating activities for the six months ended June 30, 2008 includes a \$350 million one-time payment related to a commercial arrangement entered into with AT&T Inc., which was recorded in long-term deferred revenue in the first quarter of 2008 and is being recognized in marketing services revenues over the underlying service period.

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

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

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

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

Results of Operations

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

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

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

| | Three Months Ended June 30, | | | | Percent Change | Six Months Ended June 30, | | | | Percent Change |
|----------------------------|-----------------------------|-------------|--------------------|-------------|----------------|---------------------------|-------------|--------------------|-------------|----------------|
| | 2007 | (*) | 2008 | (*) | | 2007 | (*) | 2008 | (*) | |
| Marketing services: | | | | | | | | | | |
| Owned and Operated sites | \$ 892,290 | 53% | \$1,015,705 | 56% | 14% | \$1,711,834 | 51% | \$1,981,381 | 55% | 16% |
| Affiliate sites | 593,742 | 35% | 571,251 | 32% | (4)% | 1,242,817 | 37% | 1,178,019 | 32% | (5)% |
| Marketing services | \$1,486,032 | 88% | \$1,586,956 | 88% | 7% | \$2,954,651 | 88% | \$3,159,400 | 87% | 7% |
| Fees | 211,888 | 12% | 211,129 | 12% | 0% | 415,119 | 12% | 456,287 | 13% | 10% |
| Total revenues | <u>\$1,697,920</u> | <u>100%</u> | <u>\$1,798,085</u> | <u>100%</u> | 6% | <u>\$3,369,770</u> | <u>100%</u> | <u>\$3,615,687</u> | <u>100%</u> | 7% |

(*) Percent of total revenues.

We currently generate marketing services revenues principally from display advertising on Owned and Operated sites and from sponsored search results generated from searches on Owned and Operated and Affiliate sites. In addition, we receive revenues for Content Match links (advertising on Yahoo! Properties and Affiliate sites which include contextually relevant advertiser links to their respective Websites) on Owned and Operated and Affiliate sites and display advertising on Affiliate sites. The net revenues and related volume metrics from Content Match links and display advertising on Affiliate sites are not currently material and are excluded from the discussion and calculation of average revenue per Page View on Owned and Operated sites and average revenue per search on Affiliate sites that follows. Our revenue growth for the three and six months ended June 30, 2008 was attributable to continuing growth in our search and display advertising businesses.

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

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

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

Marketing Services Revenues from Owned and Operated Sites. Marketing services revenues from Owned and Operated sites for the three and six months ended June 30, 2008 increased by 14 percent and 16 percent, respectively, as compared to the same periods in 2007. Factors leading to growth in overall marketing services revenues included an increase in user activity levels on Yahoo! Properties, which contributed to a higher volume of searches, Page Views, click-throughs, and ad impression displays. Also, our growing audience of users makes Yahoo! Properties more attractive to advertisers and increases their spending on marketing services. We expect marketing services revenues from our Owned and Operated sites to continue growing at a rate faster than total revenues.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views to more accurately reflect the total number of Web pages viewed by users on Yahoo! Properties. Based on this process, from time to time we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to our Owned and Operated sites. Using our updated methodology, for the three and six months ended June 30, 2008 as compared to the same periods in 2007, Page Views increased 23 percent and 21 percent, respectively, and revenue per Page View decreased 7 percent and

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

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

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

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

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

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

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

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

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

The number of paying users for our fee-based services decreased to 10.2 million as of June 30, 2008 compared to 16.9 million as of June 30, 2007, a decrease of 40 percent as a result of these business model changes. Average monthly revenues per paying user was approximately \$4 for both the three and six months ended June 30, 2008, respectively, compared to approximately \$3 for the same periods in 2007. The increase in average monthly revenues per paying user for both the three and six months ended June 30, 2008 is due to the renegotiation of broadband partnerships from being fee-paying user-based to an advertising revenue sharing model.

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

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

| | Three Months Ended June 30, | | | | Percent Change | Six Months Ended June 30, | | | | Percent Change |
|---|-----------------------------|-----|-----------|-----|-------------------|---------------------------|-----|-------------|-----|-------------------|
| | 2007 | (*) | 2008 | (*) | | 2007 | (*) | 2008 | (*) | |
| Cost of revenues | \$683,012 | 40% | \$765,911 | 43% | 12% | \$1,396,649 | 41% | \$1,520,994 | 42% | 9% |
| Sales and marketing | \$390,430 | 23% | \$404,899 | 23% | 4% | \$ 757,849 | 22% | \$ 829,490 | 23% | 9% |
| Product development | \$281,086 | 17% | \$314,719 | 17% | 12% | \$ 520,586 | 15% | \$ 620,325 | 17% | 19% |
| General and administrative | \$133,258 | 8% | \$188,811 | 10% | 42% | \$ 288,423 | 9% | \$ 359,891 | 10% | 25% |
| Amortization of intangibles | \$ 25,177 | 1% | \$ 23,224 | 1% | (8)% | \$ 52,279 | 2% | \$ 46,964 | 1% | (10)% |
| Strategic workforce realignment costs, net | \$ — | — | \$ — | — | — | \$ — | — | \$ 16,885 | 1% | 100% |

(*) Percent of total revenues.

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

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

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

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

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

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

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

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

(*) Percent of total revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the quarter ended March 31, 2008, we incurred total pre-tax cash charges of approximately \$29 million in severance pay expenses and related cash expenses in connection with the workforce realignment, all of which was recorded in the first quarter of 2008. The pre-tax cash charges were offset by a \$12 million credit related to non-cash stock-based compensation expense reversals for forfeited unvested awards, resulting in a net estimated total strategic workforce realignment pre-tax expense of approximately \$17 million. Of the \$17 million strategic workforce realignment pre-tax expense, \$13 million was related to the U.S. segment and \$4 million was related to the International segment. As of June 30, 2008, the remaining accrual related to the strategic workforce realignment was approximately \$3 million. See Note 16 — “Strategic Workforce Realignment” in the Notes to the condensed consolidated financial statements for additional information.

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

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

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

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

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

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

The total amount of our unrecognized tax benefits as of June 30, 2008 is \$690 million, of which \$243 million is recorded in the financial statements in the deferred and other long-term tax liabilities, net line item of the condensed consolidated balance sheet. The total unrecognized tax benefits as of June 30, 2008 increased by \$4 million from the balance as of December 31, 2007. Over the next twelve months, our existing tax positions are expected to generate an increase in total unrecognized tax benefits.

Earnings in Equity Interests. Earnings in equity interests for the three and six months ended June 30, 2008 were \$55 million and \$510 million, respectively, as compared to \$32 million and \$61 million for the same periods in 2007. Earnings in equity interests for the six months ended June 30, 2008 included a \$401 million net non-cash gain recorded in the first quarter of 2008 related to Alibaba Group Holding Limited’s (“Alibaba Group”) initial public offering (“IPO”) of Alibaba.com Limited (“Alibaba.com”), net of tax. See Note 4 — “Investments in Equity

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

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority holders’ percentage share of income or losses from the subsidiaries in which we hold a majority, but less than 100 percent, ownership interest and consolidate the subsidiaries’ results in our condensed consolidated financial statements. Minority interests in operations of consolidated subsidiaries were less than \$2 million for the both the three and six months ended June 30, 2008, as compared to less than \$1 million and \$2 million, respectively, for the same periods in 2007. Minority interests recorded for the three and six months ended June 30, 2008 and 2007 were related to our Yahoo! 7 joint venture arrangement which was completed in the first quarter of 2006.

Business Segment Results

We manage our business geographically. Our primary areas of measurement and decision-making are the U.S. and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization, and stock-based compensation expense for making financial decisions and allocating resources. Segment operating income before depreciation, amortization, and stock-based compensation expense includes income from operations before depreciation, amortization, and stock-based compensation expense. Management believes that segment operating income before depreciation, amortization, and stock-based compensation expense is an appropriate measure for evaluating the operational performance of our segments. However, this measure should be considered in addition to, not as a substitute for, or superior to, income from operations or other measures of financial performance prepared in accordance with generally accepted accounting principles in the United States (“GAAP”).

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

| | Three Months Ended June 30, | | | | Percent Change | Six Months Ended June 30, | | | | Percent Change |
|----------------------|-----------------------------|-------------|--------------------|-------------|----------------|---------------------------|-------------|--------------------|-------------|----------------|
| | 2007 | (*) | 2008 | (*) | | 2007 | (*) | 2008 | (*) | |
| Revenues by segment: | | | | | | | | | | |
| United States | \$1,118,514 | 66% | \$1,264,523 | 70% | 13% | \$2,219,271 | 66% | \$2,571,933 | 71% | 16% |
| International | 579,406 | 34% | 533,562 | 30% | (8)% | 1,150,499 | 34% | 1,043,754 | 29% | (9)% |
| Total revenues | <u>\$1,697,920</u> | <u>100%</u> | <u>\$1,798,085</u> | <u>100%</u> | 6% | <u>\$3,369,770</u> | <u>100%</u> | <u>\$3,615,687</u> | <u>100%</u> | 7% |

(*) Percent of total revenues.

| | Three Months Ended June 30, | | Percent Change | Six Months Ended June 30, | | Percent Change |
|--|-----------------------------|-------------------|----------------|---------------------------|-------------------|----------------|
| | 2007 | 2008 | | 2007 | 2008 | |
| Segment operating income before depreciation, amortization, and stock-based compensation expense: | | | | | | |
| United States | \$ 362,337 | \$ 297,869 | (18)% | \$ 703,855 | \$ 613,032 | (13)% |
| International | 111,292 | 129,177 | 16% | 229,809 | 247,147 | 8% |
| Total segment operating income before depreciation, amortization, and stock-based compensation expense | 473,629 | 427,046 | (10)% | 933,664 | 860,179 | (8)% |
| Depreciation and amortization | (159,893) | (203,357) | 27% | (310,895) | (390,868) | 26% |
| Stock-based compensation expense | (128,779) | (123,168) | (4)% | (268,785) | (248,173) | (8)% |
| Income from operations | <u>\$ 184,957</u> | <u>\$ 100,521</u> | (46)% | <u>\$ 353,984</u> | <u>\$ 221,138</u> | (38)% |

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

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

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

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

Critical Accounting Policies, Judgments, and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see "Critical Accounting Policies and Estimates" included in our annual financial statements for the year ended December 31, 2007 filed on Form 10-K. We have made no significant changes to our critical accounting estimates since December 31, 2007.

Recent Accounting Pronouncements

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

Liquidity and Capital Resources

| | As of December 31, 2007 | As of June 30, 2008 |
|--|-------------------------------|---------------------------|
| | (In thousands) | |
| Cash and cash equivalents | \$ 1,513,930 | \$2,051,370 |
| Short-term marketable debt securities | 487,544 | 1,019,641 |
| Long-term marketable debt securities | 361,998 | 148,313 |
| Total cash, cash equivalents, and marketable debt securities | <u>\$ 2,363,472</u> | <u>\$3,219,324</u> |
| Percentage of total assets | <u>19%</u> | <u>23%</u> |

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

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

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

We expect to continue to generate positive cash flows from operations for the remainder of 2008. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable debt securities, together with any cash generated from operations will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months. However, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position, and the sale of additional equity securities could result in dilution to our stockholders.

Effective January 1, 2008, we adopted SFAS 157 for financial assets and liabilities. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). See Note 15 — “Fair Value of Financial Instruments” in the Notes to the condensed consolidated financial statements for additional information.

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

Cash flow changes

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

Cash used in investing activities was primarily attributable to capital expenditures, purchases of intangible assets, as well as acquisitions including our strategic investments. In the six months ended June 30, 2008, we invested \$316 million in net capital expenditures, \$51 million to purchase intangible assets, a net \$180 million in acquisitions, and a net \$8 million in other investing activities. In the six months ended June 30, 2007, we invested \$263 million in net capital expenditures and a net \$36 million in acquisitions.

Cash used in financing activities is driven by our financing activities relating to stock repurchases and employee option exercises. During the six months ended June 30, 2008, we used \$79 million in the direct repurchase of 3.4 million shares of our common stock at an average price of \$23.39 per share. In addition, \$57 million was used for tax withholdings related to net share settlements of restricted stock awards and restricted stock units (\$20 million of which relates to reacquired shares in treasury stock related to restricted stock awards). See Note 11 — “Stock Repurchase Programs” in the Notes to the condensed consolidated financial statements for additional information. Additionally, we had cash proceeds from employee option exercises of \$317 million for the six months ended June 30, 2008, as compared to \$204 million for the same period in 2007.

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

Financing

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

Capital expenditures

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

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

Contractual obligations and commitments

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

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

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

| | Gross Lease Commitments |
|-------------------------------------|------------------------------------|
| Six months ending December 31, 2008 | \$ 76 |
| Years ending December 31, | |
| 2009 | 151 |
| 2010 | 130 |
| 2011 | 109 |
| 2012 | 95 |
| 2013 | 86 |
| Due after 5 years | 344 |
| Total gross lease commitments | <u>\$ 991</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 June 30, 2008, these commitments totaled \$440 million, of which \$68 million will be payable in the remainder of 2008, \$160 million will be payable in 2009, \$161 million will be payable in 2010, and \$51 million will be payable in 2011.

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

Income Taxes. As of June 30, 2008, the unrecognized tax benefits that resulted in an accrued liability amounted to \$243 million and are classified as deferred and other long-term tax liabilities, net on our condensed consolidated balance sheets. As of June 30, 2008, the settlement period for our income tax liabilities cannot be determined. However, no significant liabilities are expected to become due within the next twelve months.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

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

We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. Dollars in consolidation that will lead to a translation gain or loss that is recorded in accumulated other comprehensive income which is part of stockholders' equity. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. During the three and six months ended June 30, 2008 and 2007, our net foreign currency transaction gains and losses, realized and unrealized, were not material.

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

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

Item 4. Controls and Procedures

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

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see Note 12 — “Commitments and Contingencies” to our condensed consolidated financial statements, which is incorporated by reference herein.

Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission on February 27, 2008, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the 10-K for the year ended December 31, 2007.

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

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

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

Our users must access our services through Internet access providers, including wireless providers and providers of cable and broadband Internet access. To the extent that an access provider or device manufacturer offers online services competitive with those of Yahoo!, the user may elect to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider’s or manufacturer’s own directory or by providing Yahoo! with less prominent listings than the access provider, manufacturer, or a competitor’s offerings. Such access providers and manufacturers may prove better able to target services and advertisements to the preferences of their users. If such access providers and device manufacturers are more successful than we are in developing compelling products or attracting and retaining users or advertisers, then our revenues could decline. Further, to the extent that Internet access providers, mobile service providers, or network providers increase the costs of service to users or restrict Yahoo!’s ability to deliver products, services, and content to advertisers or end users or increase our costs of doing so, our revenues could decline.

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

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

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

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

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

We have deployed our own Internet search technology to provide search results on our network. We have more limited experience in operating our own search service than do some of our competitors. Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We must continually invest in improving our users' experience, including search relevance, speed, and services responsive to users' needs and preferences, to continue to attract, retain, and expand our user base. If we are unable to provide search technologies and other services which generate significant traffic to our Websites, or if we are unable to enter into distribution relationships that continue to drive significant traffic to our Websites, our business could be harmed, causing our revenues to decline.

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

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

- maintaining our user base;
- maintaining our popularity as an Internet destination site;
- broadening our relationships with advertisers to small-and medium-sized businesses;
- attracting advertisers to our user base;
- increasing demand for our services by advertisers, users, businesses and Affiliates, including prices paid by advertisers, the number of searches performed by users, the rate at which users click-through to commercial search results and advertiser perception of the quality of leads generated by our marketing services;
- the successful implementation and acceptance of our advertising exchange by advertisers, networks, Affiliates, and publishers;
- the successful development and deployment of technology improvements to our advertising platform;
- maintaining our Affiliate program for our search marketing;
- deriving better demographic and other information from our users; and

- 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, accessibility, content regulation, quality of services, telecommunications, mobile and intellectual property ownership and infringement in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Further, the application of existing laws to Yahoo! or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol, adult content, tobacco, or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. Recently, plaintiffs have attempted to use U.S. statutes in efforts to recover damages against corporations, including Yahoo!, for alleged human rights abuses committed by foreign governments. We may incur substantial liabilities for expenses necessary to defend such litigation or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

A number of U.S. federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third-party content. Yahoo! relies on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections will subject us to greater risk of liability and may increase our costs of compliance with these regulations or limit our ability to operate certain lines of business. The Children’s Online Protection Act and the Children’s Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the

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

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 various proposals to acquire all or part of Yahoo! and related matters may adversely affect our business.

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

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

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the quarter ended June 30, 2008, the closing sale prices of our common stock on the Nasdaq Global Select Market ranged from \$20.66 to \$28.67 per share and the closing sale price on July 31, 2008 was \$19.89 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements and implementations of technological innovations or new services, upgrades and media properties by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of other companies that investors may deem comparable to us; the operating performance of companies in which we have an equity investment, including Yahoo! Japan and Alibaba Group Holding Limited; and news reports relating to trends in our markets or general economic conditions.

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

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

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

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

In addition, our Board of Directors has the authority to issue up to 10 million shares of Preferred Stock (of which 2 million shares have been designated as Series A Junior Participating Preferred Stock) and to determine the

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price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

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

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

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

None.

Item 5. *Other Information*

None.

Item 6. *Exhibits*

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

SIGNATURES

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

YAHOO! INC.

Dated: August 8, 2008

By: /s/ BLAKE JORGENSEN

Blake Jorgensen
Chief Financial Officer (Principal Financial Officer)

Dated: August 8, 2008

By: /s/ MICHAEL MURRAY

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

YAHOO! INC.

Index to Exhibits

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

| <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 (Filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference.) |
| 4.1 | Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 [the September 22, 2000 Form S-3] and incorporated herein by reference.) |
| 4.2 | Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference.) |
| 4.3 ** | Form of Senior Note. |
| 4.4 ** | Form of Subordinated Note. |
| 4.5 ** | Form of Certificate of Designation for Preferred Stock (together with Preferred Stock certificate.) |
| 4.6 | Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated herein by reference.) |
| 4.7 ** | Form of Warrant Agreement (together with Form of Warrant Certificate.) |
| 4.8 | Amended and Restated Rights Agreement, dated as of April 1, 2005, by and between Yahoo! Inc. and Equiserve Trust Company, N.A., as rights agent (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed April 4, 2005, and incorporated herein by reference.) |
| 10.19*‡ | Services Agreement, dated as of June 12, 2008, by and between Yahoo! Inc. and Google Inc. |
| 10.20 | Agreement, dated July 21, 2008, by and among Yahoo! Inc., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Partners Master Fund II L.P., Icahn Partners Master Fund III L.P., High River Limited Partnership and Carl C. Icahn. (Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 21, 2008 and incorporated herein by reference.) |
| 31.1 * | Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 8, 2008. |
| 31.2 * | Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 8, 2008. |
| 32 * | Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 8, 2008. |

* Filed herewith.

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

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

SERVICES AGREEMENT

This Services Agreement (this “Agreement”) is made and entered into as of June 12, 2008 (the “Effective Date”), by and between Yahoo! Inc., a Delaware corporation (“Yahoo! Inc.”), and Google Inc., a Delaware corporation (“Google Inc.”). Yahoo! Inc. and Google Inc. are each a “Party” and are together referred to as the “Parties.”

RECITALS

WHEREAS, Google operates web sites and provides certain monetization services to companies that publish and provide web sites and other interactive services;

WHEREAS, Yahoo! operates web sites and applications on its own behalf and on behalf of third-parties, all on a variety of platforms throughout the world; and

WHEREAS, Yahoo! desires to obtain the right to utilize Google’s monetization services in connection with certain web sites and Google desires to make these services available to Yahoo!.

NOW, THEREFORE, in consideration of the promises, the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are expressly acknowledged, the Parties hereto, intending to be legally bound, agree as follows:

AGREEMENT

1. DEFINITIONS

1.1 “Ad Attributes” are those attributes of an AFS Ad that [*]. Unless otherwise agreed to by Google, these attributes are [*].

1.2 [*].

1.3 [*].

1.4 [*].

1.5 “Additional Reporting Tools” has the meaning given in Section 6.4.1 (Reporting Received by Yahoo!).

1.6 [*].

1.7 [*].

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.8 “Ads” or “Advertising Results” means advertisements, including all of the content in, or delivered with, such advertisements for display to End Users, provided by Google to Yahoo! through the Services under this Agreement.

1.9 “AFC Ads” means the advertisements, including all of the content in, or delivered with, such advertisements for display to End Users, provided by Google to Yahoo! through the AFC Service under this Agreement.

1.10 “AFC Protocol” means the protocol provided by Google to Yahoo! for accessing the AFC Services, as such protocol may be updated by Google from time to time.

1.11 “AFC Request” means a request sent to Google by Yahoo! for advertisements from Google’s AFC Service.

1.12 “AFC Results Set” means the set of AFC Ads transmitted by Google to Yahoo! in response to an AFC Request.

1.13 “AFC Service” means Google’s AdSense for Content service or any successor service thereto, [*].

1.14 “Affiliate” means, with respect to a Party, any entity that, at a given time during the Term, directly or indirectly controls, is controlled by or is under common control with, such Party, provided that, in no event shall an entity be considered to be an Affiliate of Yahoo! under this Agreement if the Specified Party identified in Section 1.89(b) is or becomes the beneficial owner of securities representing more than 15% of the total voting power represented by that entity’s then outstanding voting securities. For the purposes of this Section 1.14, an entity will be deemed to “control” another entity when it, directly or indirectly, holds securities of such entity representing more than 50% of the combined voting power of the entity’s then outstanding securities entitled to vote generally in the election of directors.

1.15 “AFS Ads” means the advertisements, including all of the content in, or delivered with, such advertisements for display to End Users, provided by Google to Yahoo! through the AFS Service under this Agreement.

1.16 “AFS Client Application” means a Client Application that accesses the AFS Services.

1.17 “AFS Protocol” means the protocol provided by Google to Yahoo! for accessing the AFS Services, as such protocol may be updated by Google from time to time.

1.18 “AFS Query” means a query sent to Google by Yahoo! for advertisements from Google’s AFS Service.

1.19 “AFS Results Set” means the set of AFS Ads transmitted by Google to Yahoo! in response to an AFS Query.

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.20 “AFS Service” means Google’s AdSense for Search service or any successor service thereto, [*].

1.21 [*].

1.22 “Base Revenues” means Gross Revenues from all Yahoo! Properties [*].

1.23 “Beta Feature” means those features of the Services that are identified by Google as (a) beta or (b) unsupported in Google’s then-current Documentation.

1.24 “Brand Features” means the trade names, trademarks, service marks, logos, domain names, and trade dress of each Party.

1.25 “Business Day” means Monday through Friday, except for United States federal holidays.

1.26 [*].

1.27 “Channel ID” means a unique alphanumeric code or other designation or identifier that is provided to Yahoo! by Google to be used by Yahoo! as a Channel ID in accordance with the Documentation.

1.28 “CIC Agreement” has the meaning given in Section 13.4.1.

1.29 “CIC Termination Period” has the meaning given in Section 13.4.1.

1.30 “Client Application” means any application, plug-in, or other executable code that runs as a computer program on a user’s computer; examples of Client Applications include those that provide instant messaging, chat, email, data, file viewing, media playing, file sharing, games, internet navigation, search and other services. For the avoidance of doubt, “Client Application” does not include functionality to the extent incorporated into a web site such as instant messaging, chat, email, media-playing, gaming, search and other functionality so long as such application typically loads with the rest of the page and only persists while the web page is open in the user’s browser, excluding elements of the page stored in the browser’s cache.

1.31 “Client ID” means a unique alphanumeric code or other designation or identifier that is provided to Yahoo! by Google to be used by Yahoo! as a Client ID in accordance with the Documentation.

1.32 [*].

1.33 “Comparable Ads” means advertisements which are substantially similar to those provided in connection with the Services.

1.34 “Confidential Information” has the meaning given in Section 14.1 (Confidentiality).

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.35 “CPM” means revenue per thousand queries.

1.36 [*].

1.37 [*].

1.38 [*].

1.39 [*].

1.40 [*].

1.41 “Data” has the meaning given in Section 6.1 (Terminology).

1.42 “Destination Page” means the web page impression that is displayed when an End User clicks on an Advertising Result.

1.43 “Disclosing Party” has the meaning given in Section 14.1 (Confidentiality).

1.44 “Documentation” means all manuals, training materials, guides, specifications, and other similar materials that are related to the Services and that are made generally available by Google to Google Partners.

1.45 “End Users” means individual, human end users who visit or use a Property or AFS Client Application.

1.46 [*].

1.47 “Fraudulent Act” has the meaning given in Section 2.21.1(j).

1.48 [*].

1.49 “Google” means Google Inc., together with all Affiliates that Google delegates its performance to, or exercise its rights through, under this Agreement (for so long as such entities remain Affiliates of Google).

1.50 “Google Administration Console” means Google’s online advertising reporting tool for the Services currently located at <http://console.Google.com>, or such other URL as may be updated by Google from time to time.

1.51 “Google Materials” means the [*].

1.52 “Google Partner” means a third-party that has entered into an arrangement or agreement with Google to receive the AFS Services and/or AFC Services (excluding Google’s online, self-service program).

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.53 “Google Property” means any web site that is controlled and operated by Google during the Term.

1.54 “Google Protocols” means the AFS Protocol and the AFC Protocol.

1.55 [*].

1.56 “Governmental Authority” means any government, governmental authority, court, governmental tribunal, governmental agency, governmental bureau or other governmental regulatory, administrative or judicial agency, governmental commission or organization, and any subdivision, branch or department of any of the foregoing.

1.57 “Gross Revenues” means all revenues that are recognized (in accordance with U.S. GAAP) by Google from the display of Ads on the Properties during the Term in accordance with the requirements of this Agreement. For the avoidance of doubt, such revenues include [*]. Google will recognize all revenues in connection with Ads in the calendar month during which the Ads are displayed. [*].

1.58 “Initial Platform” means the World Wide Web, excluding [*].

1.59 “Intellectual Property Rights” means any and all rights existing from time to time under patent law, copyright law, moral rights law, trade secret law, trademark law, whether registered or unregistered, and any and all other similar proprietary rights, as well as any and all applications, renewals, extensions, divisionals, continuations, restorations and re-instatements thereof, now or hereafter in force and effect worldwide.

1.60 “Laws” means any federal, state, provincial, county, municipal or other local laws, rules, regulations, ordinances or judicial decisions enacted or issued by a court or other Governmental Authority of any country, state, province, county, city or other municipality.

1.61 “Link Units” means text provided by Google to Yahoo! through Google’s AFC Service.

1.62 [*].

1.63 [*].

1.64 [*].

1.65 [*].

1.66 [*].

1.67 [*].

1.68 “Officer” means, with respect to Yahoo!, an executive officer, corporate officer or operation officer as described in Yahoo!’s then most recent annual report, and with respect to

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Google, a member of its Executive Management Group as described on the Google.com web site or such other equivalent group if no longer designated on the Google.com web site.

1.69 [*].

1.70 “Organic Balance” means that [*].

1.71 “Organic Threshold” means (a) [%] (from the first day of the first month following the Effective Date (“Initial Organic Threshold Date”) through the day prior to the third anniversary of the Initial Organic Threshold Date), (b) [%] (from the third anniversary of the Initial Organic Threshold Date through the day prior to the seventh anniversary of the Initial Organic Threshold Date), or (c) [%] (from the eighth anniversary of the Initial Organic Threshold Date through the end of the Term), of Base Revenues.

1.72 “Parked Domains” means domains that are (a) under-developed, (b) primarily used to serve advertisements and (c) commonly referred to as parked domains.

1.73 [*].

1.74 [*].

1.75 [*].

1.76 “Property” means a Yahoo! Property or a Yahoo! Partner Property.

1.77 “Prospective Yahoo! Partner Property” means a web site that, as of the Effective Date, (a) is controlled and owned by a Yahoo! Partner or its Affiliate subject to Section 2.4.4; (b) is entitled to display Comparable Ads from Yahoo! under an agreement between Yahoo! and the Yahoo! Partner; and (c) is listed as a Prospective Yahoo! Partner Property in Exhibit C. Prospective Yahoo! Partner Properties do not include web sites from Yahoo!’s online, self-service programs (e.g., “YPNO”).

1.78 “Quality Adjustments” has the meaning given in Section 2.15 (Quality Adjustments).

1.79 “Query” means an AFS Query or AFC Request.

1.80 “Receiving Party” has the meaning given in Section 14.1 (Confidentiality).

1.81 “Reporting Tools” means the Google Administration Console and the Additional Reporting Tools.

1.82 “Results Page” means a web page on which Advertising Results are displayed.

1.83 “Results Set” means an AFC Results Set or an AFS Results Set.

1.84 “RPM” means Gross Revenues per 1,000 Queries.

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

1.85 “Services” means the AFS Services and the AFC Services provided by or on behalf of Google to Yahoo! pursuant to this Agreement.

1.86 [*].

1.87 “SLA” means the Service Level Agreement attached as Exhibit D.

1.88 “Slot” means the position of an Ad in an AFS Results Set.

1.89 “Specified Parties” means (a) News Corporation (it being understood that News Corporation will be deemed to beneficially own any securities beneficially owned by its direct or indirect subsidiaries and Affiliates) and its direct or indirect subsidiaries and Affiliates and Time Warner Inc. (it being understood that Time Warner Inc. will be deemed to beneficially own any securities beneficially owned by its direct or indirect subsidiaries and Affiliates) and its direct or indirect subsidiaries and Affiliates and (b) Microsoft Corporation (it being understood that Microsoft Corporation will be deemed to beneficially own any securities beneficially owned by its direct or indirect subsidiaries and Affiliates) and its direct or indirect subsidiaries and Affiliates. If any of the foregoing entities’ (in either clause (a) or clause (b) above) divisions, business lines or units that, individually, generate annual gross revenues from Internet advertising or the provision of services on the Internet in excess of \$500 million ever subsequently becomes part of or affiliated with another “person” as a result of such other person becoming a “beneficial owner” (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) directly or indirectly of a majority interest in such division, business line or unit, then such person and its direct and indirect subsidiaries and Affiliates shall also be deemed to be a Specified Party for so long as such person beneficially owns directly or indirectly such controlling interest (it being understood that such person will be deemed to beneficially own any securities beneficially owned by its direct or indirect subsidiaries and Affiliates). As used in this definition, person means a natural person, company, partnership or other legal entity and all persons, if any, acting in concert with such person for purposes of the beneficial ownership described herein.

1.90 “Supported Features” means features or functionality of the Services that are not Beta Features.

1.91 “Term” has the meaning given in Section 13.1 (Term).

1.92 “Territory” means the U.S. and Canada.

1.93 [*].

1.94 [*].

1.95 [*].

1.96 “Valid IP Addresses” means those Internet protocol addresses provided by Yahoo! and approved by Google prior to implementation of the applicable Services. The list of

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Valid IP Addresses may be modified by Yahoo! upon [*] hours notice to Google via the Google Administration Console.

1.97 “Yahoo!” means Yahoo! Inc. together with all Affiliates that Yahoo! delegates its performance to, or exercises its rights through under this Agreement (for so long as such entities remain Affiliates of Yahoo!).

1.98 “Yahoo! Acquired Property” means a web site in the Territory acquired by Yahoo! during the Term and added to this Agreement pursuant to written notice from Yahoo! to Google. [*]. For the avoidance of doubt, rebranding or relaunching a Yahoo! Acquired Property does not make it a Yahoo! New Property.

1.99 “Yahoo! New Property” means a web site owned by Yahoo! and developed and launched by or on behalf of Yahoo! during the Term.

1.100 “Yahoo! Partner” means a third-party (other than the entities included in subsection (b) of Section 1.89, unless otherwise agreed to by Google) that has entered into an agreement with Yahoo! prior to the Effective Date for the provision of Comparable Ads and that is listed in Exhibit C.

1.101 “Yahoo! Partner Future Property” means a web site (a) acquired by a Yahoo! Partner during the Term or (b) developed and launched by or on behalf of such Yahoo! Partner during the Term.

1.102 “Yahoo! Partner Property” means any Prospective Yahoo! Partner Property and Yahoo! Partner Future Property that is approved by Google in writing in accordance with Section 2.4 (Yahoo! Partner Properties) and otherwise complies with the terms of Exhibit B.

1.103 “Yahoo! Pre-Existing Property” means a web site located at a URL listed in Exhibit E.

1.104 “Yahoo! Property” means a Yahoo! Pre-Existing Property, a Yahoo! New Property or a Yahoo! Acquired Property.

1.105 “YAP Gross Revenues” means Gross Revenues from Yahoo! Acquired Properties excluding [*].

2. GOOGLE SERVICES

2.1 AFS Services .

2.1.1 Scope of AFS Services . During the Term and subject to the terms and conditions of this Agreement, Google will provide Yahoo! with AFS Ads through its AFS Service for display on the Properties on the Initial Platforms in the Territory (regardless of where End Users are located).

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

2.1.2 Implementation of AFS Services. Unless (and then only to the extent) otherwise agreed to by Google in writing, if Yahoo! implements AFS Services, Yahoo! will implement them in a manner that: (a) conforms to Google's brand treatment guidelines for AFS Services in Exhibit F (provided that (i) upon Google's prior written consent, Yahoo! may, but will not be required to, include Google Brand Features in implementing the AFS Services on the Properties; (ii) [*]; and (iv) to the extent of any conflict between the brand treatment guidelines and this Agreement, this Agreement will control); and (b) otherwise complies with the technical requirements for implementation provided by Google from time to time, including those instructions contained in the Documentation pertaining to the AFS Protocol. Exhibit G contains representative screenshots depicting the appearance of the AFS Service on a Yahoo! Property. [*].

2.1.3 AFS Queries. Unless (and then only to the extent) otherwise approved by Google in writing: (a) AFS Queries sent to Google for processing under the AFS Service may be initiated only by (i) End Users entering text into search boxes on the Properties and AFS Client Applications as provided herein, or (ii) [*]; and (b) AFS Queries that are generated on the Properties and AFS Client Applications and sent by Yahoo! to Google for processing under the AFS Service in accordance with Google's technical requirements, will be sent by Yahoo! to Google without editing, truncating, appending terms to or otherwise modifying the AFS Queries either individually or in the aggregate. Notwithstanding anything to the contrary in the Agreement, Google will have no obligation to process AFS Queries that are not sent in compliance with the requirements of this Agreement.

2.1.4 [*].

(a) [*].

(b) Client IDs. Yahoo! must assign a separate Client ID to each category of [*].

(c) [*].

2.1.5 Operation of AFS Services. Yahoo! will ensure that each AFS Query will: (a) be from a range of Valid IP Addresses approved by Google for the AFS Services; (b) contain a Client ID for the AFS Services approved by Google; (c) [*]; and (d) request no fewer than [*] AFS Ads. Upon Google's receipt of an AFS Query as described above, Google will transmit an AFS Results Set, if available, via Google's network interface in accordance with the AFS Protocol. Google will include in each AFS Results Set, either (x) the number of AFS Ads requested by Yahoo! to the extent available (which AFS Ads will be related to the AFS Query) or (y) if no such AFS Ads are available, a response that indicates that no AFS Ads are available.

2.1.6 Client Applications. Yahoo! may provide Google with a list of AFS Client Applications within [*] days of the Effective Date. This list may be updated from time to time by Yahoo! upon written notice to Google. Each AFS Client Application will be allowed to send AFS Queries to resolve to Results Pages on the Properties, subject to the following requirements: (a) Yahoo! and each AFS Client Application must comply with Google's Client

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Application Guidelines, the current form of which is attached as Exhibit H (“Application Guidelines”), as updated by Google from time to time; (b) Yahoo! is responsible for ensuring that each AFS Client Application complies with the Application Guidelines; and (c) Yahoo! must have the ability to enforce the requirements of the Application Guidelines with respect to each AFS Client Application. Yahoo! will promptly notify Google in writing when Yahoo! becomes aware of any breach of a requirement of the Application Guidelines by Yahoo! or a Partner.

2.1.7 [*].

(a) [*].

(1) [*].

(2) [*].

(b) [*].

(c) [*].

(d) [*].

(e) [*].

(f) [*].

(g) [*].

2.2 AFC Services.

2.2.1 Scope of AdSense for Content Services. During the Term and subject to the terms and conditions of this Agreement, Google will provide Yahoo! with AFC Ads and Link Units through its AFC Service for the Properties on the Initial Platforms in the Territory (regardless of where End Users are located). AFC Ads may not appear on search results pages (other than search results pages on which AFC Ads are not permitted to be served under this Agreement); registration pages (i.e., pages whose primary purpose is to enable users to provide or review registration information), “thank you” pages, error pages, e-mail pages or chat pages, or pages without a substantial purpose other than displaying advertising. Notwithstanding the foregoing prohibition, the Parties shall discuss in good faith (taking into account privacy concerns) allowing Yahoo! to implement the AFC Service on Yahoo!’s [*] within a reasonable period of time. AFC Ads also may not appear on pages that contain the following types of content: pornographic, obscene or excessively profane content or content intended to advocate or advance computer hacking or cracking, gambling, activity that violates applicable Laws of the geographic region in which the applicable Property is located or primarily directed, drug paraphernalia, hate, violence or racial or ethnic intolerance; provided that Yahoo! will not be in breach of the foregoing prohibition if such content is news-related or is user-generated (in which event Yahoo! will use commercially reasonable efforts to remove AFC Ads from such pages or remove such content promptly). Google may update the preceding list of prohibited types of

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content on [*] days prior written notice to Yahoo! from time to time during the Term pursuant to Section 2.19 (Guidelines and Updates).

2.2.2 Implementation of AFC Services. Unless (and then only to the extent) otherwise agreed to by Google in writing, if Yahoo! implements AFC Services, Yahoo! will implement them in a manner that: (a) conforms to Google's brand treatment guidelines for AFC Services in Exhibit I (provided that (i) upon Google's prior written consent, Yahoo! may, but will not be required to, include Google Brand Features in implementing the AFC Services on the Properties; (ii) the [*]; and (iii) to the extent of any conflict between the brand treatment guidelines and this Agreement, this Agreement will control); and (b) otherwise complies with the technical requirements provided by Google from time to time, including those instructions contained in the Documentation pertaining to the AFC Protocol. Exhibit J contains representative screenshots depicting the appearance of the AFC Service on a Yahoo! Property. [*].

2.2.3 Client-Side Implementation. Yahoo! will ensure that each AFC Request will contain an AFC Client ID. Upon Google's receipt of an AFC Request, Google will transmit, via Google's network interface and in accordance with the AFC Protocol an AFC Results Set containing (a) the number of AFC Ads requested by Yahoo! to the extent available (which AFC Ads will be related to the web page on which such AFC Ad is displayed or related to relevant targeting criteria), or (b) if no AFC Ads are available, a response that indicates that no such AFC Ads are available. At Yahoo!'s request, the Parties will discuss in good faith implementing a solution within a reasonable period of time [*]. Notwithstanding anything to the contrary in the Agreement, Google will have no obligation to process AFC Requests that are not sent in compliance with the requirements of this Agreement.

2.2.4 Link Units. If Yahoo! elects to implement Link Units, Yahoo! understands and agrees that in no event will End User clicks on Link Units, or the display of a Link Unit on a Property, in and of itself, qualify as a click on an Ad, or an impression, as the case may be, for purposes of determining Google's payment or other obligations under this Agreement (unless Google generates Gross Revenues in connection therewith). For the avoidance of doubt, Yahoo! is not obligated to implement Link Units on any Property and may use its own solution so long as such solution is compliant with Section 2.8 (Queries Generally).

2.3 [*].

2.4 Yahoo! Partner Properties.

2.4.1 Yahoo! must provide Google with the complete list of Prospective Yahoo! Partner Properties of Yahoo! Partners that meet the definition of a Yahoo! Partner no later than 30 days after the launch of either of the Services on the first Property under this Agreement other than for testing purposes and such list may be provided to Google in increments between the Effective Date and the end of such time period. Google will conduct a review of each Prospective Yahoo! Partner Property listed in Exhibit C as soon as reasonable but in no event later than [*] days following the date that each such Prospective Yahoo! Partner Property is added to Exhibit C. All Prospective Yahoo! Partner Properties that comply with the then-current [*] will be approved and become Yahoo! Partner Properties. If Google in good faith determines that a Prospective Yahoo! Partner Property subject to review does not meet the then-current [*],

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Google will promptly notify Yahoo! of Google's determination and the Yahoo! Partner will have [*] days from Google's notice to Yahoo! to comply with the then-current [*]; Google shall, if commercially reasonable, provide information to Yahoo! regarding such non-compliance so that Yahoo! may assist the Yahoo! Partner to comply with the [*] with respect to such web site. For avoidance of doubt, the process described in this Section 2.4 shall be the only method by which any web site may become a Yahoo! Partner Property, unless otherwise agreed by the Parties in writing.

2.4.2 After the Effective Date, Yahoo! may notify Google of its request to add a new Yahoo! Partner Future Property to this Agreement. Within [*] days of Yahoo!'s request, Google will notify Yahoo! whether it has approved Yahoo!'s request to add the Yahoo! Partner Future Property to this Agreement.

2.4.3 For a minimum of [*] months following the rejection by Google of any Prospective Yahoo! Partner Property or Yahoo! Partner Future Property pursuant to Section 2.4.1 or 2.4.2, [*]. If, during the [*]-month period described in this Section, Google becomes aware that [*].

2.4.4 If a web site listed in Exhibit C is, as of the Effective Date, subject to an agreement between Yahoo! and a Yahoo! Partner for the provision of Comparable Ads, but is not more than [*]% owned by the Yahoo! Partner or an Affiliate of such Yahoo! Partner, Yahoo! may display Advertising Results on such web site if, prior to such display but in no event later than [*] days after the inclusion of such web site in Exhibit C, [*].

2.5 Client IDs and Channel IDs. Google will provide Yahoo! with the number of Client IDs and Channel IDs as reasonably requested by [*]. The Parties will [*] Yahoo!'s implementation of Client IDs and Channel IDs, taking into account [*]. At a minimum, Google will provide at least [*] Client ID for each [*] and [*] Client ID for each [*], unless [*].

2.6 Yahoo! Ad Delivery Platforms. Google acknowledges that Yahoo! may utilize Yahoo!'s ad delivery platforms, including Yahoo!'s Right Media Exchange or any successor thereto, to transmit Queries and receive Results Sets so long as the use is in compliance with the terms of the Agreement.

2.7 Launch of Services. At least [*] days prior to the initial launch of the Services, Yahoo! will provide Google with the projected launch date for each Property that will initially access the Services together with an aggregate estimated ramp up of Query volumes and the expected region or regions from which the Queries will be sent. For subsequent Properties, Yahoo! will provide Google with [*] days prior written notice of its intent to launch the Services on each Property together with an aggregate estimated potential ramp up of Query volumes and the expected region or regions from which the Queries will be sent. If Google reasonably believes that it will have insufficient capacity and/or resources to meet Yahoo!'s projected Query volumes and/or launch schedule, the Parties will agree, acting reasonably, upon revised launch dates, which launch dates will be as soon as commercially reasonable. Yahoo! will not launch a Service on any Property until Google's technical personnel provide written approval of Yahoo!'s implementation of the Service on that Property, which shall not be unreasonably withheld or delayed.

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2.8 Queries Generally. Notwithstanding anything to the contrary contained in the Agreement, Yahoo! may choose to send Queries to Google in its sole discretion. Yahoo! is not obligated to send any Query from any Property, nor is Yahoo! obligated to send any minimum number of Queries. The Parties acknowledge and agree that Yahoo! may elect, in connection with any AFC Request, to (a) provide Google with [*] or (b) utilize [*]. For the avoidance of doubt, Google may, and the foregoing will in no event limit Google's ability to, change or require changes to the [*] described in (a) and (b) above so long as Google does not [*].

2.9 Display of Advertising Results. Yahoo! must display in each instance, the entire Results Set requested by Yahoo! and delivered by Google that corresponds to the Query on the applicable Property in the manner contemplated by this Agreement, without editing, filtering (except as expressly permitted in Section 2.11 (Filters and Blocking)), reordering, adding content to, truncating or modifying the content (but not the format, except in the case of pre-formatted display Ads or iFrames) of the Advertising Results. Google will provide all content in the Ad for display to End Users that it [*]. Subject to the terms of the Agreement, Yahoo! may implement the Services on the Properties in its sole discretion, including with respect to the placement and location of Ads, the number of Ads requested and the formatting of Ads (e.g., font size, headings and other formatting variables).

2.10 Labeling, Branding and Attribution. Yahoo! must unambiguously mark each Ad, or each cluster or grouping of Ads, as "Sponsor(ed) Link(s)," "Sponsor(ed) Result(s)," "Sponsor(ed) Site(s)," "Advertiser(s)," "Advertiser Link(s)," "Advertisement(s)," or similar designations in native languages other than English, unless mutually agreed by Yahoo! and Google, which shall not be unreasonably withheld or delayed. In any event, the AFS Ads must be labeled in a manner as to sufficiently distinguish them from other non-monetized search results.

2.11 Filters and Blocking.

2.11.1 Filtering. Google will notify Yahoo! of [*]. Yahoo! may implement the filtering capabilities on any Property upon written notice to Google (which may be given by email) and Google will use commercially reasonable efforts to implement the filters in accordance with their specifications. Yahoo! may implement filtering [*]. Yahoo! may change the level of filtering selected upon notice to Google (which may be given by email) and Google will use commercially reasonable efforts to adjust the filtering in accordance with and as soon as practicable following Yahoo!'s request. Notwithstanding anything to the contrary, if Yahoo! elects to enable any filter(s), Yahoo! expressly acknowledges and agrees that (a) it is Yahoo!'s responsibility to enable the filter(s) in accordance with any instructions provided by Google, and (b) Google does not represent, warrant or covenant that all results will be limited to results elected by enabling the filter(s). For example, but without limiting the foregoing, if Yahoo! elects to enable AdSafe, Google does not represent, warrant or covenant that all objectionable advertisements will be prevented. [*].

2.11.2 Blocking of URLs and Keywords. Google will use commercially reasonable efforts to exclude from Ads served under this Agreement (by Client ID): (a) Ads that contain the display URLs in Exhibit K and (b) Ads that contain keywords in Exhibit L. Yahoo! may update Exhibit K and Exhibit L, no more than once every [*] days, unless Yahoo! notifies Google of [*] circumstances ([*]), in which case Google will [*] update Exhibit K and Exhibit L.

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Google will implement the update within [*] Business Days of Google's receipt of Yahoo!'s request. The number of URLs in Exhibit K and number of keywords in Exhibit L will be subject to Google's technical and/or architectural limitations as applied to [*]. Notwithstanding anything to the contrary, Yahoo! acknowledges and agrees that Google does not represent, warrant or covenant that no Ads will contain any of the URLs in Exhibit K or the keywords in Exhibit L. [*].

2.11.3 Remedies; Removal and [*]. Without limiting Yahoo!'s other rights and remedies, [*]; (b) Yahoo! receives one or more regulatory inquiries with respect to an Ad or otherwise reasonably determines that an Ad could expose Yahoo! or a Yahoo! Partner to a risk of liability or subject to injunctive relief; or (c) an Ad violates Yahoo!'s advertising policies attached hereto as Exhibit M, as such policies may be updated from time to time as applied generally to Yahoo!'s partners; [*]. In the case of (c) above, if Yahoo! does [*] an Ad based on an updated policy, Yahoo! will use commercially reasonable efforts to notify Google of such updated policy and the Parties will update Exhibit M to reflect such updates. [*].

2.11.4 Notice of Violations. If Yahoo! receives notice which alleges that the Advertising Results delivered hereunder, (a) violate any applicable Laws, and/or (b) infringe the copyrights, trademarks, service marks, trade dress or any other proprietary right of any third-party, Yahoo! will notify Google of such allegation and Google will handle the notification in accordance with Google's then current policies and/or procedures.

2.12 [*].

2.13 [*].

2.14 [*].

2.14.1 [*].

2.14.2 [*].

2.15 Quality Adjustments. If Google employs quality-based price reductions or "smart pricing" ("Quality Adjustments") with respect to the Properties it will (a) use commercially reasonable efforts to cooperate with Yahoo! as Yahoo! takes action to address the underlying reasons for such Quality Adjustments and (b) [*].

2.16 [*].

2.17 New Features and Functionality.

2.17.1 New Features. Any new Supported Features relating to monetization or user experience, will be [*].

2.17.2 Beta Features. Certain Services may include Beta Features. Within [*] days of the Effective Date, Google will use commercially reasonable efforts to [*]. As of the Effective Date, [*] "Google AFS XML Protocol Reference Revised: May 7, 2008", the "AFC

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JavaScript Protocol Reference dated February 29, 2008”, the “AdSense for Content HTML Protocol Reference dated February 1, 2008”, “AdSense Addendum — Blocking Competitors’ Ads dated April 11, 2008”, the “AdSense for Search Protocol Addendum: Overriding Default Targeting with Geography dated April 11, 2008”, the “AdSense for Search Protocol Reference dated April 11, 2008”, the “AdSense for Search: Adsafe Overview dated revised April 10, 2006” or the “WebSearch Ad Promotion Addendum dated April 11, 2008” [*]. Yahoo! understands and agrees that (a) Beta Features are provided “as is” and will not subject Yahoo! to any further obligations and (b) any use of Beta Features will be undertaken solely at Yahoo!’s own risk. Except as provided in [*], Google reserves the right, in its sole discretion, to include or cease providing Beta Features as part of any Services at any time. [*].

2.18 Non-Exclusive Relationship. This Agreement does not prevent Yahoo! from (a) implementing on the Properties or any portion thereof (including on Results Pages) any other advertising, promotion or marketing service or monetization method, including any that are the same as or substantially similar in nature to the Services or (b) displaying Comparable Ads. The foregoing sentence does not relieve Yahoo! from complying with the obligations of this Agreement with respect to the manner in which the Ads are displayed.

2.19 Guidelines and Updates. Except to the extent necessary to address the requirements of this Agreement, the applicable Google brand treatment guidelines, policies, technical requirements and Documentation will be [*]. To the extent Yahoo! is not in compliance with Google’s brand treatment guidelines, policies, technical requirements or Documentation, and without limiting Google’s other rights and remedies under this Agreement, Google will inform Yahoo! after Google becomes aware of the non-compliance [*]. Google may update its brand treatment guidelines, policies, technical requirements and Documentation [*].

2.20 Test Queries. Google may send a reasonable number of uncompensated (with respect to both Yahoo! and Google) test queries to the Properties at any time as needed to verify Yahoo!’s compliance with the requirements of this Agreement. For avoidance of doubt, (a) Google and Yahoo! will work together to ensure that the test queries will not have a material impact on Yahoo!’s infrastructure and (b) the test queries will not be included in reporting sent to Yahoo!. Yahoo! will use commercially reasonable efforts to provide Google in a reasonable amount of time the means to ensure that AFS test queries generate AFS Queries, such that, for AFS Queries, failure of AFS test queries will be substantially indicative of failures experienced by End Users.

2.21 Additional Yahoo! Obligations.

2.21.1 Prohibited Actions. Unless otherwise approved by Google in writing and provided that the standard of care Yahoo! uses to monitor the Services is the same standard of care Yahoo! uses to monitor the Yahoo! Properties, Yahoo! shall not, and Yahoo! shall not authorize, knowingly allow or knowingly permit any third-party to:

(a) except as expressly permitted in Section 2.11 (Filtering and Blocking) and [*], edit, modify, truncate, filter or change the order of the information contained in any Advertising Results (either individually or collectively), including, without limitation, by way of interspersing non-Google advertising within any Results

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Set on a Results Page ([*], with no non-Google advertising interspersed among the Ads [*]);

(b) frame any Destination Page;

(c) redirect an End User away from the Destination Page, provide a version of the Destination Page different from the page an End User would access by going directly to the Destination Page, intersperse any content between an Advertising Result and the corresponding Destination Page or implement any click tracking or other monitoring of Advertising Results, except as otherwise explicitly permitted in Section 2.21.4 (Permitted Click Tracking);

(d) display any Advertising Results in pop-up, pop-under, exit windows, expanding buttons, or animation [*], except as mutually agreed;

(e) minimize, remove or otherwise inhibit the full and complete display of any Results Page, including any Advertising Results (other than as a result of normal web page rendering, [*], or End User interactions with the Results Page (which may include End Users moving, hiding and unhiding the Ads using animation)); [*];

(f) directly or indirectly access, launch or activate the Services through or from, or otherwise incorporate the Services in, any software application, web site or other means other than the Properties or AFS Client Applications, and then only to the extent expressly permitted herein;

(g) except to the extent expressly permitted herein, transfer, sell, lease, syndicate, sub-syndicate, lend, or use for co-branding, timesharing, service bureau or other unauthorized purposes any Services or access thereto (including, but not limited to Advertising Results, or any part, copy or derivative thereof);

(h) enter into any arrangement or agreement under which any third-party pays Yahoo! fees, Yahoo! pays any third-party fees, or either shares in any revenue payments or royalties for any Advertising Results [*], (ii) to the extent expressly permitted in Section 2.4 (Yahoo! Partner Properties), [*];

(i) directly or indirectly generate Queries, or impressions of or clicks on Advertising Results, through any automated, deceptive, fraudulent or other invalid means (including, but not limited to, click spam, robots, macro programs, and Internet agents);

(j) encourage or require End Users or any other persons, either with or without their knowledge, to click on Advertising Results through offering incentives or any other methods that are manipulative, deceptive, malicious or fraudulent (each of the foregoing in subsections (i) and (j), a “Fraudulent Act”);

(k) implement Ads on Parked Domains or access the AFS Service or AFC Service on or from the Parked Domains;

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(l) remove, deface, obscure, or alter Google's copyright notice, trademarks or other proprietary rights notices affixed to or provided as a part of any Services, the AFS Protocol, the AFC Protocol none of which will be displayed to End Users as part of the Services or in any Ad Results, other than Ad Results for Google's own products and services that are not otherwise blocked or filtered as requested by Yahoo!, or any other Google technology (including software) materials and Documentation, provided that if Google transmits any such trademark or proprietary rights notice with the Ad Result when Yahoo! has not agreed to include such trademark or proprietary rights notice, then Yahoo! may remove such trademark or proprietary rights notice unless the trademark is directly related to the content in the Ad Result; and

(m) in any non-transitory manner, store or cache Advertising Results or any part, copy or derivative thereof; [*].

2.21.2 Content Restrictions. No Property or AFS Client Application shall be comprised substantially of (a) pornographic, hate-related or violent content, or (b) other content that violates or encourages conduct that would violate (i) any applicable criminal Laws, (ii) any other applicable Laws, or (iii) any third-party rights in the geographic region in which such Property is located or primarily directed.

2.21.3 Unauthorized Use. Yahoo! shall use commercially reasonable efforts to ensure that there is no use of or access to any Services through Properties that is not in compliance with the terms of the Agreement or not otherwise approved by Google, and Yahoo! shall monitor and disable any such access or use by unauthorized parties (including, but not limited to, spammers or any third-party web sites) using the same standard of care Yahoo! uses to monitor the Yahoo! Properties.

2.21.4 Permitted Click Tracking. Yahoo! acknowledges and agrees that it is fully responsible for the implementation and operation of any click tracking or other monitoring of clicks that it may introduce in accordance with this Section 2.21.4 and that Google is not responsible for any breaches of any agreement or any problems with the implementation of any Services on any Property which may arise from the introduction by Yahoo! of such click tracking or other monitoring. Yahoo! may implement click tracking or other monitoring of End User clicks on Advertising Results provided that:

(a) if Yahoo! wishes to implement or modify click tracking or other click monitoring that Yahoo! reasonably expects could impact the implementation or operation of the Services, Yahoo! will give Google at least [*] days prior written notice of the click tracking or other click monitoring and will work in good faith with Google to ensure there is no impact on the implementation or operation of the Services; and

(b) if Google notifies Yahoo! of any perceived problems arising from the implementation of click tracking or other click monitoring, including but not limited to, increased or unusual levels of Invalid Clicks and Queries or non-qualifying Advertising Results (as described in Section 4.5.1 (Non-Qualifying Ads)), Yahoo! and Google will work together in good faith to try to resolve such problems as quickly as reasonably possible. If such problems are not resolved within a reasonable period of

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time, Google may suspend all or part of the Services, as an interim solution solely to the extent necessary to avoid such problems, until the problems are resolved to Google's reasonable satisfaction.

2.21.5 Site Modifications. Google acknowledges that Yahoo! may update the design, features, functionality, operation and content of the Yahoo! Properties (and the Yahoo! Partners may update the design, features, functionality, operation and content of Yahoo! Partner Properties); including without limitation, any Results Page; provided that Yahoo! agrees that no changes may be made to Ads or the Properties that are not in accordance with this Agreement.

2.21.6 Notice of System Changes. Without limiting Yahoo!'s rights to request or not request Google Advertising Results in accordance with this Agreement, Yahoo! will use commercially reasonable efforts to provide Google with at least [*] days advance written notice of any change in the code or serving technology used to display Google Advertising Results (e.g., a change in the advertising serving technology used) that could reasonably be expected to have a material, adverse affect on the delivery or display of Advertising Results that would make such delivery or display inconsistent with the Agreement. Senior Technical Representatives from Yahoo! and Google will meet regularly to discuss in good faith technical issues regarding implementation and operation of the Services on Yahoo! Properties and Yahoo! Partner Properties and related issues, including but not limited to, issues affecting Google's ability to accurately monitor Service Levels with respect to the Service implementations on the Yahoo! Properties.

2.22 Yahoo! Partner Properties. Yahoo! shall have the right to distribute AFS Ads and AFC Ads to Yahoo! Partner Properties solely in compliance with the terms and conditions contained in Exhibit B.

2.23 Yahoo! Properties. Yahoo! must control the Yahoo! Properties where "control" for purposes of this Section 2.23 means that Yahoo! [*]. If Yahoo! no longer controls a Yahoo! Property, Yahoo! shall provide prompt written notice to Google so that Google may cease providing Services to the former Yahoo! Property. Subject to [*].

2.24 [*].

3. OTHER BUSINESS OPPORTUNITIES

3.1 [*].

3.2 [*].

3.3 [*]:

3.3.1 [*];

3.3.2 [*];

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3.3.3 [*]

3.3.4 [*].

3.4 IM Interoperability. The Parties agree to the additional business terms set forth in this Section 3.4. Following the Effective Date, the Parties may determine to enter into further negotiations to supplement or amend the terms of this Section 3.4 to include additional related terms appropriate to the nature of the commercial relationship described in this Section 3.4, but the absence of such additional terms or the failure of the Parties to agree on such additional terms will not affect the binding nature or enforceability of this Section 3.4.

3.4.1 IM Interoperability. The Parties agree to enable server-to-server interoperability of their respective instant messaging (“IM”) networks [*] in accordance with the following provisions:

(a) [*].

(b) Federated Features. The Parties will mutually support certain product features that are currently available in both IM networks, which at a minimum will include the following [*] the “Core Features” and [*] the “Additional Features”); provided that [*]:

(1) [*].

(2) Add users on the other network as “friends” or “contacts.” “Friends” or “contacts” are end users that show up on the roster of contacts. Users should be able to include, at their option, a message in the add user flow.

(3) See presence information of friends that have been previously added. Presence information can include online present, online idle, offline, etc.).

(4) [*].

(5) Send and receive text instant messages from friends on the other network if that friend is online (either present or idle).

(6) [*].

(7) [*].

(8) Display network-native emoticons for key combinations that exist on that network (each Party will rationalize the list of codes and figure out what to do in fall back/unrecognized scenario).

(9) [*].

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(10) [*].

(11) [*].

(12) [*].

(13) [*].

(14) [*].

(15) [*].

(16) [*].

(17) [*].

(18) [*].

(c) Launch Timing. The Parties agree that the first date of joint public availability of IM Interoperability (either in beta or general availability) for (i) the Core Features will be [*], or such earlier date as agreed to in writing by the Parties (the “IM Core Features Launch Date”), and (ii) the Additional Features will be [*], or such earlier date as agreed to in writing by the Parties.

(d) Launch Scope. The IM applications that will be offered by each Party with IM Interoperability on the IM Core Features Launch Date will include [*] implementations of the application versions of Yahoo! Messenger for Yahoo! [*] and [*] for Google. Neither Party may disable IM Interoperability [*] during the Term, unless otherwise permitted herein or as agreed to by the Parties.

(e) [*].

(f) Other Opportunities. The Parties will explore in good faith the possibility of supporting the following product features: (i) each Party enabling the other Party’s users to [*] and (ii) [*].

(g) Territory. Each Party may offer IM Interoperability in their international versions of IM Interoperability applications, unless the other Party reasonably requests that a particular international version not be offered with IM Interoperability by such Party [*].

(h) Co-Branding. Each Party may include the other Party’s brand features in its IM Interoperability applications, subject to the other Party’s prior written approval.

(i) [*].

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(j) [*].

(k) [*].

(l) No Other Licenses. No license or other right is granted with respect to IM Interoperability, by either Party to the other, by implication, estoppel or otherwise, under any Intellectual Property Rights now or hereafter owned or controlled by such Party.

(m) Security. The Parties will implement a reasonable security plan to limit or suspend IM Interoperability upon a security vulnerability, [*].

(n) Legal Compliance. During the Term, each Party will be responsible for compliance with any applicable regulations and Laws[*] with respect to its IM Interoperability applications and servers. If either Party determines in good faith that it is necessary to comply with such applicable regulations and Laws with respect to IM Interoperability, the Parties shall cooperate in making necessary technical changes and may disable IM Interoperability for particular applications until compliance is met to the mutual satisfaction of the Parties.

(o) Support. Each Party will provide any hardware, servers, monitoring resources, bandwidth, and operations support and personnel that are reasonably necessary to maintain the IM Interoperability at an operating level and quality that is substantially equivalent to the level and quality of its own IM network.

(p) Non-Disparagement. In communicating with users about IM Interoperability, neither Party will disparage the other Party or the IM Network of the other Party.

(q) [*].

(r) [*].

(s) [*].

(t) Costs. [*] each Party will bear its own costs in enabling interoperability and performing its obligations related thereto.

(u) [*].

3.5 [*].

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4. COMPENSATION

4.1 AFS Services.

4.1.1 Yahoo! Properties. Subject to [*], for each calendar month during the Term, Google will pay Yahoo! the percentage of Gross Revenues from AFS Services on Yahoo! Properties on the Initial Platforms in the Territory corresponding to the total Gross Revenues from the Yahoo! Properties in such month from the AFS Service as indicated in Table 1 below. For purposes of calculating such total Gross Revenues, all amounts will be converted to United States Dollars, in accordance with Section 4.5.3 (Currency Conversion) below. [*].

Table 1

| | Total Monthly Gross Revenues (AFS) from Yahoo! Properties | Yahoo! Percentage of Total Monthly Gross Revenues |
|--------|---|---|
| Tier 1 | \$[*] to \$[*] | [*]% |
| Tier 2 | \$[*] to \$[*] | [*]% |
| Tier 3 | \$[*] to \$[*] | [*]% |
| Tier 4 | >\$[*] | [*]% |

4.1.2 Yahoo! Partner Properties. For each calendar month during the Term, Google will pay Yahoo! a percentage of Gross Revenues from AFS Services on the Initial Platforms on the Yahoo! Partner Properties in the Territory equal to [*]. For purposes of this Agreement, “Yahoo! Partner Properties Percentage” means [*].

4.1.3 Retained Revenues for AFS Services. [*].

4.2 AFC Services.

4.2.1 Yahoo! Properties. Subject to [*], for each calendar month during the Term, Google will pay Yahoo! [*]% of Gross Revenues from AFC Services on Yahoo! Properties on the Initial Platforms in the Territories.

4.2.2 Yahoo! Partner Properties. For each calendar month during the Term, Google will pay Yahoo! [*]% of Gross Revenues from AFC Services on Yahoo! Partner Properties on the Initial Platforms in the Territories.

4.2.3 Retained Revenues for AFC Services. [*].

4.3 [*].

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4.4 [*].

4.5 Payment.

4.5.1 Non-Qualifying Ads. Notwithstanding anything to the contrary contained in the Agreement, Google shall not be liable for payment to the extent it has not recognized revenue from advertisers in connection with (a) invalid queries, or invalid impressions of or clicks on Ads, generated by any person, bot, automated program or similar device, including, without limitation, through any Fraudulent Act, in each case as reasonably determined by Google (“ Invalid Clicks and Queries ”); or (b) impressions of Ads or clicks on Ads delivered through an implementation which is not approved by Google pursuant to the Agreement or subsequently fails to meet Google’s implementation requirements and specifications as set forth in the Documentation. [*]. The number of Queries, and impressions of and clicks on Ads, as tracked by Google, shall be the number used in calculating payments hereunder. [*].

4.5.2 Payment.

(a) Method of Payment. Google will make all payments to Yahoo! Inc. in U.S. Dollars, for Gross Revenues from Properties in the United States and Canada. Google will make all payments within 30 days following the calendar month in which the Ads were displayed. Google will make payment by wire transfer in accordance with the instructions specified in Exhibit O.

(b) Withholding and Offset Right. Google reserves the right to withhold and offset against its payment obligations hereunder, or require Yahoo! to pay to Google (within 30 days of any invoice therefor), any amounts Google may have overpaid to Yahoo! or any amounts owed and not yet paid by Yahoo!, including any amounts payable to Google under Sections 4.1.3 (Retained Revenues for AFS Services) and 4.2.3 (Retained Revenues for AFC Services).

(c) Monthly Reporting. Google will deliver a report to Yahoo! within [*] of the end of each calendar month which will include Gross Revenue and Yahoo!’s revenue share for the prior month for each Service by Client ID.

4.5.3 Currency Conversion. All currency conversions made under this Agreement will be made using the applicable average daily exchange rate for the applicable period as published by [*] or such other internationally recognized source as may be agreed by the Parties in writing.

4.5.4 Failure to Pay. [*].

4.6 Taxes and Other Charges. All payments under the Agreement are exclusive of taxes imposed by any Governmental Authority. [*] will pay all applicable taxes, including sales, use, personal property, value-added, excise, customs fees, import duties or stamp duties or other taxes and duties imposed by any Governmental Authorities of whatever kind in connection with any transactions between Google and its advertisers in connection with Ads displayed on the Properties as part of the Services. [*] will pay all applicable taxes, including sales, use, personal

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property, value-added, excise, customs fees, import duties or stamp duties or other taxes and duties imposed by Governmental Authorities of whatever kind with respect to the payments made by Google to Yahoo! under this Agreement excluding taxes based on [*] income. If local VAT/GST laws require Google to self-assess VAT/GST on supplies made to Google by Yahoo! then [*] will be responsible for payment of this VAT/GST but [*] will reimburse such VAT/GST to the extent non-recoverable by [*].

4.7 SAS70 Report and [*].

4.7.1 SAS70 Report . Prior to [*], Yahoo! must request in writing from Google and Google will make available to Yahoo! Google's SAS70 report which will be from a reputable, independent certified public accounting firm covering the key controls and validation mechanisms in place to meet the revenue reporting obligations under this Agreement. Without limiting the foregoing, and after Google has made Google's SAS70 report to Yahoo!, Yahoo! may request that Google provide updates to its SAS70 reports on an annual basis. At Yahoo!'s request, the Parties will meet at least annually to discuss, on a confidential basis, Google's current key controls, significant changes in the relevant process, validation mechanisms and results of such validation, including findings reported in the relevant SAS70 report.

4.7.2 [*]. If after Yahoo!'s review of Google's SAS70, Yahoo! believes that the SAS70 report does not address Yahoo!'s concerns, Yahoo! and Google will discuss Yahoo!'s concerns in good faith. If after reviewing the SAS70 report and discussing Yahoo!'s concerns under the preceding sentence, Yahoo! continues to believe that Yahoo!'s concerns have not been fully addressed, Yahoo! may [*].

5. **LICENSES; INTELLECTUAL PROPERTY**

5.1 License to Google Materials .

5.1.1 License Grant . Google grants to Yahoo! a limited, nonexclusive and non-sublicensable license during the Term to access and use the Google Materials solely for the purpose of implementing and receiving the Services (including, for the avoidance of doubt, in connection with the Yahoo! Partner Properties as permitted herein) and solely to the extent permitted hereunder. Except to the limited extent expressly provided in this Agreement, Google does not grant, and Yahoo! shall not acquire, any right, title or interest (including, without limitation, any implied license) in or to any Google Intellectual Property Rights; and all rights not expressly granted herein are reserved to Google. The foregoing license includes the limited right to make a reasonable number of copies of the Google Materials for the purposes of implementing and receiving the Services.

5.1.2 License Restrictions; Residual Knowledge; Right to Develop .

(a) Yahoo! will not modify, adapt, translate or prepare derivative works from any Google Materials constituting copyrighted materials of Google or its licensors, except solely to the extent that it is reasonably necessary to do so in order to receive and implement the Services as permitted herein and in accordance with the terms and conditions of this Agreement. Notwithstanding the foregoing, nothing in this Section

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5.1.2 or in this Agreement shall limit, or be construed to limit, Yahoo!'s ability or right to modify, adapt, translate or prepare derivative works from any Google Materials that are publicly available [*].

(b) Yahoo! will not decompile, reverse engineer, disassemble or attempt to derive source code from any [*].

(c) Google will not provide Yahoo! with any Google Protocols, Documentation and other software and technical materials that are not reasonably necessary to implement the Services during the Term, unless they (i) are required to be provided under the Agreement, or (ii) are specifically requested by Yahoo! to be provided.

(d) Google acknowledges that Yahoo! operates services similar to the Services [*] and that Yahoo! will continue to develop, create, operate and improve technology, products, features and services similar to the Services and [*].

(e) Nothing in this Section 5.1.2 or in this Agreement shall (i) limit, or be construed to limit, Yahoo!'s ability or right to (A) develop any technology (including software), products, features or services, or engage in any activities related to the development, without violating any express provision of this Agreement or (B) license or acquire any technology, products, features or services from third-parties; or (ii) except as otherwise expressly provided in this Agreement, limit, or be construed to limit, rights (including rights of use) that Yahoo! may have under applicable Law. Except as otherwise expressly provided in this Agreement, nothing in this Section 5.1.2 or in this Agreement shall limit, or be construed to limit, Yahoo!'s ability or right to modify, adapt, translate, prepare derivative works from, decompile, reverse engineer, disassemble or attempt to derive source code from or develop technology, products, features or services from any Google Materials that are otherwise publicly available without an enforceable prohibition on the activity in which Yahoo! engages. [*].

(f) Nothing in this Section 5.1.2 or in this Agreement shall be construed to apply to any materials provided outside the scope of this Agreement.

5.2 Brand Features .

5.2.1 Brand Features . Each Party shall own all right, title and interest, including without limitation all Intellectual Property Rights, in and to its own Brand Features. Except to the limited extent expressly provided in this Agreement, neither Party grants, and the other Party shall not acquire, any right, title or interest (including, without limitation, any implied license) in or to any Brand Features of the first Party; and all rights not expressly granted herein are deemed withheld. All use by Yahoo! of Google Brand Features under this Agreement (including any goodwill associated therewith) shall inure to the benefit of Google. No Party shall attempt to register or have registered on its behalf Brand Features or domain names that are confusingly similar to those of the other Party.

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5.2.2 License to Google Brand Features. Subject to the terms and conditions of this Agreement, Google grants to Yahoo! a limited, nonexclusive and non-sublicensable license during the Term to display those Google Brand Features expressly authorized by Google, solely for the purposes expressly set forth herein. In its use of any Google Brand Feature, Yahoo! agrees to adhere to Google's brand treatment guidelines for use of Google's Brand Features attached hereto as Exhibits F and I as such Exhibits may be updated by Google from time to time upon notice to Yahoo!. Yahoo! and the Yahoo! Partners will have [*] days to comply with any such updated guidelines.

5.3 [*]; No Implied Licenses. Nothing in this Agreement or the performance thereof, or that might otherwise be implied by Law, will operate to grant a Party any right, title or interest, implied or otherwise, in or to the Intellectual Property Rights of the other Party hereto, other than the rights and licenses expressly granted in this Agreement. Each Party expressly reserves all Intellectual Property Rights not expressly granted hereunder. [*].

5.4 [*].

6. REPORTING; DATA; SECURITY

6.1 Terminology. As used in this Agreement, the term “Data” means any data or information collected by Google through the Services (including, data collected by or associated with any cookies whether received directly from End Users by Google or sent by Yahoo! to Google), and any data or information derived therefrom by Google.

6.2 Cookies, Beacons and Pixels. Cookies, beacons, pixels, and similar tracking devices (“CBP”) may not be placed by or on behalf of Google or a Google Affiliate on End User browsers on or from the Properties, or sites that serve the Services to the Properties, in connection with providing the Services absent [*].

6.3 [*].

6.4 Reporting.

6.4.1 Reporting Received by Yahoo!. Google will provide Yahoo! with access to the Google Administration Console. The Google Administration Console will have the ability to generate customizable flat file (e.g., csv) reports or provide equivalent functionality for Yahoo! to export data from the Google Administration Console. Google will also provide to Yahoo! any (a) replacements of, (b) improvements to, (c) alternatives to, and (d) features and functionality of the Google Administration Console ((a) — (d) collectively, “Additional Reporting Tools”) [*].

6.4.2 [*].

6.4.3 Supplemental Reporting. Google will provide Yahoo! on a monthly basis the most recently calculated information related to [*]. In addition, Google will provide to Yahoo! additional reporting that it makes [*].

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6.5 Data [*]. The Parties agree that as between Yahoo! and Google, data or information collected by Yahoo! (including, without limitation, click events tracked by Yahoo!) or Yahoo! Partners independent of Google or that is sent by Yahoo! to Google in connection with the provision of the Services is [*]. The Parties agree that as between Yahoo! and Google, any data or information collected by Google independent of Yahoo! Properties or Yahoo! Partner Properties, that is received by Google from End Users of the Yahoo! Properties or Yahoo! Partner Properties in connection with provision of the Services under this Agreement, or that is received directly from such End Users' browsers in the ordinary course of providing the Services [*].

6.6 Information Use .

6.6.1 [*].

(a) [*].

(b) [*].

(c) [*].

6.6.2 [*].

6.6.3 [*]:

(a) [*].

(1) [*].

(2) [*].

(3) [*].

(4) [*].

(5) [*].

(6) [*].

(b) [*].

(c) [*].

6.6.4 [*].

6.7 [*].

6.8 Injunctive Relief Available . The Parties acknowledge and agree that breach of this Section 6 may cause irreparable injury for which monetary damages are not an adequate

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remedy. Accordingly, each Party may seek injunctive relief and any other available equitable remedies to enforce the provisions of this Section 6, without posting a bond if otherwise required by Law.

6.9 PIPEDA Compliance. Each Party covenants that in exercising its rights and fulfilling its obligations under this Agreement, it will comply with the Canadian “Personal Information Protection and Electronic Documents Act” (“PIPEDA”), as applicable, and all applicable Canadian provincial privacy requirements governing the collection, use and disclosure of personally identifiable information (as defined in PIPEDA) and will process and store personally identifiable information only in accordance with PIPEDA and applicable provincial privacy Laws. Each Party will provide such information as the other Party may reasonably require within timescales reasonably requested to respond to requests from Canadian data protection authorities in regard to data protection or retention practices under this Agreement; provided, however, that if a Party objects to the other Party’s request for or disclosure of such information, the Parties will promptly escalate the disagreement for resolution in accordance with Section 17 (Dispute Resolution; Arbitration) unless, in either Party’s good faith, reasonable judgment, immediate disclosure is required by Law.

6.10 [*].

6.11 Further Compliance. If necessary to comply with data protection Law, the Parties will, or will ensure that they and/or the applicable Yahoo! Affiliates or Google Affiliates enter into such further contracts or amendments as are required to ensure compliance with such data protection Laws.

7. GENERAL REPRESENTATIONS AND WARRANTIES

Each Party represents and warrants to the other Party that: (a) it (i) is a corporation that has been duly incorporated or organized, (ii) is validly existing and in good standing under the Laws of its place of incorporation or organization, (iii) is properly qualified where qualification is necessary for the conduct of its business under this Agreement, and (iv) has adequate corporate or other power to enter into and perform this Agreement; and (b) this Agreement has been duly executed and delivered by such Party and (assuming the due authorization, execution and delivery hereof by the other Party) is intended to be a valid and binding obligation of such Party, enforceable against it in accordance with its terms.

8. MUTUAL COVENANTS RE PERFORMANCE OF SERVICES

8.1 Each Party agrees as follows:

8.1.1 Personnel. Google’s personnel assigned to perform, support and maintain the Services and Yahoo!’s personnel assigned to implement the Services and interact with Google with respect to the support and maintenance of the Services shall have the proper skill, training and background so as to be able to perform in a competent and professional manner;

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8.1.2 Performance of Services . Google will perform the Services and Yahoo! will implement the Services in a professional and workmanlike manner and according to the applicable description and requirements for such Services as set forth in this Agreement and the Documentation;

8.1.3 No Malware .

(a) In connection with the Services, neither Party [*] the introduction, delivery, or transmission of, any computer software, code or script executed on a Yahoo!, Yahoo! Partner or End User's computer (in the case of Google) or a Google computer (in the case of Yahoo!) that (i) is designed to disrupt, erase, disable, harm, or otherwise designed to impede in any manner the operation of any software, firmware, hardware, computer system, network, Property, Google Property or Service; (ii) is a harmful, malicious or hidden procedure, routine or mechanism that is designed to damage or corrupt data, storage media, programs, equipment or communications, or is otherwise designed to interfere with operations, such as a "virus," "time bomb," "trap door," "Trojan horse," or "worm"; or (iii) constitutes a hidden procedure, routine or mechanism that transmits to such Party or any third-party any data or information regarding or derived from any Property, End User, IP address or client-side device (in the case of Google) or any Google Property or Google user (in the case of Yahoo!) without the prior written consent of the other Party.

(b) If either Party learns that it or another person or entity has introduced, delivered or transmitted computer software, code or script described in Section 8.1.3(a)(i)-(iii), such Party will promptly notify the other Party. Each Party shall work cooperatively and in good faith with the other Party to address and resolve the matter.

(c) Notifications pursuant to Section 8.1.3(b) will be made to the other Party's technical representative listed in Exhibit Q . Such notice will include a description of the matter, expected resolution time (if known), the resolution path (if known) and the name, phone number and email address of the Party's security representative who may be contacted to obtain incident updates.

(d) The Parties will collaborate to develop and coordinate all public relations regarding a violation of Section 8.1.3(a) or an incident triggering notice under Section 8.1.3(b). In the event of an incident through which third-parties gain unauthorized access to Data to the extent such Data is attributable to Yahoo! the Parties will, on an expedited basis, attempt to mutually agree upon all public statements and communications, user messaging, and customer care messaging in connection with the incident, including all legally required email notices to consumers and merchants but in no event will the failure of the Parties to mutually agree prohibit either with complying with any obligations it may have which are required by Law. The Parties will otherwise use good faith efforts to keep each other apprised of incidents involving unauthorized third-party access to Data for which they intend to make, or are required to make, public disclosures.

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8.1.4 Compliance With Laws. In providing and implementing the Services, each Party will comply with all applicable Laws.

8.2 Yahoo! acknowledges and agrees that each of the following does not violate Section 8.1.3(a)(iii): [*].

8.3 [*].

9. SERVICE LEVEL AGREEMENT

Google will provide all Services in accordance with the SLA. Google's support personnel will only be responsible for assisting Yahoo!, and will not be obligated to provide any direct support to End Users. Each Party will assign a technical representative as the primary contact for the other Party.

10. DISCLAIMER

EXCEPT FOR THE EXPRESS REPRESENTATIONS AND WARRANTIES MADE BY THE PARTIES IN THIS AGREEMENT AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NO PARTY HERETO MAKES ANY REPRESENTATIONS OR WARRANTIES. EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH PARTY EXPRESSLY DISCLAIMS ANY AND ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY, NONINFRINGEMENT, TITLE OR IMPLIED WARRANTIES ARISING FROM COURSE OF DEALING OR COURSE OF PERFORMANCE.

11. LIMITATION OF LIABILITY

11.1 NO CONSEQUENTIAL DAMAGES. SUBJECT TO SECTION 11.3 (EXCEPTIONS FROM EXCLUSIONS AND LIMITATIONS), TO THE MAXIMUM EXTENT A LIMITATION OF DAMAGES OR LIABILITY IS PERMITTED BY APPLICABLE LAW, NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES (INCLUDING FOR THE INDIRECT LOSS OF PROFIT OR REVENUE) ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, HOWEVER CAUSED, AND UNDER WHATEVER CAUSE OF ACTION OR THEORY OF LIABILITY BROUGHT (INCLUDING UNDER ANY CONTRACT, NEGLIGENCE OR OTHER TORT THEORY OF LIABILITY) EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

11.2 LIABILITY CAP. SUBJECT TO SECTION 11.3 (EXCEPTIONS FROM EXCLUSIONS AND LIMITATIONS), IN NO EVENT SHALL EITHER PARTY'S LIABILITY FOR ANY CLAIM ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT (WHEN AGGREGATED WITH SUCH PARTY'S LIABILITY FOR ALL OTHER CLAIMS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT BUT

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EXCLUDING AMOUNTS PAID IN CONNECTION WITH ITEMS SPECIFIED IN SECTION 11.3 (EXCEPTIONS FROM EXCLUSIONS AND LIMITATIONS)) EXCEED (A) DURING THE FIRST YEAR OF THE AGREEMENT, \$[*], (B) DURING THE SECOND YEAR OF THE AGREEMENT, [*]% OF THE SHARE OF GROSS REVENUES RETAINED BY [*] DURING THE [*] YEAR OF THE AGREEMENT AND (C) THEREAFTER, THE SHARE OF GROSS REVENUES RETAINED BY [*] DURING THE PRIOR [*] MONTHS. FOR AVOIDANCE OF DOUBT, THE LIABILITY CAPS SET FORTH IN SUBSECTIONS (A), (B) AND (C) ABOVE ARE NOT CUMULATIVE.

11.3 Exceptions from Exclusions and Limitations .

11.3.1 Nothing in this Agreement shall exclude or limit either Party's liability for: (a) breaches of Section 14 (Confidentiality) or 16 (Public Relations); (b) with regard to Google, amounts owed under Section 4 (Compensation) and with regard to Yahoo!, amounts owed under Section 13.6.2; (c) infringement or misappropriation of the other Party's Intellectual Property Rights; or (d) any amounts payable to third-parties pursuant to a Party's indemnification obligations under Section 12 (Indemnification).

11.3.2 With regard to Google's liability for any breaches of [*], the provisions of Section 11.1 (No Consequential Damages) shall apply (except with regard to any amounts payable to third-parties pursuant to Google's indemnification obligations under subsection (d) of Section 12.1.1) but the provisions of Section 11.2 (Liability Cap) shall not apply. With regard to Yahoo!'s liability for breaches of Sections [*], the provisions of Section 11.1 (No Consequential Damages) shall apply (except with regard to any amounts payable to third-parties pursuant to Yahoo!'s indemnification obligations under subsection (i) of Section 12.2 (Yahoo! Indemnity)) but the provisions of Section 11.2 (Liability Cap) shall not apply.

11.3.3 Except as set forth in Section 12.1.2(b), Google's liability under subsections (b) and (c) of Section 12.1.1 shall not exceed \$[*] million per suit and \$[*] million in the aggregate.

11.3.4 If (a) Google intentionally and materially breaches this Agreement in bad faith in a manner that substantially and materially frustrates Yahoo!'s ability to use or benefit from the AFS Service as contemplated herein when taken as a whole, and (b) in a notice of Dispute from Yahoo!, Yahoo! informs Google that Yahoo! believes that Google's breach meets or is likely to meet the conditions set forth in this Section 11.3.4 (and references this Section 11.3.4), and Google does not make commercially reasonable efforts to cure such breach during the notice of dispute and escalation periods set forth in Sections 17.1.1 (Notice of Dispute) and 17.1.2 (Escalation), then with respect to that breach the provisions of Section 11.1 (No Consequential Damages) shall apply but the provisions of Section 11.2 (Liability Cap) shall not apply and the liability caps in the SLA shall not apply. [*] (x) [*] such breaches within [*] consecutive months or (y) [*] such breaches of the same provision within [*] months, then with respect to such [*] breach, [*].

11.3.5 [*].

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11.4 Allocation of Risk. The Parties agree that (a) the mutual agreements made in this Section 11 (Limitation of Liability) reflect a reasonable allocation of risk, and (b) that each Party would not enter into the Agreement without these exclusions and limitations on liability and the exceptions set forth above.

12. INDEMNIFICATION

12.1 Google Indemnity.

12.1.1 Indemnification Obligations. Google will defend, or at its option settle, any third-party claim, suit, action, administrative, regulatory or other proceeding brought against Yahoo!, any entity to which this Agreement is assigned (as permitted under Section 18.4 (Assignment; Delegation)) and each of their employees, officers, directors, representatives and agents (each, a “Yahoo! Indemnified Party”) based upon a claim (a) alleging that the AFS Service or AFC Service or any portion or element thereof, or the technology used to provide the AFS Service or AFC Service or any portion or element thereof, [*]; (b) alleging that any Advertising Result [*]; (e) alleging that Google is in breach or otherwise in violation of any third-party agreement by entering into and/or performing under this Agreement; (f) arising from breach of any representation or warranty made by Google to Yahoo! in Section 7 (General Representations and Warranties) of this Agreement or otherwise alleging facts, which if true, would constitute a breach of such representation or warranty; or (g) alleging that a Google Brand Feature infringes any third-party trademark, service mark, domain name or trade dress rights or any copyrights in the Territory.

12.1.2 Exclusions.

(a) Notwithstanding the foregoing, in no event shall Google have any obligations or liability under this Section 12 to the extent arising from: [*].

(b) [*].

12.1.3 Right to Ameliorate Damages. [*].

12.2 Yahoo! Indemnity. Yahoo! will defend, or at its option settle, any third-party claim, suit, action, administrative or regulatory or other proceeding brought against Google, any entity to which this Agreement is assigned (as permitted under Section 18.4) (Assignment; Delegation) and each of their respective employees, officers, directors, representatives and agents based upon a claim: (a) [*]; (b) arising from a breach of any representation or warranty made by Yahoo! to Google in Section 7 (General Representations and Warranties) of this Agreement or otherwise alleging facts, which if true, would constitute a breach of any such representation or warranty; (c) arising from or relating to any claim alleging that Yahoo! is in breach or otherwise in violation of any third-party agreement by entering into and/or performing under this Agreement; [*].

12.3 General. Indemnification provided under Sections 12.1 (Google Indemnity) and 12.2 (Yahoo! Indemnity) shall be limited to [*]. The foregoing obligations shall exist only if the Party seeking indemnification (“Indemnitee”): (i) promptly notifies the Indemnitor of such claim,

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(provided that the failure to provide prompt notice shall only relieve Indemnitor of its obligation to the extent Indemnitor is materially prejudiced by such failure and can demonstrate such prejudice), (ii) provides the Indemnitor with reasonable information, assistance and cooperation in defending the lawsuit or proceeding, and (iii) gives the Indemnitor full control and sole authority over the defense, at the Indemnitor's sole expense, and settlement of such claim, provided that any settlement shall not make any admissions, obligate or bind Indemnitee to pay money without the Indemnitee's prior written consent, which shall not be unreasonably withheld. In addition, the Indemnitor shall not agree to any settlement on behalf of the Indemnitee under this Section 12, without the Indemnitee's prior written consent, which shall not be unreasonably withheld or delayed, in which the Indemnitee is required to or restrained from performing any act except (in the case of Yahoo!) to cease using the Services, or in which the Indemnitee is required to pay any money. The Indemnitee may join in defense with counsel of its choice at its own expense. The Indemnitor shall only reimburse the Indemnitee for expenses incurred by the Indemnitee with the Indemnitor's prior written approval. [*].

12.4 SOLE REMEDY. SECTION 12 (INDEMNIFICATION) STATES THE PARTIES' ENTIRE LIABILITY AND EXCLUSIVE REMEDY [*].

12.5 Third-Party Claims Arising From a Party's Breach. Except as expressly provided in Section 12.1 (Google Indemnity) or Section 12.2 (Yahoo! Indemnity), neither Party will have any obligation to indemnify the other Party for third-party claims arising from or relating to (a) Google's provision of the Services in any manner in breach of this Agreement or (b) Yahoo!'s use of the Services in any manner in breach of this Agreement; provided that any damages incurred by Yahoo! (with respect to claims under subsection (a)) or by Google (with respect to claims under subsection (b)), including the payment of money damages (in the case of claims from a third-party that has an agreement in place with Yahoo!, money damages provided that commercially reasonable limitations of liability provisions are in place) and attorneys' fees and costs awarded in any unappealable court decision or binding arbitration and direct money damages and reasonable attorneys' fees and reasonable costs incurred in connection with defending or settling such third-party claims, will be deemed direct damages recoverable under this Agreement, subject to the limitation of liability under Section 11.2 (Liability Cap) and any applicable exceptions to such limitation under Section 11.3 (Exceptions from Exclusions and Limitations).

13. TERM AND TERMINATION

13.1 Term. This Agreement will commence on the Effective Date and continue for a period of four years thereafter (the "Initial Term"). Yahoo! Inc. may renew the Agreement for up to two additional terms of three years each (each a "Renewal Term"). Any renewal hereunder shall be made by Yahoo! Inc. in writing at least [*] days prior to the expiration of the then-current Term. "Term" means the Initial Term and any Renewal Terms.

13.2 Termination for Breach.

13.2.1 Material Breach. Subject to Section 13.2.3 (Limitation on Termination Rights), either Party may terminate this Agreement in the event of the other Party's material breach of this Agreement upon [*] days written notice to the other Party if such material breach

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remains uncured after the expiration of the [*]-day notice period. [*]. In addition, the Agreement may be terminated as set forth in the SLA.

13.2.2 Repeat Breaches. Subject to Section 13.2.3 (Limitation on Termination Rights), either Party may terminate this Agreement with [*] days notice if the other Party materially breaches the same material term or condition of this Agreement [*].

13.2.3 Limitation on Termination Rights. Notwithstanding Sections 13.2.1 (Material Breaches) and 13.2.2 (Repeat Breaches) above and without limitation of Google's other rights and remedies under this Agreement (including Section 13.3 (Suspension Rights)), Google may not terminate this Agreement as a result of any material breach of [*]. In any event, Yahoo! shall be obligated to cure such material breach as promptly as practicable.

13.2.4 Scope of Termination Rights. [*].

13.3 Suspension Rights. In addition to any other rights that a Party may have under this Agreement:

13.3.1 In General. A non-breaching Party may upon prior written notice, suspend performance under this Agreement, or the provision of any Service hereunder if the other Party materially breaches [*].

13.3.2 Specific to Services. Google may, upon prior written notice, suspend performance under this Agreement, or the provision of any Service hereunder, if

(a) Yahoo!'s implementation of the Services is not in compliance with [*]; provided that Google will promptly notify Yahoo! of such non-compliance prior to any suspension (except for emergency situations) [*];

(b) Yahoo! Inc. delivers a notice, or, if sooner, the occurrence of an event that obligates Yahoo! Inc. to deliver a notice, pursuant to Section 13.4.1(a) as a result of the execution of a CIC Agreement with one of the Specified Parties;

(c) immediately following any annual or special meeting of the stockholders of Yahoo! Inc., a majority of the board of directors of Yahoo! Inc. is comprised of persons who (i) did not serve on Yahoo! Inc.'s board of directors immediately prior to such annual or special meeting of stockholders, and (ii) were nominated for election at such annual or special meeting or for whom proxies were solicited (it being understood that, for purposes of this Section 13.3.2(c) and Section 13.3.3(b), a person is not deemed to solicit proxies for a nominee unless that person files or is required to file a preliminary or definitive proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or furnishes or requests proxy cards or a form for revoking proxy cards to stockholders of Yahoo! Inc.) prior to such meeting by one of the Specified Parties (it being understood that any director nominated or appointed by a board that includes a majority of directors nominated by or for whom proxies were solicited by one of the Specified Parties shall be deemed to be a director nominated by or for whom

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proxies were solicited by one of the Specified Parties); provided that, for purposes of this Section 13.3.2(c) and Section 13.3.3(b), solely with respect to the first two annual or special meetings of the stockholders of Yahoo! Inc. held after the Effective Date where the election of a majority of the members of the board of directors of Yahoo! Inc. is before the stockholders of Yahoo! Inc. (the "Specified Meetings"; provided that any meeting of the stockholders of Yahoo! Inc. that occurs after September 1, 2009 shall not be a Specified Meeting), Specified Parties shall be deemed to include any and all persons other than Yahoo! Inc., its directors, officers and employees and any persons retained by Yahoo! Inc. for the purpose of soliciting proxies at such meeting; or

(d) the board of directors of Yahoo! Inc. recommends that Yahoo! Inc. stockholders accept a tender or exchange offer by one of the Specified Parties.

13.3.3 Suspension in General.

(a) Any suspension pursuant to this Agreement, other than a suspension pursuant to Sections 13.3.2(b)-(d), will be narrowly tailored in scope and duration to alleviate the harm caused by the breach with respect to the applicable Services and with respect to the Properties, but the non-breaching Party may suspend across the affected Services and Properties more broadly to the extent necessary to prevent material harm to its business or under this Agreement (e.g., that the integrity of the Services may be compromised) to the non-breaching Party. [*].

(b) Notwithstanding subsection (a) above, in the event Google has suspended the Agreement pursuant to Sections 13.3.2(b)-(d), then the suspension shall cease upon, and Google will resume providing the Services as soon as practicable after and, in any event, not later than 30 days after, the earliest of (i) the end of the CIC Termination Period, (ii) if applicable, the date on which the CIC Agreement is terminated, (iii) if applicable, four months (two months in the instance of a second Specified Meeting) following the annual or special meeting of Yahoo! stockholders referred to in Section 13.3.2(c), or such earlier date on which the directors nominated by or for whom proxies were solicited by one of the Specified Parties or, solely with respect to the Specified Meetings, by such other person deemed to be included as a Specified Party in accordance with the proviso in Section 13.3.2(c) (it being understood that any director nominated or appointed by a board that includes a majority of directors nominated by or solicited for by one of Specified Parties or such other person deemed to be included as a Specified Party shall be deemed to have been nominated by or solicited for by one of the Specified Parties or such other person deemed to be included as a Specified Party, cease to constitute a majority of Yahoo! Inc.'s board of directors, or (iv) if applicable, the date on which the tender or exchange offer referred to in Section 13.3.2(d) is terminated or expires without resulting in a Change in Control.

13.4 Termination for Change in Control.

13.4.1 As promptly as practicable, but in no event later than the close of business on the next Business Day, following the earlier to occur of (a) the execution of a definitive agreement by a Party providing for one or more transactions that, if consummated

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

(including by the exercise of any option or right to acquire beneficial ownership of voting securities), would result in a Change in Control of such Party (a “CIC Agreement”), or (b) the occurrence of a Change in Control of such Party, such Party shall provide the other Party written notice of the execution of such CIC Agreement or the occurrence of such Change in Control, as the case may be and either Party shall have the option to terminate this Agreement upon written notice to the other Party given no later than the 30th day following the occurrence of such Change in Control (the period from the earlier of the occurrence under Sections 13.4.1(a) and 13.4.1(b) through such 30th day, the “CIC Termination Period”). Such termination will be effective (x) upon the occurrence of the Change in Control, if such notice of termination is given prior to the occurrence of the Change in Control or (y) upon the delivery of such termination notice, if the occurrence of the Change in Control has already occurred.

13.4.2 For the purposes of this Agreement, “Change in Control” shall mean the occurrence of any of the following events:

(a) the consummation of a merger, consolidation, statutory share exchange, recapitalization, restructuring or business combination involving directly or indirectly the Party or a subsidiary of the Party, other than a merger, consolidation, statutory share exchange, recapitalization, restructuring or business combination which would result in the voting securities of the Party outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction; provided, that if the merger, consolidation, statutory share exchange, recapitalization, restructuring or business combination involves directly or indirectly a Specified Party, a Change in Control shall be deemed to occur if the merger, consolidation, statutory share exchange, recapitalization, restructuring or business combination would result in the voting securities of the Party outstanding immediately prior thereto no longer continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 65% of the total voting power represented by the voting securities of the surviving entity outstanding immediately after such transaction;

(b) the approval by the stockholders of a Party of a plan of liquidation and dissolution of a Party;

(c) the sale or disposition by a Party of all or substantially all of the Party’s consolidated assets;

(d) at any point in time Yahoo! no longer owns and, with respect to the U.S. and Canada algorithmic search and search advertising business, controls a majority portion of Yahoo!’s technology and intellectual property assets (e.g., software, know-how, algorithms), taken as a whole, that in the twelve month period prior to that time had been owned by Yahoo! and used to provide services in the U.S. and Canada for either (i) its algorithmic search business or (ii) its search advertising business. Without limiting the generality of the foregoing, to the extent that Yahoo! grants an exclusive (including as to Yahoo!) license in such technology and intellectual property assets for the U.S. and Canada for the operation of an algorithmic search business or search advertising business, such technology and intellectual property assets are no longer controlled by Yahoo! for the purposes of this Section. For the avoidance of doubt, the direct or indirect use of third-party technology and intellectual property assets by

Yahoo! to provide services in the U.S. and Canada in either its algorithmic search business or its search advertising business shall not, in and of itself, constitute a Change in Control; or

(e) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of a Party representing more than 50% of the total voting power represented by the Party’s then outstanding voting securities; provided, that (i) if such person is one of the Specified Parties identified in clause (a) of Section 1.89, a Change in Control shall be deemed to occur if such Specified Party becomes the beneficial owner of securities representing more than 35% of the total voting power represented by the Party’s then outstanding voting securities, and (ii) if such person is a Specified Party identified in clause (b) of Section 1.89, a Change in Control shall be deemed to occur if such Specified Party becomes the beneficial owner of (x) securities representing more than 15% of the common stock or total voting power represented by the Party’s then outstanding voting securities or (y) any equity or voting securities of the Party acquired from such Party or pursuant to any direct or indirect arrangement, agreement or understanding between the Party and such person representing (or having a right to receive in the aggregate) 5% or more of the Party’s total equity value or 1% or more of the Party’s annual revenues on a consolidated basis (excluding, in the case of clause (y), (A) securities acquired by an investment fund in which such Specified Party owns less than a 5% interest, (B) securities acquired in a bona fide underwritten, SEC-registered offering to the capital markets generally where the Party is not directing the underwriter to resell securities to such Specified Party or (C) securities acquired by such person in consideration for the sale of an entity or assets, provided such Party does not as part of the same transaction or series of related transactions enter into any commercial or business transaction with such Specified Party other than transition or other agreements necessary for the purposes of effecting the sale).

13.4.3 In the event that a Party has executed a CIC Agreement, then, in addition to the notice required by Section 13.4.1, such Party shall provide written notice to the other Party as promptly as practicable, but in no event later than the close of business on the next Business Day, following the consummation of the transaction resulting in a Change in Control.

13.5 Termination for Gross Revenue Amounts.

Beginning ten months following the first launch of either of the Services on the first Property under this Agreement (other than for testing purposes) and each month thereafter, if Gross Revenues from all Properties are less than \$83,333,333 in aggregate during the four prior calendar months, then Google may terminate this Agreement upon 30 days prior written notice to Yahoo!, except in the event that Yahoo!’s failure to generate such amounts was directly caused by any breach of this Agreement by Google (including any suspension by Yahoo! as a result thereof), any failure of Google to meet its obligations under the SLA, Yahoo!’s exercise of its rights under Section 2.11.3 (Remedies; Removal and [*]), or any delay in the launch of Services by Google under Section 2.7 (Launch of Services). Google must exercise its right to terminate

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

under this Section 13.5 within 30 days of the end of the last consecutive calendar month giving rise to such right.

13.6 Effect of Termination; Survival.

13.6.1 Upon the termination or expiration of this Agreement, all licenses granted pursuant to this Agreement will terminate immediately and any and all of Yahoo!'s rights and access to the Services shall cease. The respective rights and obligations of the Parties under the following Sections will survive any expiration or termination of this Agreement: (a) 2.17.2(a) and (b), 3.4.1 (in accordance with its terms), 4.6, 4.7 (but only for six months after such expiration or termination), 5.1.2, 5.3, 5.4, 6.5, 6.6, 6.7, 6.8, 6.9, 6.11, 10, 11, 12, 13.6, 14, 17 and 18; and (b) 4.1, 4.2, 4.3, 4.5 and 6.4 (to the extent required to fulfill both Parties' reporting and payment obligations for Ads served on the Properties prior to the termination or expiration of this Agreement). Except as set forth in the immediately preceding sentence, upon termination or expiration of this Agreement, neither Party shall have any further obligation to the other; provided that, no termination or expiration of this Agreement will relieve any Party for any liability for any breach of or liability accruing under this Agreement prior to the termination or expiration thereof. Upon receipt of a written request from a Disclosing Party after the termination or expiration of this Agreement, the Receiving Party will either deliver to the Disclosing Party, or destroy or render useless, within 30 days of receipt of such written request, all copies of any Confidential Information (whether in tangible or electronic form) of the Disclosing Party provided hereunder in its possession, custody or control, except to the extent, and only for so long as, required by Law or needed in connection with actual or anticipated litigation or for tax or auditing purposes to maintain an archived copy thereof, and will furnish to the Disclosing Party, within ten days of any delivery or destruction thereof, an affidavit signed by an officer of the Receiving Party certifying to the best of his or her knowledge, which materials were delivered or destroyed hereunder, or remain in the Receiving Party's archives. In addition, upon termination under Section 13.4.1, the non-terminating Party will use commercially reasonable efforts to either deliver to the terminating Party, or destroy or render useless, all copies of any data or information provided under Section 6.4 (Reporting) (other than Gross Revenue, which may be disclosed on a confidential basis, and except as such data is combined with non-Google information such that it is not reasonably associatable to Google) in its possession, custody or control, except to the extent, and only for so long as, required by Law or needed in connection with actual or anticipated litigation or for tax or auditing purposes to maintain an archived copy thereof, and will furnish to the terminating Party, within ten days of any delivery or destruction thereof, an affidavit signed by an officer of the non-terminating Party certifying to the best of his or her knowledge, which materials were delivered or destroyed hereunder, or remain in the non-terminating Party's archives.

13.6.2 In the event that (a) Yahoo! or Google provides the other Party with a notice of termination pursuant to subsection (a) of Section 13.4.1 as a result of a pending or consummated Change in Control with respect to Yahoo! Inc. and (b) (x) such termination becomes effective within 24 months of the Effective Date, and (y) solely with respect to a termination by Google as a result of a Change in Control of Yahoo! as defined in subsection (ii) of Section 13.4.2(e), had the Agreement not been so terminated, Google would have within 24 months of the Effective Date been able to provide Yahoo! with a notice of termination as a result of a Change in Control as defined in Section 13.4.2(e)(i) and such termination would have become effective within 24 months of the Effective Date, then Yahoo! shall pay to Google, by wire transfer of immediately available funds to an account or accounts designated in writing by Google, within two Business Days after demand by Google, an amount equal to (but in no event less than zero): (a) \$250,000,000 less (b) one-half of an amount equal to (i) all Gross Revenues

through the date of termination less (ii) the amount equal to Yahoo!'s share of such Gross Revenues as determined and paid or payable to Yahoo! pursuant to Sections 4.1 (AFS Services) and 4.2 (AFC Services) during the same period. The following provisions shall apply to this Section 13.6.2:

(a) Governing Law for Section 13.6.2 .: Section 13.6.2 shall be governed by, enforced in accordance with, and interpreted under, the laws of the State of Delaware, without reference to applicable principles of conflicts of laws.

(b) Consent to Jurisdiction for Section 13.6.2 . The Parties hereby irrevocably submit to the jurisdiction of the courts of the State of Delaware and, if jurisdiction is not available in such state court, the Federal Courts of the United States of America located in the State of Delaware over any dispute arising out of or relating to Section 13.6.2 and each Party hereby irrevocably agrees that all claims in respect of such dispute or proceeding may be heard and determined in such courts. The Parties hereby irrevocably waive, to the fullest extent permitted by Law, any objection which they may now or hereafter have to the laying of venue of any dispute arising out of or relating to Section 13.6.2 brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each Party agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. This consent to jurisdiction is being given solely for purposes of Section 13.6.2 and is not intended to, and shall not, confer consent to jurisdiction with respect to any other dispute in which a Party may become involved. Each Party consents to process being served by the other Party in any proceeding of the nature specified in this subsection (b) by the mailing of a copy thereof in the manner specified by the provisions of Section 18.5 (Notices).

(c) No Arbitration . For purposes of clarification, Section 17 (Dispute Resolution; Arbitration) shall not apply to any dispute arising out of or relating to Section 13.6.2; any other claims or disputes arising out of or relating to this Agreement shall be governed by Section 17 (Dispute Resolution; Arbitration).

(d) Integral to Agreement . Yahoo! acknowledges that the agreements contained in Section 13.6.2 are reasonable and an integral part of the transactions contemplated by this Agreement and that, without these agreements, Google would not have entered into this Agreement.

14. CONFIDENTIALITY

14.1 Confidentiality . Each Party (a “ Receiving Party ”) understands that the other Party (the “ Disclosing Party ”) may disclose to the Receiving Party information under this Agreement of a confidential nature including, without limitation, product information, pricing, financial information, end user information, software, specifications, research and development and proprietary algorithms or other materials that is (a) clearly and conspicuously marked as “confidential” or with a similar designation; (b) is identified by the Disclosing Party as confidential and/or proprietary before, during, or promptly after presentation or communication; or (c) is disclosed to Receiving Party in a manner in which the Disclosing Party reasonably communicated, or the Receiving Party should reasonably have understood under the circumstances, that the disclosure should be treated as confidential, whether or not the specific designation “confidential” or any similar designation is used (“ Confidential Information ”). Confidential Information shall not include information (i) previously known to the Receiving

Party without an obligation of confidence owed to the Disclosing Party, (ii) independently developed by or for the Receiving Party without use of or access to the Disclosing Party's Confidential Information, (iii) acquired by the Receiving Party from a third-party which is not known by the Receiving Party to be under an obligation of confidence owed to the Disclosing Party with respect to such information, or (iv) which is or becomes publicly available through no breach of this Agreement by the Receiving Party.

14.2 Disclosure and Use. Except with the prior written consent of the Disclosing Party, neither Party shall (a) disclose any Confidential Information of the Disclosing Party other than to (i) its own officers, directors, employees, attorneys, accountants, financial advisors and contractors who are actively involved in fulfilling the obligations and/or exercising the rights of the Receiving Party under this Agreement, (ii) its Officers and members of its Board of Directors or (iii) on a need to know basis, those who are actively involved in analyzing and advising the Receiving Party for legal, accounting or financial purposes (including preparing or reviewing a Party's financial reports) and with respect to (i), (ii) and (iii) who have signed a non-disclosure agreement or are otherwise subject to confidentiality obligations; (b) use Confidential Information, except for fulfilling the obligations or, on a need to know basis, exercising the rights of the Receiving Party under this Agreement or analyzing and advising the Receiving Party on legal or financial matters; (c) make copies or allow others to make copies of such Confidential Information except in connection with disclosures pursuant to Section 14.2 (a) or (b) or as is reasonably necessary to fulfill the Receiving Party's obligations or exercise its rights under this Agreement; or (d) remove or export any such Confidential Information from the country of the Receiving Party in violation of Laws. This Section 14.2 (or the rest of the Agreement) shall not prevent a Party from using Confidential Information, Data or Services Information as is necessary to support or defend a Dispute within the meaning of Section 17 (Dispute Resolution; Arbitration), including any Disputes that arise pursuant to Section 13.6.2, and then only to the extent that the arbitrators, or a court for Disputes governed by Section 13.6.2, enters an appropriate protective order regarding Confidential Information (or Services Information) and the Party complies with Section 17.2.5 (Confidentiality of Proceedings), with such provisions applying *mutatis mutandis* to Disputes arising under Section 13.6.2. The Receiving Party shall treat the Confidential Information with at least the same degree of care and protection as it would use with respect to its own confidential information of a similar nature, but in no event less than a reasonable standard of care. The foregoing obligations shall survive for a period of five years following the termination or expiration of this Agreement, except in the case of source code, in which case the foregoing obligations shall be perpetual.

14.3 Agents and Contractors.

14.3.1 Agents and Contractors. Neither Party will retain or utilize any of the Specified Parties (or any of their then-current employees) as its agent, contractor or advisor for any purposes under Section 14.2 (Disclosure and Use). The foregoing does not limit Yahoo!'s ability to obtain Comparable Ads from any of such entities. Confidential Information disclosed by a Party to contractors under 14.2 will be disclosed only to the extent that such contractors (x) have a need to know such Confidential Information in connection with the purpose of the permitted disclosure, (y) have signed a non-disclosure and non-use agreement with such Party that protects the confidentiality of Data with provisions at least as protective as this Agreement, and (z) have a contract with such Party that requires them to use Confidential Information only to fulfill such Party's obligations under this Agreement.

14.4 Required Disclosures. A Receiving Party or its officers, directors, employees, attorneys, accountants, financial advisors or contractors may make a disclosure of Confidential

Information if required either by Law or legal process (as a result of legal compulsion or in order to advance a defense to a claim), in response to a request by a governmental or regulatory agency, including but not limited to, a national stock market or exchange, or the Securities and Exchange Commission or other regulatory agency, or in connection with a proceeding before a court, adversary proceeding, administrative proceeding, governmental or regulatory proceeding, including but not limited to, the rules and regulations of a national stock market or exchange, or the Securities and Exchange Commission or other regulatory agency if (a) the Receiving Party only discloses that portion of the Confidential Information reasonably required to be disclosed (on advice by Receiving Party's counsel); and (b) the Receiving Party provides reasonable written notice to the Disclosing Party pursuant to Section 18.5 (Notices) in advance of the disclosure so that the Disclosing Party may, at its election, seek confidential treatment for the Confidential Information, a protective order or other appropriate remedy, relief or assurances, and the Receiving Party shall cooperate with the Disclosing Party to obtain such confidential treatment, orders or other remedies, relief or reliable assurances that confidential treatment will be afforded the Confidential Information so disclosed; or (c) the Disclosing Party consents in writing to having the Confidential Information produced or disclosed. Disclosure under this Section 14.4 shall not relieve the Receiving Party of its obligations of confidentiality generally under this Agreement. In no event shall the Receiving Party or its officers, directors, employees, attorneys, accountants, financial advisors or contractors oppose an action by the Disclosing Party to obtain a protective order or other relief requiring that Confidential Information to be disclosed under this Section 14.4 be treated confidentially. In the event that the Receiving Party or its officers, directors, employees, attorneys, accountants, financial advisors or contractors, as the case may be, shall have complied fully with the provisions of this paragraph, such disclosure may be made by the Receiving Party or its officers, directors, employees, attorneys, accountants, financial advisors or contractors, as the case may be, without any liability hereunder.

14.5 Confidentiality of Agreement . Each Party agrees that the terms and conditions of this Agreement shall be deemed Confidential Information of the other Party and will be disclosed only as set forth in this Section 14 or as otherwise provided in Section 16 (Public Relations and Communications). For avoidance of doubt, if a Party enters into negotiations for a corporate transaction, where the consummation of such transaction would result in a Change in Control of such Party, prior to closing such corporate transaction the Party may not disclose the terms of this Agreement (except to the extent such terms have already been publicly disclosed in compliance with this Section 14 or Section 16 (Public Relations and Communications)) or the other Party's Confidential Information.

14.6 Filings . Notwithstanding anything in this Agreement to the contrary, either Party may disclose the existence and material terms of this Agreement as required by applicable securities laws and regulations (including, without limitation, Regulation FD and the obligation to file reports on Forms 10-K, 10-Q and 8-K under the Securities Exchange Act of 1934, as amended) or the rules of any national stock market or exchange on which such party's common stock is listed, provided that such Party (a) provides written notice to the other Party pursuant to Section 18.5 (Notices) and solicits the other Party's views as to which terms of this Agreement the other Party desires confidential treatment for, including the justification for such confidential treatment, in each case a reasonable time in advance of the disclosure, and (b) requests confidential treatment, in accordance with the rules and regulations of the Securities and Exchange Commission, of those terms of this Agreement so identified by the other Party, except to the extent that such Party reasonably determines, with the advice of counsel and after soliciting the views of the other Party pursuant to (a) above and discussing with the other Party the reasons for such determination (including the advice of counsel), that any such terms are not appropriate

subjects for a request for confidential treatment under the rules and regulations of the Securities and Exchange Commission.

14.7 Injunctive Relief. The Parties acknowledge and agree that breach of this Section 14 may cause irreparable injury for which monetary damages are not an adequate remedy. Accordingly, each Party may seek injunctive relief and any other available equitable remedies to enforce the provisions of this Section 14, without posting a bond if otherwise required by Law.

15. ACCOUNT MANAGEMENT

15.1 Account Managers.

15.1.1 Appointment. Google and Yahoo! will each designate an appropriate number of senior employees of their respective companies or of an Affiliate (the "Account Managers"). Such number of Account Managers will be determined by the mutual agreement of the Parties and will be appropriate in light of the potential complexity of and revenue generated under this Agreement. The Account Manager together with other personnel as determined by the Account Managers will meet telephonically or in person (a) from time to time (at a minimum on a monthly basis) to discuss the various elements of this Agreement and Google's proposed updates to the Services; or (b) as needed to resolve any business or technical issues that may arise with respect to this Agreement. Each Party will be responsible for all travel and any other costs and expenses for its representatives to attend meetings of, or otherwise participate in, such meetings.

15.1.2 Escalation. Any issue requiring resolution by the Account Managers that remains unresolved will be resolved in accordance the dispute resolution procedures of Section 17.1 (Dispute Resolution).

15.1.3 Ongoing Cooperation. Each Party agrees to devote appropriate resources in an effort to achieve the purposes of this Agreement. Because of the scope of this Agreement and in light of the rapid evolution of technologies underlying this Agreement and laws governing the Services, the Parties agree to cooperate reasonably and in good faith to address unforeseen circumstances, such as the evolution of technology or changes in Law.

15.1.4 Affiliates. The Parties will cooperate to streamline and centralize communications under this Agreement to avoid unnecessary communication involving Affiliates. Each Party shall be primarily liable for performance by its Affiliates. Each Party shall be fully responsible for compliance by its Affiliates with the terms and conditions of this Agreement.

16. PUBLIC RELATIONS AND COMMUNICATIONS

16.1 Publicity. No Party may make any public announcement or issue any press release about the existence or terms of this Agreement without the other Party's prior written consent. Any and all public announcements and press releases regarding the existence and terms of this Agreement and the method of its release will be approved in advance of the release, in writing, by both Yahoo! and Google and once released, either Party may repeat information released in accordance with this Section 16.1 without further consent of the other Party. For purposes of clarification, a Party does not need to seek approval from the other Party to disclose the existence and terms of this Agreement if such Party is repeating a public statement that has been previously approved by the other Party or publicly disclosed in accordance with this Section 16.1 or 14.6 (Filings).

16.2 Regulatory Cooperation

16.2.1 The Parties will implement the Services under this Agreement 105 days after the Effective Date (or as extended upon agreement of the parties), or sooner if a Governmental Authority provides notice that any regulatory issues, objections or concerns have been resolved.

16.2.2 In connection with any regulatory proceedings relating to this Agreement, the Parties will consult and cooperate reasonably with one another, consider in good faith the views of one another, and provide to the other Party in advance any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals they or their agents make or submit to a Governmental Authority. Without limiting the foregoing, the parties hereto agree to (a) give each other reasonable advance notice of all meetings with any Governmental Authority, (b) give each other an opportunity to participate in each of such meetings, (c) to the extent practicable, give each other reasonable advance notice of all substantive oral communications with any Governmental Authority, (d) if any Governmental Authority initiates a substantive oral communication promptly notify the other party of the substance of such communication, (e) provide each other with a reasonable advance opportunity to review and comment upon all written communications (including any analyses, presentations, memoranda, briefs, arguments, opinions and proposals) with a Governmental Authority, (f) provide each other with copies of all written communications to or from any Governmental Authority, (g) not advance arguments in connection with any regulatory review or litigation proceeding related to this Agreement (other than litigation between the Parties) over the objection of the other Party that would reasonably be likely to have a significant adverse impact on that other Party, and (h) defend any lawsuits or similar actions filed on competition grounds (whether initiated by a Governmental Authority or otherwise), unless doing so is not commercially reasonable with respect to that party (taking all factors into account, including without limitation effects on a party's brand or business outside the scope of the Agreement), provided however, that neither Party shall be required to comply with subsection (b) to the extent that the Governmental Authority objects to the participation of the Party, or with subsections (e) or (f) to the extent that such disclosure may raise regulatory concerns (in which case, the disclosure may be made on an outside counsel basis).

16.2.3 The Parties will cooperate reasonably in working with regulatory authorities to resolve any issues, objections or concerns they may have, and, if necessary, will amend this Agreement to resolve any such outstanding regulatory issues, objections or concerns, provided that any such amendment is commercially reasonable for each Party (taking all factors into account, including without limitation effects on a party's brand or business outside the scope of the Agreement).

16.2.4 Either Party may terminate the Agreement (a) 120 days after the Effective Date in order to avoid or end a lawsuit or similar action filed on competition-law grounds if (i) such party has taken all actions in compliance with this Section 16.2 including offering to make commercially reasonable amendments to this Agreement, and (ii) defending such action is not commercially reasonable with respect to that Party (taking all factors into account, including without limitation effects on a party's brand or business outside the scope of the Agreement); or (b) if a court of competent jurisdiction has entered an order enjoining the implementation of the Agreement.

17. DISPUTE RESOLUTION; ARBITRATION

17.1 Dispute Resolution. Except with respect to a Party's request for equitable or provisional relief or to otherwise protect its Intellectual Property Rights or Confidential Information provided under this Agreement, no civil action, proceeding as set forth below with respect to any dispute, controversy or claim arising out of, or relating to, or in connection with, this Agreement, or the breach, termination, or validity hereof, including the validity of this dispute resolution provision (each of which dispute, controversy, or claim will be termed a "Dispute") between the Parties may be commenced, nor may a Party terminate any portion of this Agreement for a material breach of a material warranty, representation, covenant or obligation of this Agreement, until the Parties have first attempted in good faith to resolve the Dispute amicably in accordance with this Section 17.1.

17.1.1 Notice of Dispute. In the event of a Dispute, the Party raising the Dispute shall give written notice to the other Party setting forth the details of the Dispute and any proposed solution or compromise. The Parties shall cooperate in good faith to resolve the Dispute within [*] days of receipt of the notice of Dispute.

17.1.2 Escalation. In the event that the Parties are unable to resolve the Dispute within [*] days, the Parties shall escalate the Dispute by referring the details of the Dispute, the status of the negotiations and any proposed compromise in writing to the Parties' respective designated executive (who shall be at least at a "Senior Vice President" level). The Parties' designated executives shall have [*] days from receipt of notice of the Dispute or such longer period as the Parties may mutually agree to in writing, to resolve the Dispute in good faith. If the Parties' designated executives are unable to resolve the Dispute, the Dispute will be escalated to an Officer of each Party, who shall have [*] days, or such longer period as the Parties may mutually agree to in writing, to attempt to resolve the Dispute in good faith.

17.2 Arbitration. If the Parties cannot resolve a Dispute pursuant to Section 17.1 above, and with the sole exception of Disputes governed by Section 13.6.2, any and all Disputes (including, but not limited to, the validity of this agreement to arbitrate) will be settled exclusively by final and binding arbitration joining all of the claims asserted by or against the Parties in connection with such Dispute or claim. The arbitration will be conducted in Santa Clara County, California and shall be administered by JAMS in accordance with its Comprehensive Arbitration Rules and Procedures then in effect except as limited or expanded by this Agreement. This clause shall not preclude Parties from seeking provisional remedies in aid of arbitration (e.g., to compel arbitration) or from seeking equitable or provisional relief from a court of competent jurisdiction.

17.2.1 Smaller Claims. If the Dispute involves a claim for monetary damages only and in an amount equal to or less than \$[*], exclusive of legal fees and costs of the arbitration, then the Parties will jointly select one independent arbitrator who is experienced and knowledgeable about the Internet industry and about the particular products or services at issue and who is not an employee, consultant or former employee or consultant of either Party. If the Parties do not agree on the identity of the arbitrator within five Business Days of the commencement of the arbitration, either Party may apply to JAMS for the appointment of an arbitrator who will have, to the greatest extent possible, experience and knowledge about the

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Internet industry and about the particular products or services at issue. If required to act in accordance with this Section to appoint a single arbitrator in lieu of a Party, JAMS will appoint an arbitrator within 15 days of such application.

17.2.2 Larger Claims.

(a) For all other Disputes governed by this Section 17.2, the Dispute will be determined by a panel of three arbitrators. The Party initiating the arbitration (the “Claimant”) will appoint an arbitrator experienced and knowledgeable about the Internet industry and about the particular products or services at issue and who is not an employee, consultant or former employee or consultant of either Party in its request for arbitration, demand for arbitration or notice of claim (the “Demand”). The Party responding to the Demand (the “Respondent”) will within 15 days appoint one arbitrator experienced and knowledgeable about the Internet industry and about the particular products or services at issue and who is not an employee, consultant or former employee or consultant of either Party and will notify the Claimant in writing of the appointment. If within 30 days after receipt of the Demand by the Respondent, either Party has not appointed an arbitrator, then that Arbitrator will be appointed by JAMS from its then-current roster of arbitrators for Large, Complex Commercial Disputes, and in making this appointment, JAMS will nominate an arbitrator who is (i) experienced and knowledgeable about the Internet industry and about the particular products or services at issue and (ii) not an employee, consultant or former employee or consultant of either Party. If required to act in accordance with this Section to appoint an arbitrator in lieu of a Party, JAMS will appoint an arbitrator within 15 days of such application.

(b) Within 30 days of the appointment of the second arbitrator, JAMS shall appoint the third arbitrator in accordance with Rule 15 of the JAMS Comprehensive Arbitration Rules and Procedures. The third arbitrator must be (i) experienced and knowledgeable about the Internet industry and about the particular products or services at issue and (ii) not an employee, consultant or former employee or consultant of either Party. The third arbitrator will act as the chair of the arbitration panel.

(c) Prior to the commencement of an arbitration proceeding, either Party may disqualify the appointment of an arbitrator for conflict of interest as established in good faith by the Party. Additionally, each Party may in its sole discretion exercise one preemptory disqualification of the third arbitrator.

17.2.3 Choice of Law. This arbitration provision (including the validity and applicability of the agreement to arbitrate, the conduct of any arbitration of a Dispute, the enforcement of any arbitral award made hereunder and any other questions of arbitration law or procedure arising hereunder) and its interpretation, and with the sole exception of Disputes governed by Section 13.6.2, any and all disputes between the Parties arising out of or relating to this Agreement in any manner, shall be governed by and construed in accordance with the internal laws of the State of California, without giving effect to any choice or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of laws of any jurisdictions other than those of the State of California or the United States. The Parties specifically exclude from application to the Agreement the United Nations Convention on Contracts for the International Sale of Goods and the Uniform Computer Information Transactions Act.

17.2.4 Conduct of Arbitration.

(a) Evidence. In addition to documentary and other evidentiary submissions permitted under the JAMS Comprehensive Arbitration Rules and Procedures, the Parties each express an intent to work in good faith to limit the number of live witnesses to that reasonably required to permit just presentation of each side's case. The arbitrators shall consider the number of witnesses at the Preliminary Conference and shall have the discretion to limit the number of witnesses necessary for just resolution of a Dispute. The Parties express an intent to minimize formal discovery, if any, but the arbitrators may, in their discretion, grant narrowly tailored discovery if required for just resolution of a Dispute.

(b) Decision. The arbitration award will be a reasoned decision, will be in writing and will state with particularity the legal and factual bases for the decision and will be final and binding upon the Parties.

(c) Fees and Awards. The arbitrators' fees and costs of the arbitration will be borne by the Claimant and Respondent equally, unless the arbitration panel in its discretion makes a different provision in the final award. The arbitration panel is empowered in its discretion to include an award of costs, including reasonable attorneys' fees and disbursements to the prevailing Party. In addition to monetary damages, the arbitration panel will be empowered to award equitable relief, including, but not limited to, an injunction and specific performance of any obligation under this Agreement. The arbitrators' award of damages shall be limited by Section 11 (Limitation of Liability) and any other relief, including suspension or termination, will be consistent with the terms and conditions of this Agreement. The arbitrators will have no jurisdiction to, and are not empowered to, modify or amend the exclusions and limitations of liability set forth in this Agreement. The arbitration panel will be authorized in its discretion to grant pre- and post-award interest at commercial rates. Any costs, fees or taxes incident to enforcing the award will, to the maximum extent permitted by law, be charged against the Party resisting such enforcement. Judgment upon the award may be entered by any court in the United States having jurisdiction over the relevant Party or any of its assets.

17.2.5 Confidentiality of Proceedings. The Parties agree that any arbitration proceedings hereunder will be treated as the Confidential Information of both Parties and that the existence of the proceeding and any element of it (including, but not limited to, any pleadings, briefs or other documents submitted or exchanged and any testimony or other oral submissions and awards) will not be disclosed beyond the arbitration panel, except as may lawfully be required in judicial proceedings relating to the arbitration or in accordance with the disclosure provisions of Section 14.4 (Required Disclosures). In addition, if a Party's Confidential Information is required to be disclosed pursuant to an arbitration proceeding or other judicial proceeding, the Receiving Party shall treat the Disclosing Party's Confidential Information pursuant to the terms of Section 14 (Confidentiality).

18. MISCELLANEOUS

18.1 Rules of Construction. As used in this Agreement, all words used herein, regardless of gender used, shall be deemed and construed to include any other gender, masculine, feminine, or neuter, as the context requires. The words "hereof," "herein" and "hereunder" and other words of similar import refer to this Agreement in its entirety and not to any part hereof. All references herein to Sections and Exhibits shall be deemed references to and Sections of, and

Exhibits to, this Agreement. All Exhibits are hereby incorporated by reference into the Agreement. The word “including,” when used herein is not intended to be exclusive and means “including, but not limited to.” The headings used in this Agreement are inserted for convenience of reference only and do not constitute a part of and will not be utilized in interpreting this Agreement. The use of the word “all” shall be construed as “any and all,” the word “any” shall be construed as “any and all,” and the word “each” shall be construed as “all and each.” This Agreement has been negotiated by the Parties and their respective counsel and will be fairly interpreted in accordance with its terms and conditions pursuant to the governing Law selected by the Parties without application of any rules of construction relating to which Party drafted the Agreement in favor of, or against, either Party. Unless otherwise expressly provided herein, any references to any agreement (including this Agreement) or other contract, instrument or document or to any statute or regulation or any specific section or other provision thereof are to it as amended and supplemented (and, in the case of a statute or regulation or specific section or other provision thereof, to any successor of such statute, regulation, section or other provision). Any reference in this Agreement to a “day” or number of “days” (without the explicit qualification of “Business”) shall be interpreted as a reference to a calendar day or number of calendar days. Unless otherwise expressly provided herein, any provision of this Agreement using a defined term (by way of example and without limitation, such as “Affiliate”) which is based on a specified characteristic, qualification, feature or status shall, as of any time, refer only to such persons or entities who have the specified characteristic, qualification, feature or status as of that particular time. This contract is written in American English and, if it is translated into any other language, the English-language version controls.

18.2 Force Majeure. No Party will be liable for any failure or delay in performance of any of its obligations hereunder (except for the payment of amounts already owed) if such delay is due to acts of God, fires, flood, storm, explosions, earthquakes, general Internet outages, acts of war or terrorism, riots, insurrection or intervention of any government or authority; provided, however, that any such delay or failure will be remedied by such Party as soon as reasonably possible. Upon the occurrence of a force majeure event, the Party unable to perform will, if and as soon as possible, provide written notice to the other Parties indicating that a force majeure event occurred and detailing how such force majeure event impacts the performance of its obligations. Each Party will maintain during the Term, appropriate business continuity and disaster recovery plans, procedures, facilities and equipment to restore operation of their respective properties and services within a reasonable period of time under the circumstances.

18.3 Amendment or Modification. Any amendments or modifications to the Agreement must (a) be in writing; (b) refer to the Agreement; and (c) be executed by an authorized representative of each Party.

18.4 Assignment; Delegation. This Agreement and the performance of any duties hereunder may not be assigned, transferred, delegated (except as set forth below), sold or otherwise disposed of by a Party other than (a) with the prior written consent of the other Party, or (b) in connection with a Change in Control of the assigning Party, subject to the right to terminate under Section 13.4 (Termination for Change in Control). This Agreement will be binding upon and shall inure to the benefit of a Party’s permitted successors and assigns. Any purported assignment, transfer, delegation, sale or other disposition in contravention of this Section 18.4 is null and void. Notwithstanding the foregoing, either Party may delegate its performance to, or exercise its rights through, one or more Affiliates in the Territory; provided that in the event of any such delegation or exercise, each Party will remain liable and fully responsible for its Affiliates’ performance of and compliance with such Party’s obligations and duties under this Agreement.

18.5 Notices. All notices must be in writing, given in English and addressed to the attention of the other Party's legal department and primary point of contact. A list of contacts for each Party (as of the Effective Date) is set forth in Exhibit Q, which may be updated by the Parties from time to time. Notice will be deemed given (a) when received if delivered in person, (b) when receipt is verified in writing if delivered by overnight courier or mail or (c) when verified by receipt if delivered by facsimile.

18.6 Waiver. Any of the provisions of this Agreement may be waived by the Party entitled to the benefit thereof. No Party will be deemed, by any act or omission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the waiving Party, and then only to the extent specifically set forth in such writing. A waiver with reference to one event will not be construed as continuing or as a bar to, or waiver of, any right or remedy as to a subsequent event.

18.7 Remedies Cumulative. Except as expressly set forth herein, no remedy conferred upon any of the Parties by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy will be cumulative and will be in addition to any other remedy given hereunder or now or hereafter existing at Law or in equity.

18.8 Severability. If the application of any provision or provisions of this Agreement to any particular facts or circumstances is held to be invalid or unenforceable by any arbitrator, arbitration panel or court of competent jurisdiction, the validity and enforceability of such provision or provisions as applied to any other particular facts or circumstances and the validity of other provisions of this Agreement will not in any way be affected or impaired thereby, and the Parties agree that the arbitrator, arbitration panel or court of competent jurisdiction making such determination will have the power to modify the provision in a manner consistent with its objectives such that it is enforceable.

18.9 Independent Contractors. The Parties acknowledge and agree that they are dealing with each other as independent contractors. Neither this Agreement nor any terms and conditions contained in this Agreement may be construed to: (a) give any Party the power to direct and control the day-to-day activities of any of the other; (b) create or constitute a partnership, joint venture, franchise, employment or agency relationship between or among the Parties; or (c) allow any Party to create or assume any obligation on behalf of the other Party for any purpose whatsoever. No Party owes the other Party or any third-party any compensation for performing the actions contemplated by the Agreement except as expressly set forth in the Agreement.

18.10 Equitable Relief. Nothing in this Agreement will limit either Party's ability to seek equitable relief.

18.11 Entire Agreement. The Agreement supersedes any other prior or collateral agreements, whether oral or written, with respect to the subject matter hereof, including that certain Google Services Agreement dated as of April 1, 2008 and that certain Letter of Intent executed by the Parties on or about April 8, 2008. For the avoidance of doubt, this Agreement does not affect or supersede that certain [*]. This Agreement (including any exhibits thereto) constitutes the entire agreement with respect to the subject matter hereof, and any terms contained

[*] Indicates that certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

in any related purchase order(s) or other documents (including the terms of any purchase order, invoice, “click-wrap,” “shrink-wrap” or other document accompanying any order, request or materials) pertaining to the subject matter of the Agreement shall be null and void. The Parties acknowledge that this Agreement does not affect the terms of any purchase order, invoice, “click-wrap,” “shrink-wrap” or other document accompanying orders, requests or materials not provided in connection with this Agreement.

18.12 No Third-Party Beneficiaries. The Agreement is not intended to benefit, nor shall it be deemed to give rise to, any rights in any third-party.

18.13 Counterparts; Facsimiles. This Agreement may be executed in any number of textually identical counterparts, each of which when so executed and delivered will be deemed an original, and such textually identical counterparts together will constitute one and the same instrument. Each Party will receive a duplicate original of the counterpart copy or copies executed by it. For purposes hereof, a facsimile copy of this Agreement, including the signature pages hereto, will be deemed to be an original. Notwithstanding the foregoing, the Parties will each deliver original execution copies of this Agreement to one another as soon as practicable following execution thereof.

IN WITNESS WHEREOF, the Parties to this Agreement by their duly authorized representatives have executed this Agreement as of the Effective Date.

YAHOO! INC. on behalf of Yahoo!

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

GOOGLE INC. on behalf of Google

By: /s/ Eric Schmidt
Name: Eric Schmidt
Chief Executive Officer
Title:

**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: August 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: August 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 June 30, 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: August 8, 2008

/s/ BLAKE JORGENSEN

Name: Blake Jorgensen
Title: Chief Financial Officer
Dated: August 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.