

# YAHOO INC

## FORM 10-Q (Quarterly Report)

Filed 11/09/07 for the Period Ending 09/30/07

Address	YAHOO! INC. 701 FIRST AVENUE SUNNYVALE, CA 94089
Telephone	4083493300
CIK	0001011006
Symbol	YHOO
SIC Code	7373 - Computer Integrated Systems Design
Industry	Advertising
Sector	Technology
Fiscal Year	12/31

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

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**Form 10-Q**

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from        to

Commission file number 0-28018

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**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**

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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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer       Accelerated filer       Non-Accelerated filer

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 October 31, 2007
Common Stock, \$0.001 par value	1,336,444,034

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**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		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
	(Unaudited, in thousands except per share amounts)			
Revenues	\$ 1,580,322	\$ 1,767,506	\$ 4,723,231	\$ 5,137,276
Cost of revenues	681,120	740,200	1,984,830	2,136,849
Gross profit	899,202	1,027,306	2,738,401	3,000,427
Operating expenses:				
Sales and marketing	331,025	410,936	988,030	1,168,785
Product development	202,079	274,682	628,399	795,268
General and administrative	130,984	161,511	391,198	449,934
Amortization of intangibles	32,774	29,985	97,635	82,264
Total operating expenses	696,862	877,114	2,105,262	2,496,251
Income from operations	202,340	150,192	633,139	504,176
Other income, net	50,268	43,748	121,794	109,935
Income before income taxes, earnings in equity interests and minority interests	252,608	193,940	754,933	614,111
Provision for income taxes	(124,372)	(78,653)	(350,002)	(258,743)
Earnings in equity interests	30,190	36,546	78,261	97,801
Minority interests in operations of consolidated subsidiaries	103	(547)	(474)	1,108
Net income	\$ 158,529	\$ 151,286	\$ 482,718	\$ 454,277
Net income per share — basic	\$ 0.12	\$ 0.11	\$ 0.34	\$ 0.34
Net income per share — diluted	\$ 0.11	\$ 0.11	\$ 0.33	\$ 0.32
Shares used in per share calculation — basic	1,375,884	1,335,092	1,399,800	1,342,387
Shares used in per share calculation — diluted	1,442,429	1,395,056	1,471,832	1,403,756
Stock-based compensation expense by function:				
Cost of revenues	\$ 1,689	\$ 2,555	\$ 4,956	\$ 6,919
Sales and marketing	42,470	70,353	119,826	172,731
Product development	38,260	51,603	112,147	164,354
General and administrative	39,072	21,029	92,926	70,321
Total stock-based compensation expense	\$ 121,491	\$ 145,540	\$ 329,855	\$ 414,325

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

**YAHOO! INC.**  
**Condensed Consolidated Balance Sheets**

	December 31, 2006	September 30, 2007
	(Unaudited, in thousands except par values)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,569,871	\$ 1,527,950
Short-term marketable debt securities	1,031,528	684,197
Accounts receivable, net	930,964	950,027
Prepaid expenses and other current assets	217,779	321,574
Total current assets	3,750,142	3,483,748
Long-term marketable debt securities	935,886	550,630
Property and equipment, net	1,101,379	1,240,340
Goodwill	2,968,557	3,532,296
Intangible assets, net	405,822	517,356
Other long-term assets	459,988	529,467
Investments in equity interests	1,891,834	1,989,311
Total assets	<u>\$11,513,608</u>	<u>\$11,843,148</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 109,130	\$ 131,559
Accrued expenses and other current liabilities	1,046,882	965,860
Deferred revenue	317,982	336,796
Short-term debt	—	749,628
Total current liabilities	1,473,994	2,183,843
Long-term deferred revenue	64,939	59,015
Long-term debt	749,915	—
Other long-term liabilities	36,890	27,750
Deferred and other long-term tax liabilities, net	19,204	281,528
Minority interests in consolidated subsidiaries	8,056	8,295
Stockholders' equity:		
Common stock, \$0.001 par value; 5,000,000 shares authorized; 1,497,912 and 1,525,277 shares issued, respectively, and 1,360,247 and 1,330,063 shares outstanding, respectively	1,493	1,518
Additional paid-in capital	8,615,915	9,726,447
Treasury stock at cost, 137,665 and 195,214 shares, respectively	(3,324,863)	(4,940,088)
Retained earnings	3,717,560	4,218,141
Accumulated other comprehensive income	150,505	276,699
Total stockholders' equity	9,160,610	9,282,717
Total liabilities and stockholders' equity	<u>\$11,513,608</u>	<u>\$11,843,148</u>

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

## YAHOO! INC.

## Condensed Consolidated Statements of Cash Flows

	Nine Months Ended	
	September 30, 2006	September 30, 2007
(Unaudited, in thousands)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 482,718	\$ 454,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	217,730	299,933
Amortization of intangible assets	184,804	181,539
Stock-based compensation expense	329,855	414,325
Tax benefits from stock-based awards	370,549	170,683
Excess tax benefits from stock-based awards	(354,966)	(134,491)
Deferred income taxes	(95,456)	(134,585)
Earnings in equity interests	(78,261)	(97,801)
Dividends received	12,908	15,156
Minority interests in operations of consolidated subsidiaries	474	(1,108)
(Gains) /losses from sales of investments, assets, and other, net	(15,811)	(12,796)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(46,780)	(6,381)
Prepaid expenses and other	(28,252)	61,059
Accounts payable	66,985	12,073
Accrued expenses and other liabilities	138,787	50,809
Deferred revenue	18,935	24,323
Net cash provided by operating activities	<u>1,204,219</u>	<u>1,297,015</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment, net	(557,586)	(409,845)
Purchases of marketable debt securities	(889,023)	(1,105,043)
Proceeds from sales and maturities of marketable debt securities	1,431,206	1,855,439
Acquisitions, net of cash acquired	(61,300)	(355,514)
Purchases of intangible assets	—	(75,375)
Other investing activities, net	18,476	(30,369)
Net cash used in investing activities	<u>(58,227)</u>	<u>(120,707)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock, net	231,451	243,889
Repurchases of common stock	(1,782,140)	(1,365,226)
Structured stock repurchases, net	(227,705)	(250,000)
Excess tax benefits from stock-based awards	354,966	134,491
Other financing activities, net	—	(13,885)
Net cash used in financing activities	<u>(1,423,428)</u>	<u>(1,250,731)</u>
Effect of exchange rate changes on cash and cash equivalents	33,002	32,502
Net change in cash and cash equivalents	(244,434)	(41,921)
Cash and cash equivalents at beginning of period	<u>1,429,693</u>	<u>1,569,871</u>
Cash and cash equivalents at end of period	<u>\$ 1,185,259</u>	<u>\$ 1,527,950</u>

## YAHOO! INC.

## Condensed Consolidated Statements of Cash Flows — (Continued)

	Nine Months Ended	
	September 30, 2006	September 30, 2007
(Unaudited, in thousands)		
<b>Supplemental cash flow disclosures:</b>		
Acquisition-related activities:		
Cash paid for acquisitions	\$ 68,977	\$ 380,677
Cash acquired in acquisitions	(7,677)	(25,163)
	<u>\$ 61,300</u>	<u>\$ 355,514</u>
Common stock, restricted stock and stock options issued in connection with acquisitions	<u>\$ —</u>	<u>\$ 468,429</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 and publishers by creating indispensable experiences built on trust. To its users, Yahoo! provides its owned and operated online properties and services (“Yahoo Properties” or “Owned and Operated sites”), as well as access to third-party content and services. To its advertisers and publishers, Yahoo! provides a range of marketing solutions and tools that enable businesses to reach users who visit the Yahoo! Properties and to reach the users of 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! and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as Investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the closing date of the acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. 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, 2006 was derived from the Company’s audited financial statements for the year ended December 31, 2006, 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 September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” (“SFAS 157”), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but eliminates inconsistencies in

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 but does not believe that the adoption of SFAS 157 will have a material impact on its financial position, cash flows, or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 159 but does not believe that the adoption of SFAS 159 will have a material impact on its financial position, cash flows, or 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 zero coupon senior convertible notes (using the if-converted method). Potentially dilutive securities representing approximately 117 million and 134 million shares of common stock for the three months ended September 30, 2006 and 2007, respectively, and 98 million and 125 million shares of common stock for the nine months ended September 30, 2006 and 2007, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been antidilutive. Potentially dilutive securities include outstanding stock options, shares to be issued under the employee stock purchase plan, and restricted stock awards.

See Note 9 — “Short-Term Debt” for additional information related to the Company’s zero coupon senior convertible notes.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2006</u>	<u>September 30, 2007</u>	<u>September 30, 2006</u>	<u>September 30, 2007</u>
<b>Numerator:</b>				
Net income	\$ 158,529	\$ 151,286	\$ 482,718	\$ 454,277
<b>Denominator:</b>				
Weighted average common shares	1,380,496	1,340,401	1,404,538	1,347,553
Weighted average unvested restricted stock subject to repurchase	(4,612)	(5,309)	(4,738)	(5,166)
Denominator for basic calculation	<u>1,375,884</u>	<u>1,335,092</u>	<u>1,399,800</u>	<u>1,342,387</u>
<b>Weighted average effect of dilutive securities:</b>				
Restricted stock awards	2,313	5,896	1,842	3,633
Employee stock options	27,649	17,501	33,606	21,165
Convertible notes	36,583	36,567	36,584	36,571
Denominator for diluted calculation	<u>1,442,429</u>	<u>1,395,056</u>	<u>1,471,832</u>	<u>1,403,756</u>
Net income per share — basic	<u>\$ 0.12</u>	<u>\$ 0.11</u>	<u>\$ 0.34</u>	<u>\$ 0.34</u>
Net income per share — diluted	<u>\$ 0.11</u>	<u>\$ 0.11</u>	<u>\$ 0.33</u>	<u>\$ 0.32</u>

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

## Note 3 ACQUISITIONS

## Transactions completed in 2006

*Seven.* On January 29, 2006, the Company and Seven Network Limited (“Seven”), a leading Australian media company, completed a strategic partnership in which the Company contributed its Australian Internet business, Yahoo! Australia and New Zealand (“Yahoo! Australia”), and Seven contributed its online assets, television and magazine content, an option to purchase its 33 percent ownership interest in mobile solutions provider m.Net Corporation Ltd, and cash of \$7 million. The Company believes this strategic partnership and the contribution of the respective businesses with their rich media and entertainment content has created a comprehensive and engaging online experience for local users and advertisers. The Company obtained a 50 percent equity ownership interest in the newly formed entity, which operates as “Yahoo! 7.” Pursuant to a shareholders agreement and a power of attorney granted by Seven to vote certain of its shares, the Company has the right to vote 50.1 percent of the outstanding voting interests in Yahoo! 7 and has control over the day-to-day operations and therefore consolidates Yahoo! 7, which includes the operations of Yahoo! Australia. For accounting purposes, the Company is considered to have acquired the assets contributed by Seven in exchange for 50 percent of the ownership of Yahoo! Australia. Accordingly, the Company accounted for this transaction in accordance with SFAS No. 141, “Business Combinations.” The total purchase price was \$35 million including direct transaction costs of \$2 million.

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

Cash acquired	\$ 3,763
Other tangible assets acquired	2,400
Amortizable intangible assets:	
Customer contracts, related relationships, developed technology and intellectual property rights	18,600
Goodwill	<u>16,030</u>
Total assets acquired	40,793
Deferred income taxes	<u>(6,075)</u>
Total	<u>\$34,718</u>

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of seven years. No amounts have been allocated to in-process research and development and approximately \$16 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

As a result of this transaction, the Company’s ownership in Yahoo! Australia, which is now part of Yahoo! 7, decreased to 50 percent. The Company effectively recognized a non-cash gain of approximately \$30 million representing the difference between the fair value of Yahoo! Australia and its carrying value adjusted for the Company’s continued ownership in Yahoo! 7. This non-cash gain was accounted for as a capital transaction and recorded as additional paid-in capital because of certain future events that could affect actual realization of the gain. The Company also recorded a minority interest of \$7 million related to its reduced ownership of Yahoo! Australia and Seven’s retained interest in their contributed net assets.

*Investment in Gmarket Inc.* During the year ended December 31, 2006, the Company acquired shares in Gmarket Inc., a leading retail e-commerce provider in South Korea, for \$61 million, including direct transaction costs of approximately \$1 million. During the quarter ended March 31, 2007, the Company acquired additional shares in Gmarket for \$8 million. As of September 30, 2007, the Company held an approximate 10 percent ownership interest in Gmarket, with an investment cost base totaling \$69 million.

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

**Other Acquisitions — Business Combinations.** During the year ended December 31, 2006, the Company acquired three other companies which were accounted for as business combinations. The total purchase price for these three acquisitions was \$42 million and consisted of \$41 million in cash consideration and \$1 million of direct transaction costs. The total cash consideration of \$41 million less cash acquired of \$1 million resulted in net cash outlay of \$40 million. Of the purchase price, \$27 million was allocated to goodwill, \$21 million to amortizable intangible assets and \$6 million to net assumed liabilities. In connection with these business combinations, the Company also issued stock-based awards valued at \$23 million that will be recognized as compensation expense over the next three years. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

The Company also completed immaterial asset acquisitions that did not qualify as business combinations during the year ended December 31, 2006.

**Transactions completed in 2007**

**Right Media.** On July 11, 2007, the Company acquired Right Media Inc. (“Right Media”), an online advertising exchange. The Company believes the acquisition of Right Media builds upon the Company’s leadership in online advertising and is a key step in executing the Company’s long term strategy to transform how online advertisers and publishers connect to their target audience. The purchase price exceeded the fair value of net tangible and intangible assets acquired from Right Media and as a result, the Company recorded goodwill in connection with this transaction. Under the terms of the agreement, the Company acquired all of the remaining equity interests (including all outstanding options and restricted stock units) in Right Media. Right Media stockholders were generally paid in approximately equal parts cash and shares of Yahoo! common stock (approximately 8 million shares) and outstanding Right Media options and restricted stock units were assumed. Assumed Right Media options and restricted stock units will be settled in Yahoo! common stock. The acquisition followed the Company’s 20 percent investment in Right Media in October 2006.

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

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

Cash acquired	\$ 15,508
Other tangible assets acquired	37,292
Amortizable intangible assets:	
Customer contracts and related relationships	42,300
Developed technology and patents	42,400
Trade name, trademark, and domain name	19,200
Goodwill	<u>437,006</u>
Total assets acquired	593,706
Liabilities assumed	<u>(68,114)</u>
Total	<u>\$525,592</u>

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of six years. No amounts have been allocated to in-process research and development and \$437 million has been

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

**Other Acquisitions — Asset Acquisitions.** During the nine months ended September 30, 2007, the Company acquired four companies which were accounted for as asset acquisitions. The total purchase price for these acquisitions was \$58 million and consisted of \$20 million in cash consideration, \$36 million in equity consideration, \$1 million of incurred liabilities, and \$1 million of direct transaction costs. The total cash consideration of \$20 million less cash acquired of \$3 million resulted in net cash outlay of \$17 million. For accounting purposes, approximately \$80 million was allocated to amortizable intangible assets, \$26 million to net assumed liabilities, primarily deferred income tax liabilities, \$1 million to tangible assets, and \$3 million to cash acquired. In connection with these acquisitions, the Company also issued stock-based awards valued at \$19 million that will be recognized as stock-based compensation expense over the next three years.

**Other Acquisitions — Business Combinations.** During the nine months ended September 30, 2007, the Company acquired two other companies which were accounted for as business combinations. The total purchase price for these two acquisitions was \$108 million and consisted of \$106 million in cash consideration and \$2 million of direct transaction costs. The total cash consideration of \$106 million less cash acquired of \$5 million resulted in net cash outlay of \$101 million. Of the purchase price, \$74 million was allocated to goodwill, \$33 million to amortizable intangible assets, \$5 million to tangible assets, \$5 million to cash acquired, and \$9 million to net assumed liabilities.

Pro forma results of operations have not been presented for the acquisitions completed during the three and nine months ended September 30, 2006 and 2007 as results of the acquired companies, not already consolidated, either individually or in aggregate were not material to the Company's consolidated financial results before the acquisitions.

See Note 15 — "Subsequent Events" for additional information related to the Company's acquisitions of Zimbra, Inc. and BlueLithium, Inc.

**Note 4 INVESTMENTS IN EQUITY INTERESTS**

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

	<u>December 31, 2006</u>	<u>September 30, 2007</u>	<u>Percent Ownership</u>
Alibaba	\$ 1,411,651	\$ 1,426,102	44%
Yahoo! Japan	476,870	559,489	34%
Other	3,313	3,720	
Total	<u>\$ 1,891,834</u>	<u>\$ 1,989,311</u>	

**Equity Investment in the Alibaba Group.** On October 23, 2005, the Company acquired approximately 46 percent of the outstanding common stock of Alibaba Group Holding Limited ("Alibaba" or "the Alibaba Group"), which represented approximately 40 percent on a fully diluted basis, in exchange for \$1.0 billion in cash, the contribution of the Company's China based businesses, including 3721 Network Software Company Limited ("Yahoo! China") and direct transaction costs of \$8 million. Pursuant to the terms of a shareholder agreement, the Company has an approximate 35 percent voting interest in Alibaba, with the remainder of its voting rights subject to a voting agreement with Alibaba management. Other investors in Alibaba include SOFTBANK Corp. ("SOFTBANK"). The investment in Alibaba is being accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of Investments in equity interests on the Company's condensed consolidated balance sheets. The Company records its share of the

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

results of Alibaba and any related amortization expense, one quarter in arrears, within earnings in equity interests on the condensed consolidated statements of income.

Through this transaction, the Company has combined its leading search capabilities with Alibaba's leading online marketplace and online payment system and Alibaba's strong local presence, expertise and vision in the China market. These factors contributed to a purchase price in excess of the Company's share of the fair value of Alibaba's net tangible and intangible assets acquired resulting in goodwill.

The purchase price was based on acquiring a 40 percent equity interest in Alibaba on a fully diluted basis. As of September 30, 2007, the Company's ownership interest in Alibaba was 44 percent, an approximate 2 percent decrease from the initial investment, primarily as a result of the conversion of Alibaba's outstanding convertible debt in April 2006. The Company's ownership interest in Alibaba may now be further diluted to 39 percent upon exercise of Alibaba's employee stock options. The Company will recognize non-cash gains if and when such further dilution to its ownership interest in Alibaba occurs, as such reduction in interest results in an incremental sale of Yahoo! China. In allocating the excess of the carrying value of its investment in Alibaba over its proportionate share of the net assets of Alibaba, the Company allocated a portion of the excess to goodwill to account for the estimated reductions in the carrying value of the investment in Alibaba that may occur as the Company's equity interest is diluted to 40 percent.

As of September 30, 2007, the difference between the Company's carrying value of its investment in Alibaba and its proportionate share of the net assets of Alibaba is summarized as follows (in thousands):

Carrying value of investment in Alibaba	\$1,426,102
Proportionate share of net assets of Alibaba	<u>946,918</u>
Excess of carrying value of investment over proportionate share of net assets	<u>\$ 479,184</u>
The excess carrying value has been primarily assigned to:	
Goodwill	\$ 421,538
Amortizable intangible assets	59,726
Deferred income taxes	<u>(2,080)</u>
Total	<u>\$ 479,184</u>

The amortizable intangible assets have useful lives not exceeding seven years and a weighted average useful life of approximately 5 years. No amount has been allocated to in-process research and development. Goodwill is not deductible for tax purposes.

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

See Note 15 — "Subsequent Events" for additional information related to the Company's investment in the Alibaba Group.

**Equity Investment in Yahoo! Japan.** During April 1996, the Company signed a joint venture agreement with SOFTBANK, which was amended in September 1997, whereby Yahoo! Japan Corporation ("Yahoo! Japan") was formed. Yahoo! Japan was formed to establish and manage a local version of Yahoo! in Japan. During the nine months ended September 30, 2006 and 2007, the Company received cash dividends from Yahoo! Japan in the amounts of \$13 million and \$15 million, before taxes, respectively, which were recorded as reductions in the Company's investment in Yahoo! Japan. The Company also has commercial arrangements with Yahoo! Japan, consisting of services, including algorithmic search services and sponsored search services and the related traffic acquisition costs and license fees. The net cost of these arrangements was approximately \$64 million and \$41 million for the three months ended September 30, 2006 and 2007, respectively. The net cost of these

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

arrangements was approximately \$183 million and \$199 million for the nine months ended September 30, 2006 and 2007, respectively. As of December 31, 2006 and September 30, 2007, the Company has a net payable balance to Yahoo! Japan of approximately \$10 million and a net receivable balance from Yahoo! Japan of approximately \$77 million, respectively.

The investment in Yahoo! Japan is being accounted for using the equity method and the total investment is classified as a part of the Investments in equity interests balance on the condensed consolidated balance sheets. The Company records its share of the results of Yahoo! Japan one quarter in arrears within earnings in equity interests on the condensed consolidated statements of income. The fair value of the Company's approximate 34 percent ownership interest in Yahoo! Japan, based on the quoted stock price, was approximately \$7.7 billion as of September 30, 2007.

Prior to and during 2001, Yahoo! Japan acquired the Company's equity interests in certain entities in Japan for total consideration of approximately \$65 million, paid partially in shares of Yahoo! Japan common stock and partially in cash. As a result of the acquisition, the Company increased its investment in Yahoo! Japan, which resulted in approximately \$41 million of goodwill to be amortized over seven years. The amortization ceased upon the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. The carrying amount of the Company's investment in Yahoo! Japan differs from the amount of the underlying equity in net assets of Yahoo! Japan primarily as a result of this goodwill.

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

	Three Months Ended		Nine Months Ended	
	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007
<b>Operating data(*)</b>				
Revenues	\$430,685	\$469,272	\$1,230,820	\$1,414,624
Gross profit	\$412,886	\$449,355	\$1,162,555	\$1,358,405
Income from operations	\$209,721	\$245,617	\$ 591,642	\$ 728,323
Net income	\$115,412	\$134,142	\$ 334,392	\$ 396,928
<b>Balance sheet data</b>				
Current assets			\$ 739,540	\$ 757,643
Long-term assets			\$ 1,676,416	\$ 1,670,373
Current liabilities			\$ 504,033	\$ 460,403
Long-term liabilities			\$ 420,181	\$ 324,446

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

The differences between generally accepted accounting principles in the United States and Japan did not materially impact the amounts reflected in the Company's financial statements.

On August 31, 2007, the Company completed the sale of Overture Japan to Yahoo! Japan for cash consideration of approximately \$20 million, subject to certain adjustments which are expected to be finalized in the fourth quarter of 2007. The transaction was accounted for as a sale of assets. In connection with the transaction, in the third quarter of 2007, the Company recorded a pre-tax gain of \$6 million in Other income, net. The Company also entered into a commercial arrangement with Yahoo! Japan in which the Company will provide

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

advertising and search marketing services to Yahoo! Japan for a service fee beginning on September 1, 2007. Accordingly, the Company will no longer recognize marketing services revenue and traffic acquisition costs 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. Beginning in September 2007, the Company will record marketing services revenue from Yahoo! Japan for the provision of search marketing services based on a percentage of advertising revenues earned by Yahoo! Japan for the delivery of sponsored search results.

**Note 5 GOODWILL**

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 are as follows (in thousands):

	<u>United States</u>	<u>International</u>	<u>Total</u>
Balance as of January 1, 2007	\$ 1,658,879	\$ 1,309,678	\$ 2,968,557
Acquisitions and other(*)	476,889	11,125	488,014
Foreign currency translation adjustments	—	75,725	75,725
Balance as of September 30, 2007	<u>\$ 2,135,768</u>	<u>\$ 1,396,528</u>	<u>\$ 3,532,296</u>

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

**Note 6 INTANGIBLE ASSETS, NET**

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

	<u>December 31, 2006</u>	<u>September 30, 2007</u>		
	<u>Net</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization (*)</u>	<u>Net</u>
Customer, affiliate, and advertiser related relationships	\$ 96,599	\$ 342,463	\$ (229,213)	\$ 113,250
Developed and acquired technology and intellectual property rights	210,446	593,755	(284,218)	309,537
Trademark, trade name, and domain name	98,777	208,638	(114,069)	94,569
Total intangible assets, net	<u>\$ 405,822</u>	<u>\$ 1,144,856</u>	<u>\$ (627,500)</u>	<u>\$ 517,356</u>

(\*) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately \$25 million as of September 30, 2007 since the acquisition of these intangible assets.

For the three months ended September 30, 2006 and 2007, the Company recognized amortization expense for intangible assets of \$71 million and \$68 million, respectively, including \$38 million in cost of revenues for both periods. For the nine months ended September 30, 2006 and 2007, the Company recognized amortization expense for intangible assets of \$185 million and \$182 million, respectively, including \$87 million and \$100 million in cost of revenues, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2007 and each of the succeeding years is as follows: three months ending December 31, 2007: \$59 million; 2008: \$208 million; 2009: \$102 million; 2010: \$71 million; 2011: \$35 million and cumulatively thereafter: \$42 million.

During the three and nine months ended September 30, 2007, the Company acquired \$55 million and \$75 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 September 30, 2007.

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## Notes to Condensed Consolidated Financial Statements — (Continued)

**Note 7 OTHER INCOME, NET**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Interest and investment income	\$ 35,340	\$ 30,800	\$ 108,741	\$ 102,638
Investment gains (losses), net	1,528	(16)	(2,649)	(3,676)
Gain on divestiture of Yahoo! China(*)	14,316	407	15,158	1,224
Gain on sale of Overture Japan	—	6,083	—	6,083
Other	(916)	6,474	544	3,666
Total other income, net	<u>\$ 50,268</u>	<u>\$ 43,748</u>	<u>\$ 121,794</u>	<u>\$ 109,935</u>

(\*) Represents non-cash gains arising from reductions in the Company's ownership in Alibaba, which are treated as incremental sales of additional equity interests in Yahoo! China.

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

**Note 8 COMPREHENSIVE INCOME**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Net income	\$ 158,529	\$ 151,286	\$ 482,718	\$ 454,277
Change in net unrealized gains on available-for-sale securities, net of tax and reclassification adjustments	5,692	12,426	25,891	1,224
Foreign currency translation adjustment	13,462	66,283	113,530	124,970
Other comprehensive income	19,154	78,709	139,421	126,194
Comprehensive income	<u>\$ 177,683</u>	<u>\$ 229,995</u>	<u>\$ 622,139</u>	<u>\$ 580,471</u>

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

	December 31, 2006	September 30, 2007
Unrealized gains on available-for-sale securities, net of tax	\$ 21,800	\$ 23,023
Foreign currency translation, net of tax	128,705	253,676
Accumulated other comprehensive income	<u>\$ 150,505</u>	<u>\$ 276,699</u>

**Note 9 SHORT-TERM DEBT**

In April 2003, the Company issued \$750 million of zero coupon senior convertible notes (the "Notes") due April 1, 2008, resulting in net proceeds to the Company of approximately \$733 million after transaction fees of

## YAHOO! INC.

## Notes to Condensed Consolidated Financial Statements — (Continued)

\$17 million, which have been deferred and are included on the condensed consolidated balance sheets in other current assets. As of September 30, 2007, \$1.7 million of the transaction fees remain to be amortized. The Notes were issued at par and bear no interest. The Notes are convertible into Yahoo! common stock at a conversion price of \$20.50 per share, which would result in the issuance of an aggregate of approximately 37 million shares, subject to adjustment upon the occurrence of specified events. Each \$1,000 principal amount of the Notes will initially be convertible into 48.78 shares of Yahoo! common stock.

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

As of September 30, 2007, the market price condition for convertibility of the Notes was satisfied with respect to the fiscal quarter beginning on October 1, 2007 and ending on December 31, 2007. During this period, holders of the Notes will be able to convert their Notes into shares of Yahoo! common stock at the rate of 48.78 shares of Yahoo! common stock for each Note. The Notes will also be convertible into shares of Yahoo! common stock in subsequent fiscal quarters, if any, with respect to which the market price condition for convertibility is met.

As of September 30, 2007 the fair value of the Notes was approximately \$1 billion based on quoted market prices. The shares issuable upon conversion of the Notes have been included in the computation of diluted net income per share since the Notes were issued. To the extent that holders of the Notes do not exercise their conversion rights prior to the maturity date of April 1, 2008, the Company will be obligated to pay in cash the principal amount of any such Notes that remain outstanding on such maturity date. Consequently, the Notes have been classified as short-term debt in the condensed consolidated balance sheet as of September 30, 2007.

**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 nine months ended September 30, 2007 is summarized as follows (in thousands, except per share amounts):

	<u>Shares</u>	<u>Weighted Average Exercise Price per Share</u>
Outstanding at December 31, 2006	189,655	\$ 29.46
Options granted	34,355	\$ 26.60
Options assumed	5,040	\$ 1.94
Options exercised(*)	(16,247)	\$ 12.02
Options cancelled/forfeited/expired	(25,726)	\$ 34.59
Outstanding at September 30, 2007	<u>187,077</u>	<u>\$ 29.01</u>

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

As of September 30, 2007, there was \$578 million of unrecognized stock-based compensation cost related to unvested stock options which is expected to be recognized over a weighted average period of 3.10 years.

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## Notes to Condensed Consolidated Financial Statements — (Continued)

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

	Stock Options		1996 Employee Stock Purchase Plan	
	Three Months Ended		Three Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.9%	4.5%	5.0%	4.5%
Expected volatility	34.0%	34.2%	31.7%	30.3%
Expected life (in years)	3.8	3.8	1.2	1.0

	Stock Options		1996 Employee Stock Purchase Plan	
	Nine Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	4.9%	4.7%	5.0%	4.5%
Expected volatility	34.1%	31.7%	31.7%	30.3%
Expected life (in years)	3.8	3.8	1.2	1.0

Restricted stock awards activity for the nine months ended September 30, 2007 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2006	12,281	\$ 34.53
Granted	15,240	\$ 26.81
Assumed	3,964	\$ 26.81
Vested	(696)	\$ 34.51
Forfeited	(3,065)	\$ 31.86
Unvested at September 30, 2007	<u>27,724</u>	<u>\$ 29.48</u>

As of September 30, 2007, there was \$477 million of unrecognized stock-based compensation cost related to unvested restricted stock awards which is expected to be recognized over a weighted average period of 1.76 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"). For each of the years 2006 to 2008, as the CEO, Mr. Semel was eligible to receive a discretionary annual bonus payable in the form of a fully vested non-qualified stock option for up to 1 million shares with an exercise price equal to the closing trading price of the Company's common stock on the date of the grant.

On June 18, 2007, the executive retention compensation 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 related to forfeitures of equity awards previously granted to Mr. Semel was reversed.

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## Notes to Condensed Consolidated Financial Statements — (Continued)

**Note 11 STOCK REPURCHASE PROGRAMS**

In March 2005, the Company's Board of Directors authorized a stock repurchase program for the Company to repurchase up to \$3.0 billion of its outstanding shares of common stock over the next five years, dependent on market conditions, share price and other factors. The Company had substantially completed the \$3.0 billion authorized stock repurchase program as of September 30, 2006.

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

In the nine months ended September 30, 2007, the Company repurchased 49.1 million shares of common stock directly at an average price of \$27.77 per share. Total cash consideration for the repurchased stock was \$1,363 million.

In addition, upon the vesting of certain restricted stock awards during the nine months ended September 30, 2007, 70,000 shares of such vested stock were reacquired by the Company to satisfy tax withholding obligations. These repurchased shares were recorded as \$2 million of treasury stock and accordingly reduced the number of common shares outstanding by 70,000.

During the three months ended September 30, 2007, a \$250 million structured stock repurchase transaction, which was entered into in the first quarter of 2007, matured and settled. On the maturity date, the Company received 8.4 million shares of its common stock at an effective buy-back price of \$29.80 per share.

Treasury stock is accounted for under the cost method.

**Note 12 COMMITMENTS AND CONTINGENCIES**

**Operating Lease Commitments.** The Company leases office space and data centers under operating lease agreements with original lease periods of up to 23 years, expiring between 2007 and 2027.

A summary of gross and net lease commitments as of September 30, 2007 follows (in millions):

	<u>Gross Lease Commitments</u>	<u>Sublease Income</u>	<u>Net Lease Commitments</u>
Three months ending December 31, 2007	\$ 27	\$ (1)	\$ 26
Years ending December 31,			
2008	114	(4)	110
2009	113	(3)	110
2010	100	(2)	98
2011	84	(1)	83
2012	75	(1)	74
Due after 5 years	346	—	346
Total gross and net lease commitments	<u>\$ 859</u>	<u>\$ (12)</u>	<u>\$ 847</u>

**Affiliate Commitments.** In connection with contracts to provide sponsored search and/or display advertising services to affiliates, the Company is obligated to make payments, which represent traffic acquisition costs, to its affiliates. As of September 30, 2007, these commitments totaled \$266 million, of which \$10 million will be payable in the remainder of 2007, \$84 million will be payable in 2008, \$111 million will be payable in 2009, and \$61 million will be payable in 2010.

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**Intellectual Property Rights.** In connection with the licensing of certain intellectual property, the Company is obligated to invest up to \$141 million through July 2008. To the extent the licensed intellectual property will benefit future periods, the Company will capitalize such payments and amortize them over the useful life of the related intellectual property.

**Other Commitments.** In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements, services to be provided by the Company, or from intellectual property claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as 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.

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

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

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court, Southern District of New York against certain underwriters involved in Overture Services Inc.'s ("Overture") initial public offering, Overture, and certain of Overture's current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings of their common stock since the

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mid-1990s. All of these lawsuits were consolidated for pretrial purposes before Judge Shira Scheindlin. On April 19, 2002, plaintiffs filed an amended complaint, alleging Rule 10b-5 claims of fraud. 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 Rule 10b-5 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. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings. Since class certification, 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 have filed amended master allegations and amended complaints in the six test cases. It is uncertain whether there will be any future settlement. If a settlement is not reached, and litigation against Overture continues, the Company intends to defend the case vigorously.

On May 11, 2007, the first of two purported securities class action lawsuits was filed against Yahoo! Inc. and certain of its officers and members of the Board of Directors. The first lawsuit was filed in the United States District Court, Central District of California by plaintiff Ellen Rosenthal Brodsky and the second lawsuit was filed in the United States District Court, Central District of California by plaintiff Manfred Hacker. The plaintiffs allege, among other things, violation of the Securities Exchange Act of 1934 sections 10(b) and 20(a), as well as Rule 10b-5. The plaintiffs generally claim that Yahoo! issued false, deceptive or misleading statements concerning its advertising business, financial results, and sales and growth potential between April 8, 2004 and July 18, 2006. The complaints seek unspecified compensatory damages, injunctive relief, costs and attorneys' fees. The Company believes these cases are without merit and intends to defend them vigorously.

On May 15, 2007, the first of two shareholder derivative actions was filed in the Superior Court of Santa Clara County by plaintiff Greg Brockwell against certain officers and members of the Board of Directors of Yahoo! Inc. purportedly on behalf of Yahoo! Inc. The second derivative action was filed in the United States District Court for the Central District of California on June 14, 2007 by plaintiff Jill Watkins. The derivative actions, which include allegations of substantially identical facts to the purported securities class actions, attempt to state various claims under California law for trading by defendants on alleged material non-public information, and allegations of breaches of fiduciary duties relating to financial reporting, misappropriation of information, abuse of control and waste of corporate assets. The federal derivative action includes an additional claim for alleged violation of Section 10(b) of the Securities Exchange Act of 1934. The derivative actions seek unspecified damages, equitable and injunctive relief, including, among other things, changes to corporate governance and internal procedures, restitution and disgorgement of profits and compensation received by defendants, costs and attorneys' fees.

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. However, the Company may incur substantial expenses in defending against such claims. In the event of a determination adverse to Yahoo! or its subsidiaries, 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.

**Note 13 SEGMENTS**

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



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## Notes to Condensed Consolidated Financial Statements — (Continued)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007
Marketing services:				
Owned and Operated sites	\$ 741,919	\$ 921,908	\$ 2,210,901	\$ 2,631,599
Affiliate sites	628,455	621,693	1,926,572	1,866,653
Marketing services	1,370,374	1,543,601	4,137,473	4,498,252
Fees	209,948	223,905	585,758	639,024
Total revenues	<u>\$ 1,580,322</u>	<u>\$ 1,767,506</u>	<u>\$ 4,723,231</u>	<u>\$ 5,137,276</u>

**Note 14 INCOME TAXES**

During the three months ended September 30, 2007, the Company reduced its provision for income taxes primarily due to a benefit recorded during the quarter attributable to the release of deferred tax liabilities in connection with changes to its worldwide entity structure.

During the nine months ended September 30, 2007, the Company reduced its provision for income taxes primarily due to a benefit recorded in the second quarter of 2007 resulting from a reduction in nondeductible executive compensation expense and a benefit recorded in the third quarter of 2007 due to the release of deferred tax liabilities in connection with changes to its worldwide entity structure.

In addition, in the quarter ended September 30, 2007, the Company determined that income tax benefits of \$76 million relating to acquired net operating losses should have been recognized instead of net operating losses resulting from the exercise of employee stock options. Accordingly, in the third quarter of 2007, the Company recorded a reduction of deferred tax assets and additional paid-in-capital in the balance sheet and reduced the amount that would have otherwise been recorded as excess tax benefits from stock-based awards in the statement of cash flows. There was no income statement effect for this item.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty of Income Taxes" ("FIN 48") on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$46 million increase to the January 1, 2007 balance of retained earnings related to adjustments to certain unrecognized tax benefits. At January 1, 2007, the Company had approximately \$620 million in total unrecognized tax benefits.

The total unrecognized tax benefits of \$620 million include approximately \$306 million related to a capital loss resulting from a subsidiary restructuring transaction and approximately \$124 million related to research and development tax credit carry-forwards attributable to the exercise of employee stock options in prior years. These amounts have been netted against the related deferred tax assets. The remaining \$190 million is recorded within deferred and other long-term tax liabilities on the Company's condensed consolidated balance sheet as of January 1, 2007.

The total unrecognized tax benefits of \$620 million at January 1, 2007 comprised \$443 million that, if recognized, would reduce the effective income tax rate in future periods; \$4 million that, if recognized, would result in a reduction to goodwill; \$104 million that, if recognized, would result in a credit to additional paid-in capital; and \$69 million related to federal tax benefit on state unrecognized tax benefits, if recognized. However, one or more of these unrecognized tax benefits could be subject to a valuation allowance if and when recognized in a future period, which could impact the timing of any related effective tax rate benefit.

During the three and nine months ended September 30, 2007, the Company recorded an increase in its total unrecognized tax benefits of approximately \$16 million and \$54 million, respectively.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements — (Continued)

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The amount of interest and penalties accrued upon the adoption of FIN 48 and at September 30, 2007 was immaterial.

The Company files income tax returns in the United States (“U.S.”) on a federal basis and in many U.S. state and foreign jurisdictions. The tax years 1995 to 2006 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax. Over the next twelve months, our existing tax positions are expected to generate an increase in total unrecognized tax benefits.

**Note 15 SUBSEQUENT EVENTS**

**Zimbra.** On October 4, 2007, the Company completed the acquisition of Zimbra, Inc. (“Zimbra”), a provider of e-mail and collaboration software. The Company believes the acquisition of Zimbra will further strengthen its global leadership position in web mail and expand the Company’s presence in universities, businesses and internet service providers. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding options and restricted stock units) in Zimbra for approximately \$350 million. Zimbra shareholders were paid in cash and outstanding Zimbra options and restricted stock units were assumed and will be exercisable for, or settled in, shares of Yahoo! common stock.

**BlueLithium.** On October 15, 2007, the Company completed the acquisition of BlueLithium, Inc. (“BlueLithium”), an online global advertising network. The Company believes that the acquisition of BlueLithium is a key element of the Company’s strategy to create the largest and most effective online advertising network. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding options and restricted stock units) in BlueLithium for approximately \$300 million. BlueLithium shareholders were paid in cash and outstanding BlueLithium options and restricted stock units were assumed and will be exercisable for, or settled in, shares of Yahoo! common stock.

**Alibaba.com Ltd. Initial Public Offering.** As part of the November 6, 2007 initial public offering on the Hong Kong Stock Exchange of the Alibaba Group’s business-to-business e-commerce subsidiary, Alibaba.com Ltd., the Company purchased 57,481,000 shares, or approximately 1%, of Alibaba.com Ltd. for the total purchase price of approximately \$100 million.

## **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 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;
- expectations about our on-going strategic initiatives;
- anticipated capital expenditures;
- impact of recent acquisitions on our business and evaluation of 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 Quarterly Report on Form 10-Q. 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 and publishers by creating indispensable experiences built on trust. To our users, we provide our owned and operated online properties and services (“Yahoo! Properties” or “Owned and Operated sites”), as well as access to third-party content and services. To our advertisers and publishers, we provide a range of marketing solutions and tools that enable businesses to reach users who visit Yahoo! Properties and to reach the users of our distribution network of third-party entities (referred to as “affiliates”) who have integrated our advertising offerings into their websites (referred to as “Affiliate sites”) or their other offerings.

We offer a broad range of innovative and high-quality Internet products and services that are designed to provide our users with the power to connect, communicate, create, access, and share information online. We seek to provide efficient and effective marketing services for advertisers to reach our global audience of users. Our focus is on engaging more deeply with users and increasing the user base on Yahoo! Properties, thereby enhancing value for our advertisers. We believe that we can increase our existing and potential user base and our users’ engagement on Yahoo! Properties not only by offering compelling Internet services, but also by effectively integrating search, community, personalization and content to create a more powerful user experience.

Many of our services are free to users. We generate revenues by providing marketing services to advertisers across a majority of Yahoo! Properties and on the websites of our affiliates and by charging our users for premium services. We classify these revenues as either marketing services or fees. The majority of our offerings are available globally in more than 20 languages. We manage and measure our business geographically. Our principal geographies are the United States and International.

**Third Quarter Highlights**

**Revenues**

Our revenues for the third quarter of 2007 increased 12 percent year over year to \$1.8 billion, with unique users up 14 percent year over year, fee paying users up 21 percent year over year, and page views up 20 percent year over year.

**Income from Operations**

Our operating income for the third quarter of 2007 declined by \$52 million primarily due to the year over year increase in operating expenses of \$180 million, compared to the same period in 2006.

**Stock Repurchases**

We repurchased approximately 14.6 million shares of our common stock directly and had a structured stock repurchase transaction for approximately 8.4 million shares settle in the third quarter of 2007 for a total of 23.0 million shares at an average price of \$26.09 per share.

<u>Operating Highlights</u>	<u>Three Months Ended</u> <u>September 30,</u>		<u>2006-2007</u> <u>Change</u>	<u>Nine Months Ended</u> <u>September 30,</u>		<u>2006-2007</u> <u>Change</u>
	<u>2006</u>	<u>2007</u>		<u>2006</u>	<u>2007</u>	
	(In thousands)					
Revenues	\$1,580,322	\$1,767,506	\$187,184	\$4,723,231	\$5,137,276	\$ 414,045
Income from operations	\$ 202,340	\$ 150,192	\$(52,148)	\$ 633,139	\$ 504,176	\$(128,963)

<u>Cash Flow Highlights</u>	<u>Nine Months Ended</u> <u>September 30,</u>		<u>2006-2007</u> <u>Change</u>
	<u>2006</u>	<u>2007</u>	
	(In thousands)		
Net cash provided by operating activities	\$ 1,204,219	\$ 1,297,015	\$ 92,796
Net cash used in investing activities	\$ (58,227)	\$ (120,707)	\$(62,480)
Net cash used in financing activities	\$(1,423,428)	\$(1,250,731)	\$172,697

We believe the search queries, 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. In the fourth quarter of 2006, we launched a new search marketing system, referred to as Project Panama, and we are nearing completion of our migration plan for our active advertisers worldwide on to the new system. We believe the new search marketing system, including the new ranking model which was launched in the United States in the first quarter of 2007, will enable us to provide a more relevant search experience to our users, more valuable customer leads to advertisers, and additional opportunities to our affiliate and distribution partners. 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 new search marketing system, coupled with the growth of the Internet as an advertising medium will enable us to increase our revenues for the remainder of 2007 compared to 2006.

**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 September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Revenues	100%	100%	100%	100%
Cost of revenues	43	42	42	42
Gross profit	57	58	58	58
Operating expenses:				
Sales and marketing	21	23	21	23
Product development	13	16	13	15
General and administrative	8	9	8	8
Amortization of intangibles	2	1	2	2
Total operating expenses	44	49	44	48
Income from operations	13	9	14	10
Other income, net	3	2	2	2
Income before income taxes, earnings in equity interests and minority interests	16	11	16	12
Provision for income taxes	(8)	(4)	(7)	(5)
Earnings in equity interests	2	2	1	2
Minority interests in operations of consolidated subsidiaries	0	0	0	0
Net income	10%	9%	10%	9%

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

	Three Months Ended September 30,				Percent Change	Nine Months Ended September 30,				Percent Change
	2006	(*)	2007	(*)		2006	(*)	2007	(*)	
Marketing services:										
Owned and Operated sites	\$ 741,919	47%	\$ 921,908	52%	24%	\$2,210,901	47%	\$2,631,599	52%	19%
Affiliate sites	628,455	40%	621,693	35%	(1)%	1,926,572	41%	1,866,653	36%	(3)%
Marketing services	\$1,370,374	87%	\$1,543,601	87%	13%	\$4,137,473	88%	\$4,498,252	88%	9%
Fees	209,948	13%	223,905	13%	7%	585,758	12%	639,024	12%	9%
Total revenues	\$1,580,322	100%	\$1,767,506	100%	12%	\$4,723,231	100%	\$5,137,276	100%	9%

(\*) Percent of total revenues.

As used below, “Page Views” is defined as our internal estimates of the total number of web pages viewed by users on Owned and Operated sites and “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.

The Company currently generates marketing services revenues principally from display advertising on Owned and Operated sites and sponsored search results generated from searches on Owned and Operated sites and on Affiliate sites. In addition, the Company receives 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 sites and Affiliate sites and display advertising on Affiliate sites. The revenues and related volume metrics from these additional sources are not currently material and are excluded from the discussion and

calculation of average revenue per Page View on Owned and Operated sites and average revenue per search on Affiliate sites that follows.

**Marketing Services Revenues from Owned and Operated Sites.** Marketing services revenue from Owned and Operated sites, for the three months ended September 30, 2007 increased by \$180 million, or 24 percent, as compared to the same period in 2006. Marketing services revenue from Owned and Operated sites for the nine months ended September 30, 2007 increased by \$421 million, or 19 percent, as compared to the same period in 2006. Factors leading to growth in overall marketing services revenue included an increase in our user base and activity levels on Yahoo! Properties, which contributed to a higher volume of search queries, page views and click-throughs. We expect marketing services revenue from our Owned and Operated sites to continue growing at a rate faster than total revenue.

Our number of unique users worldwide as of September 30, 2007 was approximately 14 percent higher than the number of unique users as of September 30, 2006. Unique users refers to our internal estimates of the number of people who visited Yahoo! Properties in a given month.

The number of Page Views (including viewed pages of search results) on our Owned and Operated sites increased by approximately 20 percent and 18 percent in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006. The increase in the volume of page views is attributable to an increased number of users and enhancements to existing properties.

The average revenue per Page View increased by approximately 3 percent and 1 percent in the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006, primarily as a result of the positive impact of Project Panama.

**Marketing Services Revenues from Affiliate sites.** Marketing services revenue from Affiliate sites for the three months ended September 30, 2007 decreased \$7 million, or 1 percent, as compared to the same period in 2006. Marketing services revenue from Affiliate sites for the nine months ended September 30, 2007 decreased \$60 million, or 3 percent, as compared to the same period in 2006. The year over year decline was primarily due to declining revenues from our affiliate network.

The number of searches on Affiliate sites increased by approximately 2 percent and 3 percent in the three and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006. The increase in the volume of searches is primarily attributed to the increased number of affiliates.

The average revenue per search on our Affiliate sites decreased by 1 percent and 3 percent in the three and nine months ended September 30, 2007, respectively, compared to the same periods in 2006, primarily as a result of a decline in revenue from certain Affiliate sites and the impact of our on-going traffic quality initiatives.

**Fees Revenue.** Fees revenue for the three months ended September 30, 2007 increased \$14 million, or 7 percent, as compared to the same period in 2006. Fees revenue for the nine months ended September 30, 2007 increased \$53 million, or 9 percent, as compared to the same period in 2006. The year over year growth is associated with an increase in the number of paying users for our fee-based services, which numbered 18.7 million as of September 30, 2007, compared to 15.5 million as of September 30, 2006, an increase of 21 percent. Our increased base of paying users grew across most of our offerings, with the largest growth generated from new Internet broadband paying users. Our fee-based services include Internet broadband services, sports, music, games, personals, and premium mail offerings, as well as our services for small businesses. Average monthly revenue per paying user slightly decreased to the lower end of our \$3.00 to \$3.50 range for the three and nine months ended September 30, 2007, compared to the same periods in 2006. The decline in average monthly revenue per paying user reflects the continued growth of paying users in our services offset by lower fees.

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

	Three Months Ended				Percent Change	Nine Months Ended				Percent Change
	September 30,					September 30,				
	2006	(*)	2007	(*)		2006	(*)	2007	(*)	
Cost of revenues	\$681,120	43%	\$740,200	42%	9%	\$1,984,830	42%	\$2,136,849	42%	8%
Sales and marketing	\$331,025	21%	\$410,936	23%	24%	\$ 988,030	21%	\$1,168,785	23%	18%
Product development	\$202,079	13%	\$274,682	16%	36%	\$ 628,399	13%	\$ 795,268	15%	27%
General and administrative	\$130,984	8%	\$161,511	9%	23%	\$ 391,198	8%	\$ 449,934	8%	15%
Amortization of intangibles	\$ 32,774	2%	\$ 29,985	1%	(9)%	\$ 97,635	2%	\$ 82,264	2%	(16)%

(\*) Percent of total revenues.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2007	2006	2007
Cost of revenues	\$ 1,689	\$ 2,555	\$ 4,956	\$ 6,919
Sales and marketing	42,470	70,353	119,826	172,731
Product development	38,260	51,603	112,147	164,354
General and administrative	39,072	21,029	92,926	70,321
Total stock-based compensation expense	<u>\$121,491</u>	<u>\$145,540</u>	<u>\$329,855</u>	<u>\$414,325</u>

See Note 10 — “Stock-Based Compensation” in 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 (“TAC”) and other expenses associated with the production and usage of Yahoo! Properties. TAC consists of payments made to affiliates who have integrated our advertising offerings into their websites and payments made to companies that direct consumer and business traffic to Yahoo! Properties. Other cost of revenues consists of fees paid to third parties for content included on our online media properties, Internet connection charges, data center costs, server equipment depreciation, technology license fees, amortization of acquired intellectual property rights and developed technology, and compensation related expenses including stock-based compensation expense.

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

	Three Months Ended				Percent Change	Nine Months Ended				Percent Change
	September 30,					September 30,				
	2006	(*)	2007	(*)		2006	(*)	2007	(*)	
TAC	\$458,855	29%	\$484,905	27%	6%	\$1,391,411	29%	\$1,427,833	28%	3%
Other cost of revenues	222,265	14%	255,295	15%	15%	593,419	13%	709,016	14%	19%
Cost of revenues	<u>\$681,120</u>	<u>43%</u>	<u>\$740,200</u>	<u>42%</u>	<u>9%</u>	<u>\$1,984,830</u>	<u>42%</u>	<u>\$2,136,849</u>	<u>42%</u>	<u>8%</u>

(\*) Percent of total revenues.

Cost of revenues for the three months ended September 30, 2007 increased \$59 million, or 9 percent, as compared to the same period in 2006. The increase included \$26 million of additional TAC, as well as an increase of \$33 million in other costs of revenues. The year over year increase in TAC of 6 percent for the three months ended September 30, 2007 was mainly driven by increasing average TAC rates, changes in the mix of revenues, and the addition of TAC for display advertising in 2007, slightly offset by a decrease of 1 percent in marketing services revenues from Affiliate sites. The year over year increase of \$33 million for the three months ended September 30, 2007 in other cost of revenues included increases of \$18 million in the depreciation of server equipment, information technology assets and maintenance costs, \$6 million in Internet and telecom connection charges

and data center costs and \$5 million in amortization of developed technology and intellectual property rights acquired through acquisitions. 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. Increased Internet connection charges and data center costs supported our growing audience of users, traffic, and new offerings on Yahoo! Properties. The increase in the amortization of developed technology and intellectual property rights acquired resulted from our continued investments in, and acquisitions of, businesses and technology.

Cost of revenues for the nine months ended September 30, 2007 increased \$152 million, or 8 percent, as compared to the same period in 2006. The increase included \$36 million of additional TAC, as well as an increase of \$116 million in other cost of revenues. The year over year increase in TAC of 3 percent for the nine months ended September 30, 2007 was mainly driven by increases in international TAC rates and the addition of TAC for display advertising in 2007, slightly offset by a decrease of 3 percent in marketing services revenues from Affiliate sites. The year over year increase for the nine months ended September 30, 2007 in other cost of revenues included increases of \$60 million in the depreciation of server equipment, information technology assets and maintenance costs, \$25 million in amortization of developed or acquired technology and intellectual property rights, \$28 million in Internet and telecom connection charges and data center costs. 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 increase in the amortization of developed technology and intellectual property rights acquired resulted from our continued investments in, and acquisitions of, businesses and technology. Increased Internet and telecom connection charges and data center costs supported our growing audience of users, traffic, and new offerings on Yahoo! Properties.

**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 September 30, 2007 increased \$80 million, or 24 percent, as compared to the same period in 2006. The year over year increase in sales and marketing expenses for the three months ended September 30, 2007 was largely due to increased compensation expense. Compensation expense increased approximately \$67 million for the three months ended September 30, 2007, including an additional \$28 million of stock-based compensation expense, due to an increase in our sales and marketing headcount as we expanded our presence in certain territories to support our growing advertiser base. Other sales and marketing expenses increased approximately \$16 million primarily due to increased temporary help, the integration of acquisitions during the quarter, and expenses related to new and expanded facilities. These increases were partially offset by a decrease in marketing expenses of approximately \$8 million, due to higher expenses related to a marketing campaign in the same period of 2006.

Sales and marketing expenses as a percentage of revenues were 23 percent (including 4 percent related to stock-based compensation expense) and 21 percent (including 3 percent related to stock-based compensation expense) for the third quarter of 2007 and 2006, respectively.

Sales and marketing expenses for the nine months ended September 30, 2007 increased \$181 million, or 18 percent, as compared to the same period in 2006. The year over year increase in sales and marketing expenses for the nine months ended September 30, 2007 was largely due to increased compensation expense. Compensation expense increased approximately \$141 million for the nine months ended September 30, 2007, including an additional \$53 million of stock-based compensation expense, due to an increase in our sales and marketing headcount as we expanded our presence in certain territories to support our growing advertiser base. Consulting services costs increased \$17 million, primarily due to temporary support required and to assist with the implementation of Project Panama. Other sales and marketing expenses increased approximately \$14 million primarily due to the integration of acquisitions during the quarter and expenses related to new and expanded facilities.

Sales and marketing expenses as a percentage of revenues were 23 percent (including 3 percent related to stock-based compensation expense) and 21 percent (including 3 percent related to stock-based compensation expense) for the nine months ended September 30, 2007 and 2006, 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, classification and organization of listings within Yahoo! Properties, research and development, and Yahoo!'s technology platforms and infrastructure. Depreciation expense and other operating costs are also included in product development.

Product development expenses for the three months ended September 30, 2007 increased \$73 million, or 36 percent, as compared to the same period in 2006. Approximately \$53 million of the increase for the three months ended September 30, 2007 was related to compensation expense including an additional \$13 million of stock-based 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. Other product and development expenses increased approximately \$19 million primarily due to increased temporary help, the integration of acquisitions during the quarter, increased depreciation expense due to our continued investments in information technology assets and server equipment, and expenses related to new and expanded facilities.

Product development expenses as a percentage of revenues were 16 percent (including 3 percent related to stock-based compensation expense) and 13 percent (including 2 percent related to stock-based compensation expense) for the third quarter of 2007 and 2006, respectively.

Product development expenses for the nine months ended September 30, 2007 increased \$167 million, or 27 percent, as compared to the same period in 2006. Approximately \$127 million of the increase for the nine month period was related to compensation expense, including an additional \$52 million of stock-based compensation expense (net of the \$8 million incremental increase to stock-based compensation expense related to the departure of an executive officer during the second quarter of 2007). 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. Depreciation expense increased \$13 million mainly due to our continued investments in information technology assets and server equipment. Other product and development expenses increased approximately \$28 million primarily due to increased temporary help, the integration of acquisitions during the quarter, and expenses related to new and expanded facilities.

Product development expenses as a percentage of revenues were 15 percent (including 3 percent related to stock-based compensation expense) and 13 percent (including 2 percent related to stock-based compensation expense) for the nine months ended September 30, 2007 and 2006, respectively.

**General and Administrative.** General and administrative expenses consist primarily of compensation related expenses (including stock-based compensation expense) and fees for professional services.

General and administrative expenses for the three months ended September 30, 2007 increased \$31 million, or 23 percent, compared to the same period in 2006. The year over year increase was primarily due to an \$18 million increase in professional services to support the growth in headcount and consulting projects. During the third quarter of 2006 we had an adjustment for the reversal of an acquisition related earn-out accrual of \$10 million.

General and administrative expenses as a percentage of revenues were 9 percent (including 1 percent related to stock-based compensation expense) and 8 percent (including 2 percent related to stock-based compensation expense) for the third quarter of 2007 and 2006, respectively.

General and administrative expenses for the nine months ended September 30, 2007 increased \$59 million, or 15 percent, compared to the same period in 2006. Compensation expense increased by \$13 million (net of the \$16 million reduction in expense due to the reversal of stock-based compensation expense related to Terry Semel's resignation as Chief Executive Officer of the Company during the second quarter of 2007). Professional services to support the growth in headcount and consulting projects increased \$13 million. Our facility related expenses increased \$13 million mainly due to our new and expanded facilities and depreciation increased \$6 million mainly due to our continued investments in information technology assets and server equipment. Additionally during the third quarter of 2006 we had an adjustment for the reversal of an acquisition related earn-out accrual of \$10 million.

General and administrative expenses as a percentage of revenues were 8 percent (including 1 percent related to stock-based compensation expense) and 8 percent (including 2 percent related to stock-based compensation expense) for the nine months ended September 30, 2007 and 2006, 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 the cost of revenues and not in amortization of intangibles.

Amortization of intangibles was approximately \$30 million for the three months ended September 30, 2007, compared to \$33 million for the same period in 2006. Amortization of intangibles was 1 percent and 2 percent of revenues for the third quarters of 2007 and 2006, respectively. The year over year decrease in amortization of intangibles was primarily the result of more intangible assets being fully amortized as of September 30, 2007 compared to September 30, 2006.

Amortization of intangibles was approximately \$82 million for the nine months ended September 30, 2007, compared to \$98 million for the same period in 2006. Amortization of intangibles was 2 percent of revenues for both the nine months ended September 30, 2007 and 2006, respectively. The year over year decrease in amortization of intangibles was primarily the result of more intangible assets being fully amortized as of September 30, 2007 compared to September 30, 2006. As of September 30, 2007, we had net intangible assets of \$517 million on our condensed consolidated balance sheet, including acquired intellectual property rights and developed technology which are amortized in cost of revenues.

During the three and nine months ended September 30, 2007, we acquired \$55 million and \$75 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 September 30, 2007.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Interest and investment income	\$35,340	\$30,800	\$108,741	\$102,638
Investment gains (losses), net	1,528	(16)	(2,649)	(3,676)
Gain on divestiture of Yahoo! China	14,316	407	15,158	1,224
Gain on sale of Overture Japan	—	6,083	—	6,083
Other	(916)	6,474	544	3,666
Total other income, net	<u>\$50,268</u>	<u>\$43,748</u>	<u>\$121,794</u>	<u>\$109,935</u>

Other income, net was \$44 million for the three months ended September 30, 2007, a decrease of \$7 million compared to the same period in 2006. Interest and investment income for the third quarter of 2007 decreased mainly from lower average invested balances, compared to the same period in 2006. Average interest rates were approximately 4.2 percent in the third quarter of 2007, compared to 3.9 percent in the same period in 2006. Our foreign currency transaction gains, net also increased during the third quarter of 2007. Additionally, we recorded a non-cash gain in the third quarter of 2007 arising from the reduction in our ownership in Alibaba Group Holding Limited (“Alibaba” or “the Alibaba Group”), which was treated as an incremental sale of additional equity interests in Yahoo! China of less than \$1 million compared to non-cash gains of \$14 million for this item in the third quarter of 2006 as a result of Alibaba’s conversion of its outstanding convertible debt.

Other income, net was \$110 million for the nine months ended September 30, 2007, a decrease of \$12 million compared to the same period in 2006. Interest and investment income for the nine months ended September 30, 2007 decreased mainly from lower average invested balances, compared to the same period in 2006. Average interest rates were approximately 4.3 percent in the nine months ended September 30, 2007, compared to 3.8 percent in the same period in 2006. Our foreign currency transaction gains, net also increased during the nine months ended September 30, 2007. Additionally, our recorded non-cash gain arising from the reduction in our ownership in Alibaba which was treated as an incremental sale of additional equity interests in Yahoo! China was \$1 million for

the nine months ended September 30, 2007 compared to non-cash gains of \$15 million for this item in the nine months ended September 30, 2006 as a result of Alibaba's conversion of its outstanding convertible debt.

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

**Income Taxes.** The effective tax rate for the three months ended September 30, 2007 was 41 percent, compared to 49 percent for the same period in 2006. The effective tax rate for the nine months ended September 30, 2007 was 42 percent, compared to 46 percent for the same period in 2006. These effective tax rates differ from the amounts computed by applying the federal statutory income tax rate primarily due to state taxes, foreign losses for which no tax benefit is provided, and non-deductible stock-based compensation expense. The effective tax rates for both periods in 2007 were lower than the rates for the same periods in 2006 primarily due to a benefit recorded in the second quarter of 2007 resulting from a reduction in nondeductible executive compensation expense and a benefit recorded in the third quarter of 2007 attributable to the release of deferred tax liabilities in connection with changes to our worldwide entity structure.

We adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on January 1, 2007. See Note 14 — "Income Taxes" in the condensed consolidated financial statements for additional information.

**Earnings in Equity Interests.** Earnings in equity interests for the three months ended September 30, 2007 was \$37 million, compared to \$30 million for the same period in 2006. Earnings in equity interests for the nine months ended September 30, 2007 was \$98 million (net of \$7 million related to tax expense on dividends received), compared to \$78 million (net of \$6 million related to tax expense on dividends received) for the same period in 2006. Earnings in equity interests consists of our share of the net income or loss of our equity investments in Yahoo! Japan and Alibaba. See Note 4 — "Investments in Equity Interests" in 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 consolidated financial statements. Minority interests in operations of consolidated subsidiaries were less than \$1 million for the three months ended September 30, 2007 and 2006. Minority interests in operations of consolidated subsidiaries were \$1 million for the nine months ended September 30, 2007, compared to less than \$1 million for the same period in 2006. Minority interests recorded for the three and nine months ended September 30, 2007 and 2006 were related to our Yahoo! 7 joint venture arrangement which was completed in the first quarter of 2006. See Note 3 — "Acquisitions" in the condensed consolidated financial statements for additional information.

## **Business Segment Results**

We manage our business geographically. Our primary areas of measurement and decision-making are the United States and International. Management relies on an internal management reporting process that provides revenue and segment operating income before depreciation, amortization and stock-based compensation expense for making financial decisions and allocating resources. Segment operating income before depreciation, amortization and stock-based compensation expense includes income from operations before depreciation, amortization and stock-based compensation expense. Management believes that segment operating income before depreciation, amortization and stock-based compensation expense is an appropriate measure for evaluating the operational performance of our segments. However, this measure should be considered in addition to, not as a 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				Percent Change	Nine Months Ended				Percent Change
	September 30,					September 30,				
	2006	(*)	2007	(*)		2006	(*)	2007	(*)	
Revenues by segment:										
United States	\$1,054,048	67%	\$1,194,911	68%	13%	\$3,221,220	68%	\$3,414,182	66%	6%
International	526,274	33%	572,595	32%	9%	1,502,011	32%	1,723,094	34%	15%
Total revenues	<u>\$1,580,322</u>	<u>100%</u>	<u>\$1,767,506</u>	<u>100%</u>	<u>12%</u>	<u>\$4,723,231</u>	<u>100%</u>	<u>\$5,137,276</u>	<u>100%</u>	<u>9%</u>

(\*) Percent of total revenues.

	Three Months Ended			Percent Change	Nine Months Ended		
	September 30,				September 30,		
	2006	2007			2006	2007	
Segment operating income before depreciation, amortization and stock-based compensation expense:							
United States		\$ 365,550	\$ 338,423	(7)%	\$1,041,417	\$1,042,278	NM%
International		108,188	127,886	18%	324,111	357,695	10%
Total segment operating income before depreciation, amortization and stock-based compensation expense							
		473,738	466,309	(2)%	1,365,528	1,399,973	3%
Depreciation and amortization		(149,907)	(170,577)	14%	(402,534)	(481,472)	20%
Stock-based compensation expense		(121,491)	(145,540)	20%	(329,855)	(414,325)	26%
Income from operations		<u>\$ 202,340</u>	<u>\$ 150,192</u>	<u>(26)%</u>	<u>\$ 633,139</u>	<u>\$ 504,176</u>	<u>(20)%</u>

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10 percent of revenues for the three and nine months ended September 30, 2007 or 2006, respectively.

**United States.** United States revenues for the three and nine months ended September 30, 2007 increased \$141 million, or 13 percent, and \$193 million, or 6 percent, respectively, as compared to the same periods in 2006. Our year over year increases in revenues were a result of growth in advertising across the majority of Yahoo! Properties and in our fee-based services. Our expanding user base which has been attracting more advertisers has been contributing to our growth in our advertising revenues. The growth in our fee-based services is due to the increase in our paying users for both existing and new offerings.

**International.** International revenues for the three and nine months ended September 30, 2007 increased \$46 million, or 9 percent, and \$221 million, or 15 percent, respectively, as compared to the same periods in 2006. Most of the international revenue increase came from marketing services revenue for the three and nine months ended September 30, 2007. The year over year growth in international marketing services revenue can be attributed to our increased penetration into existing markets, coupled with continued growth of the global online advertising marketplace. International operating income before depreciation, amortization and stock-based compensation expense for the three and nine months ended September 30, 2007 increased \$20 million, or 18 percent and \$34 million, or 10 percent, respectively compared to the same periods in 2006. Our year over year increases are a result of higher overall revenue while leveraging fixed costs.

International revenues accounted for approximately 32 percent of total revenues in the three months ended September 30, 2007, compared to 33 percent in the same period in 2006. International revenues accounted for

approximately 34 percent of total revenues in the nine months ended September 30, 2007, compared to 32 percent in the same period in 2006.

The strong performance of our international operations has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated by our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Euros, British Pounds, Japanese Yen, Korean Won, Taiwan Dollars, Australian Dollars, and Canadian Dollars. The statements of income of our international operations are translated into United States Dollars at the average exchange rates in each applicable period. To the extent the United States Dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions results in reduced revenues, operating expenses and net income for our International segment. Similarly, our revenues, operating expenses and net income will increase for our International segment if the United States dollar weakens against foreign currencies. Using the average foreign currency exchange rates for the three and nine months ended September 30, 2006, our international revenues for the three and nine months ended September 30, 2007 would have been lower than we reported by approximately \$15 million and \$55 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 the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

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

**Deferred Income Tax Asset Valuation Allowance.** We record a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. In evaluating our ability to recover our deferred income tax assets we consider all available positive and negative evidence, including our operating results, on-going tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. In the event we

were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are supportable. Effective January 1, 2007, we adopted the provisions of FIN 48. See Note 14 — “Income Taxes” in the condensed consolidated financial statements for additional information.

**Goodwill and Other Intangible Assets.** Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, and determining appropriate discount rates, growth rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger impairment. See Note 5 — “Goodwill” in the condensed consolidated financial statements for additional information. Based on our 2006 impairment test, there would have to be a significant unfavorable change to our assumptions used in such calculations for an impairment to exist.

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

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

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

**Stock-Based Compensation Expense.** Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”) and under the fair value recognition provisions of SFAS 123R, we recognize stock-based compensation net of an estimated forfeiture rate and therefore only recognize compensation cost for those shares expected to vest over the service period of the award.

Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based awards, stock price volatility, and the expected pre-vesting forfeiture rate. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We estimate the volatility of our common stock on the date of grant based on the implied volatility of publicly traded options on our common stock, with a term of one year or greater. We believe that implied volatility calculated based on actively traded options on our common stock is a better indicator of expected volatility and future stock price trends than historical volatility. Therefore, expected volatility for the three and nine months ended September 30, 2007 and 2006 was based on a market-based implied volatility. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate, as well as the probability that performance conditions that affect the vesting of certain awards will be achieved, and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience of our stock-based awards that are granted, exercised and cancelled. If our actual forfeiture rate is materially different from our estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period. See Note 10 — “Stock-Based Compensation” in the condensed consolidated financial statements for additional information.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for us on January 1, 2008. We are currently evaluating the impact of adopting SFAS 157 but do not believe that the adoption of SFAS 157 will have any material impact on our financial position, cash flows, or results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for us on January 1, 2008. We are currently evaluating the impact of adopting SFAS 159 but do not believe that the adoption of SFAS 159 will have any material impact on our financial position, cash flows, or results of operations.

**Liquidity and Capital Resources**

	As of December 31, 2006	As of September 30, 2007
(In thousands)		
Cash and cash equivalents	\$ 1,569,871	\$ 1,527,950
Marketable debt securities	1,967,414	1,234,827
Total cash, cash equivalents, and marketable debt securities	<u>\$ 3,537,285</u>	<u>\$ 2,762,777</u>
Percentage of total assets	<u>31%</u>	<u>23%</u>

	Nine Months Ended September 30,	
	2006	2007
(In thousands)		
Net cash provided by operating activities	\$ 1,204,219	\$ 1,297,015
Net cash used in investing activities	\$ (58,227)	\$ (120,707)
Net cash used in financing activities	\$(1,423,428)	\$(1,250,731)

Our operating activities for the nine months ended September 30, 2007 and 2006 generated adequate cash to meet our operating needs. As of September 30, 2007, we had cash, cash equivalents and marketable debt securities

totaling \$2.8 billion, compared to \$3.5 billion at December 31, 2006. During the nine months ended September 30, 2007, we invested \$1,365 million in direct stock repurchases (of which \$2 million related to a restricted stock award net share settlement) and \$250 million in structured stock repurchases. Additionally, we invested \$410 million in net capital expenditures and a net \$356 million in acquisitions. The cash used for these investments was offset by \$1,297 million of cash generated from operating activities, \$750 million of cash generated from the net sales and maturities of marketable debt securities and \$244 million from the issuance of common stock as a result of the exercise of stock options. The excess tax benefits from stock-based awards of \$134 million was reported as a reduction of cash flows from operating activities and an increase to cash flows from financing activities.

We expect to continue to generate positive cash flows from operations for the remainder of 2007. 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.

### ***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 September 30, 2007 mainly due to the net impact of non-cash adjustments to income. In the nine month periods ended September 30, 2007 and 2006, operating cash flows were positively impacted by changes in working capital balances.

Cash used in investing activities was primarily attributable to capital expenditures, purchases and sales of marketable debt and equity securities, purchases of intangible assets, as well as acquisitions including our strategic investments. In the nine months ended September 30, 2007, we invested \$410 million in net capital expenditures, \$75 million to purchase intangible assets, a net \$356 million in acquisitions and a net \$30 million in other investing activities, which was offset by \$750 million of cash generated from the net sales and maturities of marketable debt securities. In the nine months ended September 30, 2006, we invested \$558 million in net capital expenditures, including \$111 million for a land purchase in Santa Clara, California and a net \$61 million in acquisitions, which was offset by \$542 million of cash generated from the net sales and maturities of marketable debt securities, as well as \$18 million from other investing activities.

Cash used in financing activities is driven by our financing activities relating to stock repurchases and employee option exercises. During the nine months ended September 30, 2007, we used \$1,363 million in the direct repurchase of 49.1 million shares of our common stock at an average price of \$27.77 per share. During the third quarter of 2007, a \$250 million structured stock repurchase transaction which was entered into in the first quarter of 2007 settled and matured. On the maturity date, we received 8.4 million shares of our common stock at an effective buy-back price of \$29.80 per share. In addition, certain restricted stock awards that vested during the nine months ended September 30, 2007 were for statutory tax withholding obligations. The net share settlement had the effect of a stock repurchase of \$2 million. See Note 11 — “Stock Repurchase Programs” in the condensed consolidated financial statements for additional information.

In the nine months ended September 30, 2006, we used \$1,782 million in the direct repurchase of 61.5 million shares of our common stock at an average price of \$28.98 per share. In addition, 23.1 million shares were repurchased during the nine months ended September 30, 2006 as a result of the settlement of \$745 million in structured stock repurchase transactions that we entered into during 2005 and the first quarter of 2006. We also entered into structured stock repurchase transactions resulting in a total cash outlay of \$500 million, which were offset by cash proceeds of \$272 million from the settlement of a structured stock transaction resulting in a net cash outlay of \$228 million in the nine months ended September 30, 2006.

Additionally, we had cash proceeds from employee option exercises of \$244 million for the nine months ended September 30, 2007, compared to \$231 million for the same period in 2006. Excess tax benefits from stock-based awards (which are included as a source of cash flows from financing activities) were \$134 million for the nine months ended September 30, 2007, compared to \$355 million for the same period in 2006. In the quarter ended September 30, 2007, we determined that income tax benefits of \$76 million relating to acquired net operating losses should have been recognized instead of net operating losses resulting from the exercise of employee stock options. Accordingly, in the third quarter of 2007, we recorded a reduction of deferred tax assets and additional paid-in-capital in the balance sheet and reduced the amount that would have otherwise been recorded as excess tax benefits from stock-based awards in the statement of cash flows. There was no income statement effect for this item.

### *Financing*

In April 2003, we issued \$750 million of zero coupon senior convertible notes (the “Notes”) which are due April 1, 2008. These Notes are convertible into Yahoo! common stock at a conversion price of \$20.50 per share, subject to adjustment upon the occurrence of certain events. Each \$1,000 principal amount of the Notes will be convertible prior to April 2008 if the market price of our common stock reaches a specified threshold for a defined period of time or specified corporate transactions occur. Upon conversion, we have the right to deliver cash in lieu of common stock. As of September 30, 2007, the market price condition for convertibility of the Notes was satisfied with respect to the quarter beginning October 1, 2007 and ending December 31, 2007. We may be required to repurchase all of the Notes following a fundamental change of the Company, such as a change of control, prior to maturity at face value. We may not redeem the Notes prior to their maturity. See Note 9 — “Short-Term Debt” in the condensed consolidated financial statements for additional information related to the Notes. To the extent that holders of the Notes do not exercise their conversion rights prior to the maturity date of April 1, 2008, we will be obligated to pay in cash the principal amount of any such Notes that remain outstanding on such maturity date. Consequently, the Notes have been classified as short-term debt in the condensed consolidated balance sheet as of September 30, 2007.

### *Stock repurchases*

In October 2006, following the completion of the \$3.0 billion share repurchase program that was authorized in March 2005, our Board of Directors authorized a new stock repurchase program for us to repurchase up to \$3.0 billion of our outstanding shares of common stock from time to time over the next five years, depending on market conditions, share price, and other factors. Repurchases may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

In the nine months ended September 30, 2007, we repurchased 49.1 million shares of common stock directly at an average price of \$27.77 per share. Total cash consideration for the repurchased stock was \$1,363 million.

During the third quarter of 2007, a \$250 million structured stock repurchase transaction which was entered into in the first quarter of 2007 matured and settled. On the maturity date, we received 8.4 million shares of our common stock at an effective buy-back price of \$29.80 per share. See Note 11 — “Stock Repurchase Programs” in the condensed consolidated financial statements for additional information.

In addition, upon the vesting of certain restricted stock awards during the nine months ended September 30, 2007, we reacquired 70,000 shares of such vested stock to satisfy tax withholding obligations. These repurchased shares were recorded as \$2 million of treasury stock and reduced the number of common shares outstanding by 70,000 accordingly.

Treasury stock is accounted for under the cost method.

### *Capital expenditures*

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were \$410 million for the nine months ended

September 30, 2007, compared to \$558 million, including \$111 million for a land purchase in Santa Clara, California in the same period in 2006.

Our capital expenditures in 2007 are expected to be consistent with 2006 levels as we continue to invest in the expansion of Yahoo! Properties and our offerings. This level of expenditure, together with the increase in operating lease commitments, is consistent with our increased headcount and operational expansion, and we anticipate that this will continue in the future as business conditions merit.

**Contractual obligations and commitments**

**Operating Leases.** We have entered into various non-cancelable operating lease agreements for office space and data centers globally for original lease periods up to 23 years, expiring between 2007 and 2027.

A summary of gross lease commitments as of September 30, 2007 is as follows (in millions):

	<u>Gross Lease Commitments</u>
Three months ending December 31, 2007	\$ 27
Years ending December 31,	
2008	114
2009	113
2010	100
2011	84
2012	75
Due after 5 years	346
<b>Total gross lease commitments</b>	<u><u>\$ 859</u></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 traffic acquisition costs, to our affiliates. As of September 30, 2007, these commitments totaled \$266 million, of which \$10 million will be payable in the remainder of 2007, \$84 million will be payable in 2008, \$111 million will be payable in 2009, and \$61 million will be payable in 2010.

**Intellectual Property Rights.** In connection with the licensing of certain intellectual property, we are obligated to invest up to \$141 million through July 2008. To the extent the licensed intellectual property will benefit future periods, we will capitalize such payments and amortize them over the useful life of the related intellectual property.

**Income Taxes.** As of September 30, 2007, the unrecognized tax benefits that resulted in an accrued liability amounted to \$252 million and are classified as “deferred and other long-term tax liabilities” on our condensed consolidated balance sheets. As of September 30, 2007, the settlement period for our income tax liabilities cannot be determined however, the liabilities are not expected to become due within the next twelve months.

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

under these agreements and we have not accrued any liabilities related to such indemnification obligations in our condensed consolidated financial statements.

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

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

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

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of September 30, 2007 and 2006, we had investments in short-term marketable debt securities of approximately \$0.7 billion and \$0.9 billion, respectively. Such investments had a weighted-average yield of approximately 4.5 percent and 4.0 percent, respectively. As of September 30, 2007 and 2006, we had investments in long-term marketable debt securities of approximately \$0.6 billion and \$1.1 billion, respectively. Such investments had a weighted average yield of approximately 4.9 percent and 4.4 percent, respectively. A hypothetical 100 basis point increase in interest rates would result in an approximate \$10 million and \$18 million decrease (approximately 1 percent), respectively, in the fair value of our available-for-sale debt securities as of September 30, 2007 and 2006.

The fair market value of the zero coupon senior convertible notes (the "Notes") issued by Yahoo! and due in April 2008 is subject to interest rate risk and market risk due to the convertible feature of the Notes. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The fair market value of the Notes will also increase as the market price of the Yahoo! stock increases and decrease as the market price falls. The interest and market value changes affect the fair market value of the Notes but do not impact our financial position, cash flows or results of operations. As of September 30, 2007 and 2006, the fair value of the Notes were approximately \$1 billion and \$0.9 billion, respectively, based on quoted market prices.

**Foreign Currency Risk.** International revenues accounted for approximately 32 percent and 34 percent of total revenues for the three and nine months ended September 30, 2007, respectively, compared to 33 percent and 32 percent of total revenues in the same periods in 2006, respectively. International revenues in the third quarter of 2007 increased \$46 million, or 9 percent, compared to the same period in 2006. International revenues in the nine months ended September 30, 2007 increased \$221 million, or 15 percent, compared to the same period in 2006. The growth in our international operations has increased our exposure to foreign currency fluctuations. Revenues and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Euros, British Pounds, Japanese Yen, Korean Won, Taiwan Dollars, Australian Dollars and Canadian Dollars. The statements of income of our international operations are translated into United States Dollars at the average exchange rates in each applicable period. To the extent the United States Dollar strengthens against foreign currencies, the translation of these foreign currency denominated transactions may result in reduced revenues, operating expenses and net income for our International segment. Similarly, our revenues, operating expenses and net income will increase for our International segment, if the United States Dollar weakens against foreign currencies. Using the average foreign currency exchange rates for the three and nine months ended September 30, 2006, our international revenues for the three and nine months ended September 30, 2007 would have been lower than we reported by approximately \$15 million and \$55 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 United States dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into United States dollars will lead to a translation gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders' equity. In addition, we have certain assets and liabilities that are denominated

in currencies other than the relevant entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. In the third quarter of 2007, our net foreign currency transaction gains, realized and unrealized, was \$7 million, compared to net gains of less than \$1 million in the same period in 2006. In the nine months ended September 30, 2007, our net foreign currency transaction gains, realized and unrealized, was \$5 million, compared to net gains of \$3 million in the same period in 2006. Net foreign currency transaction gains or losses were recorded in other income, net on the condensed consolidated statements of income.

**Investment Risk.** The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and current and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of September 30, 2007 and 2006, net unrealized 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, as well as impairment charges on some of our investments. Our investments in available-for-sale equity securities were not material as of September 30, 2007 and 2006. 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 \$12 million and \$7 million as of September 30, 2007 and 2006, respectively.

#### **Item 4. Controls and Procedures**

**Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Chief 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, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective.

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

## PART II — OTHER INFORMATION

### Item 1. *Legal Proceedings*

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

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

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the United States District Court, Southern District of New York against certain underwriters involved in Overture Services Inc.’s (“Overture”) initial public offering, Overture, and certain of Overture’s current and former officers and directors. The Court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted initial public offerings 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, alleging Rule 10b-5 claims of fraud. 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 Rule 10b-5 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. On August 31, 2005, the Court preliminarily approved the settlement. In December 2006, the appellate court overturned the certification of classes in the six test cases that were selected by the underwriter defendants and plaintiffs in the coordinated proceedings. Since class certification, 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 have filed amended master allegations and amended complaints in the six test cases. It is uncertain whether there will be any future settlement. If a settlement is not reached, and litigation against Overture continues, we intend to defend the case vigorously.

On May 11, 2007, the first of two purported securities class action lawsuits was filed against Yahoo! Inc. and certain of its officers and members of the Board of Directors. The first lawsuit was filed in the United States District Court, Central District of California by plaintiff Ellen Rosenthal Brodsky and the second lawsuit was filed in the United States District Court, Central District of California by plaintiff Manfred Hacker. The plaintiffs allege, among other things, violation of the Securities Exchange Act of 1934 sections 10(b) and 20(a), as well as Rule 10b-5. The plaintiffs generally claim that Yahoo! issued false, deceptive or misleading statements concerning its advertising business, financial results, and sales and growth potential between April 8, 2004 and July 18, 2006. The complaints

seek unspecified compensatory damages, injunctive relief, costs and attorneys' fees. We believe these cases are without merit and intend to defend them vigorously.

On May 15, 2007, the first of two shareholder derivative actions was filed in the Superior Court of Santa Clara County by plaintiff Greg Brockwell against certain officers and members of the Board of Directors of Yahoo! Inc. purportedly on behalf of Yahoo! Inc. The second derivative action was filed in the United States District Court for the Central District of California on June 14, 2007 by plaintiff Jill Watkins. The derivative actions, which include allegations of substantially identical facts to the purported securities class actions, attempt to state various claims under California law for trading by defendants on alleged material non-public information, and allegations of breaches of fiduciary duties relating to financial reporting, misappropriation of information, abuse of control and waste of corporate assets. The federal derivative action includes an additional claim for alleged violation of Section 10(b) of the Securities Exchange Act of 1934. The derivative actions seek unspecified damages, equitable and injunctive relief, including, among other things, changes to corporate governance and internal procedures, restitution and disgorgement of profits and compensation received by defendants, costs and attorneys' fees.

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

**Item 1A. Risk Factors**

We have updated the risk factors previously disclosed in Part II Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, which was filed with the Securities and Exchange Commission on August 8, 2007, 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, 2006.

***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 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. Additionally, Google offers many other services that directly compete with our services, including a consumer e-mail service, desktop search, local search, instant messaging, photos, maps, mobile applications, shopping services and advertising solutions. Microsoft has introduced its own Internet search service with paid search, and other advertising solutions, and may release features that may make Internet searching capabilities a more integrated part of its Windows operating system. 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; and considerable resources for future growth and expansion. Some of the existing competitors and possible additional entrants may have greater operational, strategic, 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 or advertisers, 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 customers, 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 end users or increase our costs of doing so, our revenues could decline.

We also compete for customers, 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 or customers, 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. 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 their 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 September 30, 2007, 87 percent of our total revenues came from marketing services. Our ability to continue to retain and grow marketing services revenue depends upon:

- maintaining our user base;
- maintaining our popularity as an Internet destination site;

- broadening our relationships with advertisers to small- and medium- sized businesses;
- attracting advertisers to our user base;
- increasing demand for our marketing 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 by advertisers and affiliates, of our systems improvements to increase monetization of our search marketing;
- the successful development and deployment of technology improvements to our marketing system;
- 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. Search marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast marketing services revenues accurately. However, 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 comes 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 customer 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-brand services may not renew the arrangements or may renew at lower rates; 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 revenue.***

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 United States 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 and advertiser 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 costs 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 or offer it on terms 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 such as radio or television 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 United States 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. 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 several 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 the 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 United States and foreign government regulation of Internet, mobile, and Voice over Internet Protocol services which could subject us to claims, judgments and remedies including monetary liabilities and limitations on our business practices.***

We are subject to regulations and laws directly applicable to providers of Internet, mobile, and Voice over Internet Protocol services both domestically and internationally. The application of existing domestic and international laws and regulations to Yahoo! relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, content regulation, quality of services, telecommunications, mobile and intellectual property ownership and infringement in many instances is unclear or unsettled. In addition, we will also be subject to any new laws and regulations directly applicable to our domestic and international activities. Further, the application of existing laws to Yahoo! or our subsidiaries regulating or requiring licenses for certain businesses of our advertisers including, for example, distribution of pharmaceuticals, alcohol, adult content, tobacco or firearms, as well as insurance and securities brokerage and legal services, can be unclear. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. Recently, plaintiffs have attempted to use United States statutes 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, comply with these laws and regulations or 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 United States 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 failures 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 and partners. In addition, we have and post on our website 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 and regulations 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 to comply with our policies or applicable requirements or industry self-regulatory principles related to the collection, use, sharing or security of personal information or other privacy-related matters could result in a loss of user confidence in us, damage to the Yahoo! brands, and ultimately in a loss of users, partners or advertisers, which could adversely affect our business.

A large number of legislative proposals pending before the United States Congress, various state 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 user data protection laws are in a state of flux. 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 expect to make additional acquisitions and strategic investments in the future. Such transactions may result in dilutive issuances of equity securities, use of our cash resources, 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;

- 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 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 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 United States and internationally. As a result of the diversification of our business, personnel growth, acquisitions and international expansion in the 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 for our fee-based services, 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, as our fee-based services for which we bill users grow, any failure of our billing systems to accommodate the increasing number of transactions and accurately bill users 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 or retain key employees as a result of these initiatives or these initiatives do not yield the anticipated benefits, our business may be adversely affected.

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

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

***We expect our operating expenses to continue to increase as we attempt to expand the Yahoo! brand, fund product development, develop media properties and acquire other businesses or technologies, which could harm our operating results.***

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 increase at a greater pace than our revenues, our operating results could be harmed.

***If we are unable to retain our existing senior management and key personnel and 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-PC devices to access the Internet, and versions of our service developed or optimized for these devices may not gain widespread adoption by users, manufacturers or distributors of such devices.***

The number of individuals who access the Internet through devices other than a personal computer, 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 desktop and laptop computers. 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 service developed for these devices may not be compelling to users, manufacturers or distributors of alternative devices. As we have limited experience to date in operating versions of our service 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 doing so, and we may need to devote significant resources to the creation, support and maintenance of such versions. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors and users to our online services, we may fail to capture a sufficient share of an increasingly important portion of the market for online services and may fail to attract both advertisers and premium service subscribers.

***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 over 20 countries outside of the United States. 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, including our strategic investment in Alibaba, 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 United States 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;
- 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 United States and internationally. Claims have been threatened and have been brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we provide links to 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 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.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently 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 action suits 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 by third parties to spread or facilitate malicious or harmful applications. Investigating and defending any of these types of claims is expensive, even to the extent that 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 and advertisers.***

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 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, to increase traffic for our offerings and make them more available and attractive to advertisers and users, we have certain distribution agreements and informal relationships with operators of online networks and leading websites, software companies, electronics companies, and computer manufacturers. 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 distributions 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 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, floods, 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 and 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, which 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 generally accepted accounting principles 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. 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 would adversely impact our results of operations.

***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 September 30, 2007, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$22.27 to \$27.80 per share and the closing sale price on October 31, 2007 was \$31.10 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; 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.

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

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

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

The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock may have the

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

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

Stock repurchase activity during the three months ended September 30, 2007 was as follows:

Period	Total Number of Shares Purchased (1) (2) (3)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Programs (in 000s) (1) (2)
July 1 — July 31, 2007	3,741,752	\$ 26.75	3,741,752	\$ 1,886,745
August 1 — August 31, 2007	16,468,427	\$ 26.54	16,468,427	\$ 1,499,657
September 1 — September 30, 2007	2,790,000	\$ 22.54	2,790,000	\$ 1,386,764
Total	23,000,179	\$ 26.09	23,000,179	

- (1) The shares repurchased in the three months ended September 30, 2007 were under our stock repurchase program that was announced in October 2006 with an authorized level of \$3.0 billion. This program will expire in October 2011.
- (2) As of September 30, 2007, our \$250 million structured stock repurchase transaction matured during the third quarter of 2007, which was entered into in the first quarter of 2007. On the maturity date, we received 8.4 million shares of our common stock, at an effective buy-back price of \$29.80 per share. This structured stock repurchase transaction reduced the dollar value of additional shares that may be repurchased under our current program.
- (3) Excludes 70,000 shares delivered by employees to satisfy tax-withholding obligations upon the vesting of restricted stock awards.

**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 and incorporated herein by reference.)
3.2	Amended Bylaws of Registrant (Filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed July 27, 2007 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.)
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on April 10, 2003 [the April 10, 2003 Form 8-K] and incorporated herein by reference.)
4.10	Registration Rights Agreement, dated as of April 9, 2003 among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference.)
4.11	Registration Rights Agreement, dated July 11, 2007 among the Registrant and certain stockholders of Right Media Inc. (Filed as Exhibit 4.2 to the Registration Statement on Form S-3, Registration No. 333-145045 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 November 9, 2007.
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 November 9, 2007.
32 *	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302906 of the Sarbanes-Oxley Act of 2002, dated November 9, 2007.

\* Filed herewith.

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

**SIGNATURES**

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

YAHOO! INC.

Dated: November 9, 2007

By: /s/ BLAKE JORGENSEN

\_\_\_\_\_  
Blake Jorgensen  
Chief Financial Officer (Principal Financial Officer)

Dated: November 9, 2007

By: /s/ MICHAEL MURRAY

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

YAHOO! INC.

Index to 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 Bylaws of Registrant (Filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed July 27, 2007 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.)
4.9	Indenture, dated as of April 9, 2003 by and between the Registrant and U.S. Bank National Association (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on April 10, 2003 [the April 10, 2003 Form 8-K] and incorporated herein by reference.)
4.10	Registration Rights Agreement, dated as of April 9, 2003 among the Registrant and Credit Suisse First Boston LLC (Filed as Exhibit 4.2 to the April 10, 2003 Form 8-K and incorporated herein by reference.)
4.11	Registration Rights Agreement, dated July 11, 2007 among the Registrant and certain stockholders of Right Media Inc. (Filed as Exhibit 4.2 to the Registration Statement on Form S-3, Registration No. 333-145045 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 November 9, 2007.
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 November 9, 2007.
32 *	Certificate 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, dated November 9, 2007.

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\* 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.



**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: November 9, 2007

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: November 9, 2007

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 September 30, 2007 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: November 9, 2007

/s/ Blake Jorgensen

Name: Blake Jorgensen  
Title: Chief Financial Officer  
Dated: November 9, 2007

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.