

FOR IMMEDIATE RELEASE

Yahoo! Reports Fourth Quarter and Full Year 2006 Financial Results

Full Year Revenues - \$6,426 Million
Full Year Operating Income - \$941 Million
Full Year Operating Income Before Depreciation, Amortization and Stock-Based Compensation Expense - \$1,906 Million

SUNNYVALE, Calif. – January 23, 2007 - Yahoo! Inc. (Nasdaq: YHOO) today reported results for the fourth quarter and full year ended December 31, 2006.

"I am pleased with the progress Yahoo! made in the fourth quarter. We successfully addressed many of the challenges we faced in the third quarter and made aggressive moves to deliver on a number of strategic goals that we set forth for the organization," said Terry Semel, chairman and CEO of Yahoo!. "I am confident that our new structure and concentrated focus on Yahoo!'s key priorities puts us in the best position to take advantage of the many opportunities that we see ahead for 2007 and beyond."

Fourth Quarter 2006 Financial Results

- Revenues were \$1,702 million for the fourth quarter of 2006, a 13 percent increase compared to \$1,501 million for the same period of 2005.
 - Marketing services revenue was \$1,490 million for the fourth quarter of 2006, a 13 percent increase compared to \$1,315 million for the same period of 2005.
 - Fees revenue was \$213 million for the fourth quarter of 2006, a 15 percent increase compared to \$186 million for the same period of 2005.
- Revenues excluding traffic acquisition costs ("TAC") were \$1,228 million for the fourth quarter of 2006, a 15 percent increase compared to \$1,068 million for the same period of 2005.
- Gross profit for the fourth quarter of 2006 was \$1,012 million, a 12 percent increase compared to \$906 million for the same period of 2005.
- Operating income for the fourth quarter of 2006 was \$308 million (including \$95 million for stock-based compensation expense recorded under the fair value method), a 6 percent decrease compared to \$329 million (including \$19 million for stock-based compensation expense recorded under the intrinsic value method) for the same period of 2005.
- Operating income before depreciation, amortization and stock-based compensation expense for the fourth quarter of 2006 was \$540 million, an 18 percent increase compared to \$459 million for the same period of 2005.
- Cash flow from operating activities for the fourth quarter of 2006 was \$167 million, a 65 percent decrease compared to \$481 million for the same period of 2005.
- Free cash flow for the fourth quarter of 2006 was \$278 million, a 16 percent decrease compared to \$330 million for the same period of 2005.
- Net income for the fourth quarter of 2006 was \$269 million or \$0.19 per diluted share (including \$56 million of stock-based compensation expense, net of tax, recorded under the fair value method) compared to \$683 million or \$0.46 per diluted share (including \$11 million of stock-based compensation expense, net of tax, recorded under the intrinsic value method) for the same period of 2005.
- Non-GAAP net income for the fourth quarter of 2006 was \$229 million or \$0.16 per diluted share (including \$56 million of stock-based compensation expense, net of tax, recorded under the fair value method and excluding \$29 million in certain tax adjustments), compared to non-GAAP net income of \$191 million or \$0.13 per diluted share (including \$67 million of stock-based compensation expense, net of tax, recorded under the fair value method, excluding \$11 million of stock-based compensation expense, net of tax, recorded under the intrinsic value method and excluding \$188 million of gains on the sale of certain investments, net of tax adjustments) for the same period of 2005.

- Non-GAAP net income for the fourth quarter of 2006 was \$297 million or \$0.21 per diluted share (excluding \$56 million of stock-based compensation expense, net of tax, recorded under the fair value method and excluding \$29 million in certain tax adjustments), compared to non-GAAP net income of \$258 million or \$0.17 per diluted share (excluding \$11 million of stock-based compensation expense, net of tax, and excluding \$188 million of gains on the sale of certain investments, net of tax adjustments) for the same period of 2005.
- The provision for income taxes for the fourth quarter of 2006 was \$108 million and yielded an effective tax rate of 31 percent. The provision for income taxes for the fourth quarter of 2005 was \$18 million, and yielded an effective tax rate of 3 percent as a result of a tax benefit related to a subsidiary restructuring transaction completed in that quarter.
- Explanations of the Company's non-GAAP financial measures and the related reconciliations to the GAAP financial measures the Company considers most comparable are included in the accompanying "Note to Unaudited Condensed Consolidated Statements of Income", "Reconciliations to Unaudited Condensed Consolidated Statements of Income" and "Reconciliation of GAAP Net Income and GAAP Net Income Per Share to Non-GAAP Net Income and Non-GAAP Net Income Per Share".

"We generated very solid growth and profitability in the fourth quarter and full year 2006, putting the company in a strong financial position and looking forward, we are very optimistic about the potential of our search monetization initiative to improve the value of search for Yahoo! and our partners," said Susan Decker, chief financial officer, Yahoo!. "For 2007, we are organized to maximize value for Yahoo!'s key customer groups — audiences, advertisers and publishers — by delivering engaging products and effective solutions for consumers and marketers, both on and off the Yahoo! network."

Full Year 2006 Financial Results

- Revenues were \$6,426 million for 2006, a 22 percent increase compared to \$5,258 million for 2005.
 - Marketing services revenue was \$5,627 million for 2006, a 22 percent increase compared to \$4,594 million for 2005.
 - Fees revenue was \$798 million for 2006, a 20 percent increase compared to \$664 million for 2005.
- Revenues excluding TAC were \$4,560 million for 2006, a 23 percent increase compared to \$3,696 million for 2005.
- Gross profit for 2006 was \$3,750 million, a 19 percent increase compared to \$3,161 million for 2005.
- Operating income for 2006 was \$941 million (including \$425 million for stock-based compensation expense recorded under the fair value method), a 15 percent decrease compared to \$1,108 million (including \$52 million for stock-based compensation expense recorded under the intrinsic value method) for 2005.
- Operating income before depreciation, amortization and stock-based compensation expense for 2006 was \$1,906 million, a 22 percent increase compared to \$1,557 million for 2005.
- Cash flow from operating activities for 2006 was \$1,372 million, a 20 percent decrease compared to \$1,711 million for 2005.
- Free cash flow for 2006 was \$1,267 million (including \$112 million for a previously disclosed land purchase), a 2 percent decrease compared to \$1,292 million for 2005.
- Net income for 2006 was \$751 million or \$0.52 per diluted share (including \$280 million of stock-based compensation expense, net of tax, recorded under the fair value method) compared to \$1,896 million or \$1.28 per diluted share (including \$32 million of stock-based compensation expense, net of tax, recorded under the intrinsic value method) for 2005.
- Non-GAAP net income for 2006 was \$723 million or \$0.50 per diluted share (including \$280 million of stock-based compensation expense, net of tax, recorded under the fair value method, excluding certain investment and other gains of \$14 million, net of tax, and excluding \$11 million in certain tax adjustments), compared to non-GAAP net income of \$647 million or \$0.43 per diluted share (including \$239 million of stock-based compensation expense, net of tax, recorded under the fair value method, excluding \$32 million of stock-based compensation expense, net of tax, recorded under the intrinsic value method and excluding \$771 million of gains on the sale of certain investments, net of tax adjustments) for 2005.

- Non-GAAP net income for 2006 was \$1,011 million or \$0.69 per diluted share (excluding \$280 million of stock-based compensation expense, net of tax, recorded under the fair value method, excluding certain investment and other gains of \$14 million, net of tax, and excluding \$11 million in certain tax adjustments), compared to non-GAAP net income of \$886 million or \$0.60 per diluted share (excluding \$32 million of stock-based compensation expense, net of tax, and excluding \$771 million of gains on the sale of certain investments, net of tax adjustments) for 2005.
- The provision for income taxes for 2006 was \$458 million and yielded an effective tax rate of 42 percent. The provision for income taxes for 2005 was \$768 million and yielded an effective tax rate of 30 percent as a result of a tax benefit related to a subsidiary restructuring transaction completed in the fourth quarter of 2005.
- Explanations of the Company's non-GAAP financial measures and the related reconciliations to the GAAP financial measures the Company considers most comparable are included in the accompanying "Note to Unaudited Condensed Consolidated Statements of Income", "Reconciliations to Unaudited Condensed Consolidated Statements of Income" and "Reconciliation of GAAP Net Income and GAAP Net Income Per Share to Non-GAAP Net Income and Non-GAAP Net Income Per Share".

Segment Financial Results

Fourth Quarter 2006

- United States revenues for the fourth quarter of 2006 were \$1,145 million, an 8 percent increase compared to \$1,056 million for the same period of 2005.
- International revenues for the fourth quarter of 2006 were \$558 million, a 25 percent increase compared to \$445 million for the same period of 2005.
- United States segment operating income before depreciation, amortization and stock-based compensation expense for the fourth quarter of 2006 was \$410 million, a 17 percent increase compared to \$352 million for the same period of 2005.
- International segment operating income before depreciation, amortization and stock-based compensation expense for the fourth quarter of 2006 was \$130 million, a 22 percent increase compared to \$107 million for the same period of 2005.

Full Year 2006

- United States revenues for the year ended December 31, 2006 were \$4,366 million, a 19 percent increase compared to \$3,668 million for 2005.
- International revenues for the year ended December 31, 2006 were \$2,060 million, a 30 percent increase compared to \$1,590 million for 2005.
- United States segment operating income before depreciation, amortization and stock-based compensation expense for the year ended December 31, 2006 was \$1,452 million, a 19 percent increase compared to \$1,220 million for 2005.
- International segment operating income before depreciation, amortization and stock-based compensation expense for the year ended December 31, 2006 was \$454 million, a 34 percent increase compared to \$338 million for 2005.

Cash Flow Information

Free cash flow was \$278 million in the fourth quarter of 2006 compared to \$330 million for the same period of 2005. In addition to free cash flow, Yahoo! generated \$87 million from the issuance of common stock as a result of the exercise of employee stock options, offset by \$81 million used for acquisitions. Cash, cash equivalents and investments in marketable debt securities were \$3,537 million at December 31, 2006 as compared to \$3,230 million at September 30, 2006, an increase of \$307 million.

Free cash flow was \$1,267 million for the year ended December 31, 2006 compared to \$1,292 million for 2005. In addition to free cash flow, Yahoo! generated \$318 million from the issuance of common stock as a result of the exercise of employee stock options, offset by \$1,782 million used for direct stock repurchases, a

net \$228 million used in structured stock repurchase transactions, and \$142 million used for acquisitions. Cash, cash equivalents and investments in marketable debt securities were \$3,537 million at December 31, 2006 as compared to \$4,000 million at December 31, 2005, a decrease of \$463 million.

Please refer to the "Note to Unaudited Condensed Consolidated Statements of Income" for definitions of certain key non-GAAP financial measures used here and in the "Business Outlook" attached to this press release.

Quarterly Conference Call

Yahoo! will host a conference call to discuss fourth quarter results at 5:00 p.m. Eastern Time today. A live webcast of the conference call, together with supplemental financial information, can be accessed through the Company's Investor Relations website at <http://yhoo.client.shareholder.com/earnings.cfm>. In addition, an archive of the webcast can be accessed through the same link. An audio replay of the call will be available following the conference call by calling 888-286-8010 or 617-801-6888, reservation number: 52560471

About Yahoo!

Yahoo! Inc. is a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo!'s mission is to connect people to their passions, their communities, and the world's knowledge. Yahoo! is headquartered in Sunnyvale, California.

This press release and its attachments include the following financial measures defined as non-GAAP financial measures by the Securities and Exchange Commission: revenues excluding traffic acquisition costs or TAC, operating income before depreciation, amortization and stock-based compensation expense, free cash flow, and non-GAAP net income and non-GAAP net income per share. These measures may be different from non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles. See "Note to Unaudited Condensed Consolidated Statements of Income", "Reconciliations to Unaudited Condensed Consolidated Statements of Income" and "Reconciliation of GAAP Net Income and GAAP Net Income Per Share to Non-GAAP Net Income and Non-GAAP Net Income Per Share" included in this press release for further information regarding these non-GAAP financial measures.

This press release and its attachments contain forward-looking statements that involve risks and uncertainties concerning Yahoo!'s expected financial performance (including without limitation the statements and information in the Business Outlook section and the quotations from management in this press release), as well as Yahoo!'s strategic and operational plans. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, the successful implementation, and acceptance by advertisers, of the Company's new search advertising system, the Company's ability to compete with new or existing competitors; the implementation and results of the Company's announced reorganization; reduction in spending by, or loss of, marketing services customers; the demand by customers for Yahoo!'s premium services; acceptance by users of new products and services; risks related to joint ventures and the integration of recent acquisitions; risks related to the Company's international operations; failure to manage growth and diversification; adverse results in litigation, including intellectual property infringement claims; the Company's ability to protect its intellectual property and the value of its brands; dependence on key personnel; dependence on third parties for technology, services, content and distribution; and general economic conditions. All information set forth in this release and its attachments is as of January 23, 2007. Yahoo! does not intend, and undertakes no duty, to update this information to reflect future events or circumstances. More information about potential factors that could affect the Company's business and financial results is included under the captions, "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and the Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, which are on file with the SEC and available at the SEC's website at www.sec.gov. Additional information will also be set forth in those sections in Yahoo!'s Annual Report on Form 10-K for the year ended December 31, 2006, which will be filed with the SEC in the first quarter of 2007.

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Yahoo! Inc.
Unaudited Condensed Consolidated Statements of Income
(in thousands, except per share amounts)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
Revenues	\$ 1,501,000	\$ 1,702,448	\$ 5,257,668	\$ 6,425,679
Cost of revenues ^(a)	594,738	690,893	2,096,201	2,675,723
Gross profit	<u>906,262</u>	<u>1,011,555</u>	<u>3,161,467</u>	<u>3,749,956</u>
Operating expenses:				
Sales and marketing ^(b)	286,031	334,229	1,033,947	1,322,259
Product development ^(b)	169,198	204,748	569,527	833,147
General and administrative ^(b)	93,524	137,600	341,073	528,798
Amortization of intangibles ^(a)	28,561	27,151	109,195	124,786
Total operating expenses	<u>577,314</u>	<u>703,728</u>	<u>2,053,742</u>	<u>2,808,990</u>
Income from operations	328,948	307,827	1,107,725	940,966
Other income, net	<u>340,132</u>	<u>35,240</u>	<u>1,435,857</u>	<u>157,034</u>
Income before income taxes, earnings in equity interests and minority interests	669,080	343,067	2,543,582	1,098,000
Provision for income taxes	(17,729)	(108,009)	(767,816)	(458,011)
Earnings in equity interests	33,597	33,853	128,244	112,114
Minority interests in operations of consolidated subsidiaries	<u>(1,740)</u>	<u>(238)</u>	<u>(7,780)</u>	<u>(712)</u>
Net income	<u>\$ 683,208</u>	<u>\$ 268,673</u>	<u>\$ 1,896,230</u>	<u>\$ 751,391</u>
Net income per share - diluted	<u>\$ 0.46</u>	<u>\$ 0.19</u>	<u>\$ 1.28</u>	<u>\$ 0.52</u>
Shares used in per share calculation - diluted	<u>1,496,942</u>	<u>1,419,143</u>	<u>1,485,591</u>	<u>1,457,686</u>

^(b) Stock-based compensation expense was allocated as follows:

Cost of revenues	\$ -	\$ 1,665	\$ -	\$ 6,621
Sales and marketing	3,421	35,258	8,698	155,084
Product development	8,570	32,660	22,390	144,807
General and administrative	6,542	25,492	21,383	118,418
Total stock-based compensation expense	<u>\$ 18,533</u>	<u>\$ 95,075</u>	<u>\$ 52,471</u>	<u>\$ 424,930</u>

Supplemental Financial Data (See Note)

Revenues excluding TAC	\$ 1,067,949	\$ 1,227,935	\$ 3,695,931	\$ 4,559,755
Operating income before depreciation, amortization and stock-based compensation expense	\$ 458,714	\$ 540,389	\$ 1,557,338	\$ 1,905,917
Free cash flow	\$ 329,702	\$ 277,959	\$ 1,291,779	\$ 1,266,650
Non-GAAP net income per diluted share including fair value stock-based compensation expense and excluding other items	\$ 0.13	\$ 0.16	\$ 0.43	\$ 0.50
Non-GAAP net income per diluted share excluding stock-based compensation expense and other items	\$ 0.17	\$ 0.21	\$ 0.60	\$ 0.69

(a) Yahoo! has changed its classification of amortization expense related to developed technology and patents acquired through acquisitions. Amortization expense of \$22 million and \$64 million for the three months and year ended December 31, 2005, respectively, has been reclassified to cost of revenues from operating expenses.

(b) Prior to January 1, 2006, Yahoo! accounted for stock-based compensation under Accounting Principles Board, Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In accordance with APB 25, Yahoo! historically used the intrinsic value method to account for stock-based compensation expense. As of January 1, 2006, Yahoo! accounts for stock-based compensation expense under the fair value method in accordance with Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"). As Yahoo! adopted the modified prospective transition method, results for prior periods have not been restated under the fair value method for GAAP purposes. Yahoo! is presenting non-GAAP net income and non-GAAP net income per diluted share financial measures which include stock-based compensation expense calculated under the fair value method and exclude other items, for all periods presented. Yahoo! is also presenting non-GAAP net income and non-GAAP net income per diluted share financial measures which exclude stock-based compensation expense and other items for all periods presented.

Yahoo! Inc.
Note to Unaudited Condensed Consolidated Statements of Income

This press release and its attachments include the non-GAAP financial measures of revenues excluding traffic acquisition costs or TAC, operating income before depreciation, amortization and stock-based compensation expense, free cash flow and non-GAAP net income and non-GAAP net income per share, which are reconciled to gross profit, income from operations, cash flow from operating activities, and net income and net income per share, respectively, which we believe are the most comparable GAAP measures. We use these non-GAAP financial measures for internal managerial purposes, when publicly providing our business outlook, and to facilitate period-to-period comparisons. We describe limitations specific to each non-GAAP financial measure below. Management generally compensates for limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure or measures. Further, management uses non-GAAP financial measures only in addition to and in conjunction with results presented in accordance with GAAP. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, gross profit, income from operations, cash flow from operating activities, and net income and net income per share calculated in accordance with generally accepted accounting principles.

Revenues excluding TAC is defined as gross profit plus other cost of revenues. Under GAAP, both our revenues and cost of revenues include TAC. In defining revenues excluding TAC as our non-GAAP gross profit measure, we have removed TAC from both revenues and cost of revenues. TAC consists of payments made to affiliates that have integrated our sponsored search offerings into their websites and payments made to companies that direct consumer and business traffic to the Yahoo! website. We present revenues excluding TAC: (1) to provide a metric for our investors to analyze and value our Company and (2) to provide investors one of the primary metrics used by the Company for evaluation and decision-making purposes. We provide revenues excluding TAC because we believe it is useful to investors in valuing our Company. One of the ways investors value companies is to apply a multiple to revenues. Since a significant portion of the GAAP revenues associated with our sponsored search offerings is paid to our third party affiliates, we believe investors find it more meaningful to apply multiples to revenues excluding TAC to assess our value as this avoids "double counting" revenues that are paid to, and being reported by, our third party affiliates. Further, management uses revenues excluding TAC for evaluating the performance of our business, making operating decisions, budgeting purposes, and as a factor in determining management compensation. A limitation of revenues excluding TAC is that it is a measure which we have defined for internal and investor purposes that may be unique to the Company and therefore it may not enhance the comparability of our results to other companies in our industry who have similar business arrangements but address the impact of TAC differently. Management compensates for these limitations by also relying on the comparable GAAP financial measures of revenues, cost of revenues and gross profit, each of which includes TAC.

Operating income before depreciation, amortization and stock-based compensation expense is defined as income from operations before depreciation, amortization of intangible assets and stock-based compensation expense (including the compensation of our Chief Executive Officer, which currently consists solely of stock-based compensation). We consider this measure to be an important indicator of the operational strength of the Company. We exclude depreciation and amortization because while tangible and intangible assets support our businesses, we do not believe the related depreciation and amortization costs are directly attributable to the operating performance of our business. This measure is used by some investors when assessing the performance of our Company. In addition, because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation enhances the ability of management and investors to understand the impact of stock-based compensation expense on our operating income. We do not include depreciation, amortization and stock-based compensation expense in our internal measures or in the measures used by the Company to formulate our business outlook presented with our quarterly financial information to investors. A limitation associated with this non-GAAP measure, operating income before depreciation, amortization and stock-based compensation expense, is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Management evaluates the costs of such tangible and intangible assets through other financial measures such as capital expenditures. A further limitation associated with this measure is that it does not include stock-based compensation expense related to the Company's workforce. Management compensates for these limitations by also relying on the comparable GAAP financial measure of income from operations, which includes depreciation, amortization and stock-based compensation expense.

Free cash flow is defined as cash flow from operating activities, less net capital expenditures and dividends received and including the excess tax benefits from stock-based compensation. We consider free cash flow to be a liquidity measure which provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for strategic opportunities including, among others, investing in the Company's business, making strategic acquisitions, strengthening the balance sheet and repurchasing stock. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Management compensates for this limitation by also relying on the net change in cash and cash equivalents as presented in the Company's unaudited condensed consolidated statements of cash flows prepared in accordance with GAAP which incorporates all cash movements during the period.

Non-GAAP net income is defined as net income excluding certain gains, losses and expenses and their related tax effects that we do not believe are indicative of our ongoing operating results and further adjusted for stock-based compensation expense under two different methods. Effective January 1, 2006, we adopted SFAS 123R under the modified prospective transition method and therefore have recorded stock-based compensation expense under the fair value method for the three months and year ended December 31, 2006. Prior to January 1, 2006, including the three months and year ended December 31, 2005, we recorded stock-based compensation expense under the intrinsic value method. We have included two non-GAAP measures for non-GAAP net income and non-GAAP net income per share. In one calculation of non-GAAP net income and non-GAAP net income per share, we have excluded stock-based compensation expense in addition to certain gains, losses and expenses and their related tax effects. In the alternative calculation of non-GAAP net income and non-GAAP net income per share, we have included stock-based compensation expense calculated under the fair value method (as previously disclosed) for the three months and year ended December 31, 2005, in addition to excluding certain gains, losses and expenses and their related tax effects, so that both presented periods include stock-based compensation expense under the fair value method. We consider non-GAAP net income and non-GAAP net income per share to be profitability measures which facilitate the forecasting of our operating results for future periods and allow for the comparison of our results to historical periods. A limitation of non-GAAP net income and non-GAAP net income per share is that they do not include all items that impact our net income and net income per share for the period. Management compensates for this limitation by also relying on the comparable GAAP financial measures of net income and net income per share, both of which include the gains, losses, expenses and related tax effects that are excluded from non-GAAP net income and non-GAAP net income per share.

Yahoo! Inc.
Reconciliations to Unaudited Condensed Consolidated Statements of Income
(in thousands)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
Revenues for groups of similar services:				
Marketing services	\$ 1,315,303	\$ 1,489,734	\$ 4,593,972	\$ 5,627,207
Fees	185,697	212,714	663,696	798,472
Total revenues	<u>\$ 1,501,000</u>	<u>\$ 1,702,448</u>	<u>\$ 5,257,668</u>	<u>\$ 6,425,679</u>
Revenues by segment:				
United States	\$ 1,056,406	\$ 1,144,702	\$ 3,667,509	\$ 4,365,922
International	444,594	557,746	1,590,159	2,059,757
Total revenues	<u>\$ 1,501,000</u>	<u>\$ 1,702,448</u>	<u>\$ 5,257,668</u>	<u>\$ 6,425,679</u>
Cost of revenues:				
Traffic acquisition costs ("TAC")	\$ 433,051	\$ 474,513	\$ 1,561,737	\$ 1,865,924
Other cost of revenues	161,687	216,380	534,464	809,799
Total cost of revenues	<u>\$ 594,738</u>	<u>\$ 690,893</u>	<u>\$ 2,096,201</u>	<u>\$ 2,675,723</u>
Revenues excluding TAC:				
Gross profit	\$ 906,262	\$ 1,011,555	\$ 3,161,467	\$ 3,749,956
Other cost of revenues	161,687	216,380	534,464	809,799
Revenues excluding TAC	<u>\$ 1,067,949</u>	<u>\$ 1,227,935</u>	<u>\$ 3,695,931</u>	<u>\$ 4,559,755</u>
Revenues excluding TAC by segment:				
United States:				
Gross profit	\$ 675,652	\$ 746,119	\$ 2,363,218	\$ 2,761,829
Other cost of revenues	132,885	175,786	427,873	659,841
Revenues excluding TAC	<u>\$ 808,537</u>	<u>\$ 921,905</u>	<u>\$ 2,791,091</u>	<u>\$ 3,421,670</u>
International:				
Gross profit	\$ 230,610	\$ 265,436	\$ 798,249	\$ 988,127
Other cost of revenues	28,802	40,594	106,591	149,958
Revenues excluding TAC	<u>\$ 259,412</u>	<u>\$ 306,030</u>	<u>\$ 904,840</u>	<u>\$ 1,138,085</u>
Operating income before depreciation, amortization and stock-based compensation expense:				
Income from operations	\$ 328,948	\$ 307,827	\$ 1,107,725	\$ 940,966
Depreciation and amortization	111,233	137,487	397,142	540,021
Stock-based compensation expense	18,533	95,075	52,471	424,930
Operating income before depreciation, amortization and stock-based compensation expense	<u>\$ 458,714</u>	<u>\$ 540,389</u>	<u>\$ 1,557,338</u>	<u>\$ 1,905,917</u>
Operating income before depreciation, amortization and stock-based compensation expense by segment:				
Operating income before depreciation, amortization and stock-based compensation expense - United States				
	\$ 351,849	\$ 410,239	\$ 1,219,539	\$ 1,451,656
Operating income before depreciation, amortization and stock-based compensation expense - International				
	<u>106,865</u>	<u>130,150</u>	<u>337,799</u>	<u>454,261</u>
Operating income before depreciation, amortization and stock-based compensation expense	<u>\$ 458,714</u>	<u>\$ 540,389</u>	<u>\$ 1,557,338</u>	<u>\$ 1,905,917</u>
United States:				
Income from operations	\$ 242,594	\$ 215,500	\$ 844,622	\$ 632,895
Depreciation and amortization	91,552	110,279	325,159	437,080
Stock-based compensation expense	17,703	84,460	49,758	381,681
Operating income before depreciation, amortization and stock-based compensation expense - United States	<u>\$ 351,849</u>	<u>\$ 410,239</u>	<u>\$ 1,219,539</u>	<u>\$ 1,451,656</u>
International:				
Income from operations	\$ 86,354	\$ 92,327	\$ 263,103	\$ 308,071
Depreciation and amortization	19,681	27,208	71,983	102,941
Stock-based compensation expense	830	10,615	2,713	43,249
Operating income before depreciation, amortization and stock-based compensation expense - International	<u>\$ 106,865</u>	<u>\$ 130,150</u>	<u>\$ 337,799</u>	<u>\$ 454,261</u>
Free cash flow:				
Cash flow from operating activities	\$ 481,342	\$ 167,357	\$ 1,711,383	\$ 1,371,576
Acquisition of property and equipment, net	(151,640)	(131,550)	(408,934)	(689,136)
Dividends received	-	-	(10,670)	(12,908)
Excess tax benefits from stock-based compensation	-	242,152	-	597,118
Free cash flow	<u>\$ 329,702</u>	<u>\$ 277,959</u>	<u>\$ 1,291,779</u>	<u>\$ 1,266,650</u>

Yahoo! Inc.

Reconciliation of GAAP Net Income and GAAP Net Income Per Share to Non-GAAP Net Income and Non-GAAP Net Income per share - including stock-based compensation expense
(in thousands, except per share amounts)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
GAAP Net income	\$ 683,208	\$ 268,673	\$ 1,896,230	\$ 751,391
(a) To include fair value stock-based compensation expense, using the fair value method under Statement of Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation," ("SFAS 123"), as previously disclosed and exclude recorded stock-based compensation, using the intrinsic value method under APB 25 of the three and twelve months ended December 31, 2005	(84,044)	-	(320,900)	-
(b) (Gains)/Losses on the sale of certain investments and settlements	28,177	-	(973,613)	-
(c) Reversal of an earn-out accrual	-	-	-	(10,000)
(d) Non-cash gain arising from increased dilution of our ownership in Alibaba, resulting in the recognition of a further gain on the sale of Yahoo! China	(337,965)	-	(337,965)	(14,316)
(e) To adjust the provision for income taxes to eliminate tax charges and credits related to tax adjustment recorded in the current period	-	(28,690)	-	(11,341)
(f) To adjust the provision for income taxes to reflect an effective tax rate of approximately 42 percent in 2005 and 43 percent and to reflect tax impact of items (a) - (d)	(98,228)	(10,820)	382,750	7,668
Non-GAAP Net income including stock-based compensation expense	\$ 191,148	\$ 229,163	\$ 646,502	\$ 723,402
Net income per share - diluted	\$ 0.46	\$ 0.19	\$ 1.28	\$ 0.52
Non-GAAP Net income including stock-based compensation expense per share - diluted	\$ 0.13	\$ 0.16	\$ 0.43	\$ 0.50
Shares used in per share calculation - diluted	1,496,942	1,419,143	1,485,591	1,457,686
(g) Adjust number of shares used in diluted share count for the impact of applying SFAS 123	994	-	3,076	-
Shares used in Non-GAAP per share calculation - diluted	1,497,936	1,419,143	1,488,667	1,457,686

Yahoo! Inc.

Reconciliation of GAAP Net Income and GAAP Net Income Per Share to Non-GAAP Net Income and Non-GAAP Net Income per share - excluding stock-based compensation expense
(in thousands, except per share amounts)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
GAAP Net income	\$ 683,208	\$ 268,673	\$ 1,896,230	\$ 751,391
(a) Stock-based compensation as measured using the intrinsic value method under APB 25	18,533	-	52,471	-
(b) Stock-based compensation as measured using the fair value method under SFAS 123R	-	95,075	-	424,930
(c) (Gains)/Losses on the sale of certain investments and settlements	28,177	-	(973,613)	-
(d) Reversal of an earn-out accrual	-	-	-	(10,000)
(e) Non-cash gain arising from increased dilution of our ownership in Alibaba, resulting in the recognition of a further gain on the sale of Yahoo! China	(337,965)	-	(337,965)	(14,316)
(f) To adjust the provision for income taxes to eliminate tax charges and credits related to tax adjustment recorded in the current period	-	(28,690)	-	(11,341)
(g) To adjust the provision for income taxes to reflect an effective tax rate of approximately 40 percent and to reflect tax impact of items (a) - (e)	(134,160)	(38,558)	248,787	(130,094)
Non-GAAP Net income excluding stock-based compensation expense	\$ 257,793	\$ 296,500	\$ 885,910	\$ 1,010,570
GAAP Net income per share - diluted	\$ 0.46	\$ 0.19	\$ 1.28	\$ 0.52
Non-GAAP Net income excluding stock-based compensation expense per share - diluted	\$ 0.17	\$ 0.21	\$ 0.60	\$ 0.69
Shares used in per share calculations - diluted	1,496,942	1,419,143	1,485,591	1,457,686

Yahoo! Inc.
Business Outlook

Business Outlook

The following business outlook is based on current information and expectations as of January 23, 2007. Yahoo!'s business outlook as of today is expected to be available on the Company's Investor Relations website throughout the current quarter. Yahoo! does not expect, and undertakes no obligation, to update the business outlook prior to the release of the Company's next quarterly earnings announcement, notwithstanding subsequent developments; however, Yahoo! may update the business outlook or any portion thereof at any time at its discretion.

	Three Months Ending March 31, 2007	Year Ending December 31, 2007
Revenues excluding TAC^(*) outlook (in millions):		
Gross profit	\$900 - \$980	\$3,960 - \$4,340
Other cost of revenues	220 - 250	990 - 1,110
Revenues excluding TAC	<u>\$1,120 - \$1,230</u>	<u>\$4,950 - \$5,450</u>
Operating income before depreciation, amortization and stock-based compensation expense^(*) outlook (in millions):		
Income from operations	\$138 - \$163	\$810 - \$920
Depreciation and Amortization	140 - 160	615 - 695
Stock-based compensation expense	142 - 157	525 - 585
Operating income before depreciation, amortization and stock-based compensation expense	<u>\$420 - \$480</u>	<u>\$1,950 - \$2,200</u>

^(*) Refer to Note to Unaudited Condensed Consolidated Statements of Income

Yahoo! Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended December 31,		Year Ended December 31,	
	2005	2006	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 683,208	\$ 268,673	\$ 1,896,230	\$ 751,391
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	60,820	84,431	224,065	302,161
Amortization of intangible assets	50,413	53,056	173,077	237,860
Stock-based compensation expense	18,533	95,075	52,471	424,930
Tax benefits from stock-based compensation	35,782	255,460	759,530	626,009
Excess tax benefits from stock-based compensation	-	(242,152)	-	(597,118)
Earnings in equity interests	(33,597)	(33,853)	(128,244)	(112,114)
Dividends received	-	-	10,670	12,908
Minority interests in operations of consolidated subsidiaries	1,740	238	7,780	712
(Gain)/loss from sale of investments, assets and other, net	(301,573)	686	(1,278,311)	(15,125)
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable, net	(143,466)	(138,416)	(272,387)	(185,196)
Prepaid expenses, current and long-term deferred taxes and other	(43,080)	(161,639)	(35,344)	(285,347)
Accounts payable	36,928	(36,572)	31,574	30,413
Accrued expenses and other liabilities	100,716	37,126	212,112	175,913
Deferred revenue	14,918	(14,756)	58,160	4,179
Net cash provided by operating activities	<u>481,342</u>	<u>167,357</u>	<u>1,711,383</u>	<u>1,371,576</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of property and equipment, net	(151,640)	(131,550)	(408,934)	(689,136)
Purchases of marketable debt securities	(391,383)	(439,492)	(7,023,802)	(1,328,515)
Proceeds from sales and maturities of marketable debt securities	552,453	520,117	7,341,974	1,951,323
Acquisitions, net of cash acquired	(1,570,701)	(80,972)	(1,698,164)	(142,272)
Proceeds from sales of marketable equity securities	-	-	1,006,142	-
Other investing activities, net	(116)	(3,557)	(39,146)	14,919
Net cash used in investing activities	<u>(1,561,387)</u>	<u>(135,454)</u>	<u>(821,930)</u>	<u>(193,681)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of common stock, net	369,056	86,652	746,807	318,103
Repurchases of common stock	(14,383)	-	(387,735)	(1,782,140)
Structured stock repurchases, net	141,296	-	(611,421)	(227,705)
Excess tax benefits from stock-based compensation	-	242,152	-	597,118
Other financing activities, net	-	-	1,749	-
Net cash provided by (used in) financing activities	<u>495,969</u>	<u>328,804</u>	<u>(250,600)</u>	<u>(1,094,624)</u>
Effect of exchange rate changes on cash and cash equivalents	(13,234)	23,905	(32,883)	56,907
Net change in cash and cash equivalents	(597,310)	384,612	605,970	140,178
Cash and cash equivalents, beginning of period	2,027,003	1,185,259	823,723	1,429,693
Cash and cash equivalents, end of period	<u>\$ 1,429,693</u>	<u>\$ 1,569,871</u>	<u>\$ 1,429,693</u>	<u>\$ 1,569,871</u>
Supplemental schedule of acquisition-related activities:				
Cash paid for acquisitions	\$ 1,572,306	\$ 81,882	\$ 1,700,898	\$ 150,859
Cash acquired in acquisitions	(1,605)	(910)	(2,734)	(8,587)
	<u>\$ 1,570,701</u>	<u>\$ 80,972</u>	<u>\$ 1,698,164</u>	<u>\$ 142,272</u>
Common stock, restricted stock and stock options issued in connection with acquisitions	<u>\$ 392</u>	<u>\$ 3,256</u>	<u>\$ 44,773</u>	<u>\$ 3,256</u>

Yahoo! Inc.
Unaudited Condensed Consolidated Balance Sheets
(in thousands)

	December 31, 2005	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,429,693	\$ 1,569,871
Marketable debt securities	1,131,141	1,031,528
Accounts receivable, net	721,723	930,964
Prepaid expenses and other current assets	166,976	217,779
Total current assets	3,449,533	3,750,142
Long-term marketable debt securities	1,439,014	935,886
Property and equipment, net	697,522	1,101,379
Goodwill	2,895,557	2,992,103
Intangible assets, net	534,615	405,822
Other long-term assets	57,192	459,988
Investments in equity interests	1,758,401	1,891,834
Total assets	\$ 10,831,834	\$ 11,537,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 70,291	\$ 109,130
Accrued expenses and other current liabilities	827,589	1,048,229
Deferred revenue	306,172	317,982
Total current liabilities	1,204,052	1,475,341
Long-term deferred revenue	67,792	64,939
Long-term debt	749,995	749,915
Other long-term liabilities	243,580	50,501
Minority interests in consolidated subsidiaries	-	8,056
Stockholders' equity	8,566,415	9,188,402
Total liabilities and stockholders' equity	\$ 10,831,834	\$ 11,537,154