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

Form 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to

Commission File Number 000-28018

Yahoo! Inc.
(Exact name of Registrant as specified in its charter)

Delaware	**77-0398689**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

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

Class	Outstanding at April 29, 2011
Common Stock, $0.001 par value	1,302,941,429

YAHOO! INC.

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PART I — FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements (unaudited)***

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended	
	March 31, 2010	March 31, 2011
	(Unaudited, in thousands except per share amounts)	
Revenue	$1,596,960	$1,214,357
Cost of revenue	706,382	377,462
Gross profit	890,578	836,895
Operating expenses:		
Sales and marketing	313,538	262,234
Product development	266,077	243,067
General and administrative	110,428	123,224
Amortization of intangibles	8,102	8,050
Restructuring charges, net	4,412	10,575
Total operating expenses	702,557	647,150
Income from operations	188,021	189,745
Other income, net	86,328	5,027
Income before income taxes and earnings in equity interests	274,349	194,772
Provision for income taxes	(49,444)	(52,120)
Earnings in equity interests	87,374	82,180
Net income	312,279	224,832
Net income attributable to noncontrolling interests	(2,088)	(1,840)
Net income attributable to Yahoo! Inc.	$ 310,191	$ 222,992
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.22	$ 0.17
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.22	$ 0.17
Shares used in per share calculation — basic	1,398,308	1,309,064
Shares used in per share calculation — diluted	1,413,432	1,320,185
Stock-based compensation expense by function:		
Cost of revenue	$ 1,011	$ 648
Sales and marketing	13,678	6,697
Product development	32,373	17,672
General and administrative	13,721	10,099
Restructuring expense reversals	—	(752)

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

YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2010	March 31, 2011
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,526,427	$ 1,619,177
Short-term marketable debt securities	1,357,661	1,169,409
Accounts receivable, net	1,028,900	932,943
Prepaid expenses and other current assets	432,560	372,923
Total current assets	4,345,548	4,094,452
Long-term marketable debt securities	744,594	739,091
Property and equipment, net	1,653,422	1,695,407
Goodwill	3,681,645	3,734,609
Intangible assets, net	255,870	249,645
Other long-term assets	235,136	236,793
Investments in equity interests	4,011,889	4,178,356
Total assets	$14,928,104	$14,928,353
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 162,424	$ 132,718
Accrued expenses and other current liabilities	1,208,792	960,032
Deferred revenue	254,656	247,031
Total current liabilities	1,625,872	1,339,781
Long-term deferred revenue	56,365	42,520
Capital lease and other long-term liabilities	142,799	138,560
Deferred and other long-term tax liabilities, net	506,658	542,864
Total liabilities	2,331,694	2,063,725
Commitments and contingencies (Note 11)	—	—
Yahoo! Inc. stockholders' equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,308,836 shares issued and 1,308,836 shares outstanding as of December 31, 2010 and 1,313,649 shares issued and 1,305,206 shares outstanding as of March 31, 2011	1,306	1,310
Additional paid-in capital	10,109,913	10,159,966
Treasury stock at cost, zero shares as of December 31, 2010 and 8,443 shares as of March 31, 2011	—	(137,536)
Retained earnings	1,942,656	2,165,648
Accumulated other comprehensive income	504,254	635,119
Total Yahoo! Inc. stockholders' equity	12,558,129	12,824,507
Noncontrolling interests	38,281	40,121
Total equity	12,596,410	12,864,628
Total liabilities and equity	$14,928,104	$14,928,353

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

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YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	March 31, 2010	March 31, 2011
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 312,279	$ 224,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	129,683	139,177
Amortization of intangible assets	35,563	29,501
Stock-based compensation expense, net	60,783	34,364
Tax benefits from stock-based awards	12,864	12,608
Excess tax benefits from stock-based awards	(32,889)	(18,338)
Deferred income taxes	28,687	22,581
Earnings in equity interests	(87,374)	(82,180)
Gain from sales of investments, assets, and other, net	(51,021)	8,215
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable, net	89,192	106,567
Prepaid expenses and other	(127,120)	59,665
Accounts payable	(22,553)	(31,862)
Accrued expenses and other liabilities	(150,027)	(273,626)
Deferred revenue	(54,470)	(23,134)
Net cash provided by operating activities	143,597	208,370
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(112,541)	(167,549)
Purchases of marketable debt securities	(682,397)	(616,050)
Proceeds from sales of marketable debt securities	88,845	438,548
Proceeds from maturities of marketable debt securities	905,903	363,161
Acquisition, net of cash acquired	—	(34,382)
Purchases of intangible assets	(5,464)	(3,342)
Proceeds from the sale of a divested business	100,000	—
Other investing activities, net	—	149
Net cash provided by (used in) investing activities	294,346	(19,465)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	12,877	22,708
Repurchases of common stock	(385,171)	(137,368)
Excess tax benefits from stock-based awards	32,889	18,338
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(30,086)	(26,303)
Other financing activities, net	(363)	(722)
Net cash used in financing activities	(369,854)	(123,347)
Effect of exchange rate changes on cash and cash equivalents	(12,887)	27,192
Net change in cash and cash equivalents	55,202	92,750
Cash and cash equivalents at beginning of period	1,275,430	1,526,427
Cash and cash equivalents at end of period	$1,330,632	$1,619,177

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 premier digital media company that delivers personalized digital content and experiences, across devices and around the globe, to vast audiences. Yahoo! provides engaging and innovative canvases for advertisers to connect with their target audiences using its unique blend of Science + Art + Scale. Through its proprietary technology and insights, Yahoo! delivers unique content and experiences for its audience and creates powerful opportunities for its advertisers to connect with their target audiences, in context and at scale. To users, Yahoo! provides online properties and services ("Yahoo! Properties"). To advertisers, Yahoo! provides a range of marketing services designed to reach and connect with users of its Yahoo! Properties, as well as with Internet users beyond Yahoo! Properties, through a distribution network of third-party entities ("Affiliates") that have integrated Yahoo!'s advertising offerings into their Websites or other offerings (those Websites and offerings, "Affiliate sites").

Basis of Presentation. The condensed consolidated financial statements include the accounts of Yahoo! Inc. and its majority-owned or otherwise controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investments in equity interests on the condensed consolidated balance sheets. The Company has included the results of operations of acquired companies from the 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 consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States ("U.S.") requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, the useful lives of long-lived assets including property and equipment and intangible assets, investment fair values, stock-based compensation, goodwill, income taxes, contingencies, and restructuring charges. 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, 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2010 was derived from the Company's audited financial statements for the year ended December 31, 2010, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Note 2 BASIC AND DILUTED NET INCOME ATTRIBUTABLE TO YAHOO! INC. COMMON STOCKHOLDERS PER SHARE

Basic and diluted net income attributable to Yahoo! common stockholders per share is computed using the weighted average number of common shares outstanding during the period, excluding net income attributable to participating securities (restricted stock awards granted under the Company's 1995 Stock Plan and restricted stock units granted under the 1996 Directors' Stock Plan (the "Directors' Plan")). 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 are calculated using the treasury stock method and consist of unvested restricted stock and shares underlying unvested restricted stock units, the incremental common shares issuable upon the exercise of stock options, and shares to be purchased under the 1996 Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"). The Company calculates potential tax windfalls and shortfalls by including the impact of pro forma deferred tax assets.

The Company takes into account the effect on consolidated net income per share of dilutive securities of entities in which the Company holds equity interests that are accounted for using the equity method.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Potentially dilutive securities representing approximately 86 million shares of common stock for the three months ended March 31, 2010 and 58 million shares of common stock for the three months ended March 31, 2011 were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

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

	Three Months Ended	
	March 31, 2010	March 31, 2011
Basic:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 310,191	$ 222,992
Less: Net income allocated to participating securities	(44)	(5)
Net income attributable to Yahoo! Inc. common stockholders — basic	$ 310,147	$ 222,987
Denominator:		
Weighted average common shares	1,398,308	1,309,064
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.22	$ 0.17
Diluted:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 310,191	$ 222,992
Less: Net income allocated to participating securities	(21)	(5)
Less: Effect of dilutive securities issued by equity investees	(696)	(648)
Net income attributable to Yahoo! Inc. common stockholders — diluted	$ 309,474	$ 222,339
Denominator:		
Denominator for basic calculation	1,398,308	1,309,064
Weighted average effect of Yahoo! Inc. dilutive securities:		
Restricted stock and restricted stock units	7,483	7,579
Stock options and employee stock purchase plan	7,641	3,542
Denominator for diluted calculation	1,413,432	1,320,185
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.22	$ 0.17

Note 3 ACQUISITION

During the three months ended March 31, 2011, the Company acquired one company, which was accounted for as a business combination. The total purchase price of $34 million consisted entirely of cash consideration. Of the purchase price, $22 million was preliminarily allocated to goodwill, $13 million to amortizable intangible assets, and $1 million to net assumed liabilities. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

The Company's business combination completed during the three months ended March 31, 2011 did not have a material impact on the Company's condensed consolidated financial statements, and therefore pro forma disclosures have not been presented.

Note 4 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2010	March 31, 2011	Percent Ownership of Common Stock as of March 31, 2011
Alibaba Group	$2,280,602	$2,325,601	43%
Yahoo Japan	1,731,287	1,852,755	35%
Total	$4,011,889	$4,178,356	

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Equity Investment in Alibaba Group. The investment in Alibaba Group Holding Limited ("Alibaba Group") 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 the investments in equity interests balance on the Company's condensed consolidated balance sheets. The Company records its share of the results of Alibaba Group, and any related amortization expense, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income.

As of March 31, 2011, the difference between the Company's carrying value of its investment in Alibaba Group and its proportionate share of the net assets of Alibaba Group is summarized as follows (in thousands):

Carrying value of investment in Alibaba Group	$2,325,601
Proportionate share of Alibaba Group stockholders' equity	1,656,335
Excess of carrying value of investment over proportionate share of Alibaba Group's stockholders' equity(*)	$ 669,266

(*) The excess carrying value has been primarily assigned to goodwill.

The amortizable intangible assets included in the excess carrying value have useful lives not exceeding seven years and a weighted average useful life of approximately five years. Goodwill is not deductible for tax purposes.

The following tables present Alibaba Group's U.S. GAAP summarized financial information, as derived from the Alibaba Group consolidated financial statements (in thousands):

	Three Months Ended	
	December 31, 2009	December 31, 2010
Operating data:		
Revenue	$ 273,812	$ 544,999
Gross profit	$ 212,885	$ 363,452
(Loss) income from operations(*)	$ (169,123)	$ 27,905
Net (loss) income	$ (145,225)	$ 45,777
Net (loss) income attributable to Alibaba Group	$ (156,696)	$ 32,855

	September 30, 2010	December 31, 2010
Balance sheet data:		
Current assets	$ 4,399,571	$5,475,107
Long-term assets	$ 2,436,976	$2,489,753
Current liabilities	$ 2,660,043	$3,685,141
Long-term liabilities	$ 58,679	$ 77,967
Non-voting participating redeemable securities	$ 860	$ 2,379
Noncontrolling interests	$ 338,419	$ 326,455

(*) The loss from operations of $169 million for the three months ended December 31, 2009 is primarily due to Alibaba Group's impairment loss on goodwill and intangible assets for which the Company has no basis in its investment balance.

The Company also has commercial arrangements with Alibaba Group to provide technical, development, and advertising services. For the three months ended March 31, 2010 and 2011, these transactions were not material.

To expedite obtaining an essential regulatory license, the ownership of Alibaba Group's online payment business, Alipay, was restructured so that 100 percent of its outstanding shares are held by a Chinese domestic company which is majority owned by Alibaba Group's chief executive officer. Alibaba Group's management and its principal shareholders, Yahoo! and Softbank Corporation, are engaged in ongoing discussions regarding the terms of the restructuring and the appropriate commercial arrangements related to the online payment business.

Equity Investment in Yahoo Japan. The investment in Yahoo Japan Corporation ("Yahoo Japan") is being accounted for using the equity method and the total investment, including net tangible assets, identifiable intangible assets and goodwill, is classified as part of the investments in equity interests balance on the Company's condensed consolidated balance sheets. The Company records its share of the results of Yahoo Japan, and any related amortization expense, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income.

The Company makes adjustments to the earnings in equity interests line in the consolidated statements of income for any differences between U.S. GAAP and accounting principles generally accepted in Japan ("Japanese GAAP"), the standards by which Yahoo Japan's financial statements are prepared. In the first quarter of 2011, the Company recorded a U.S. GAAP adjustment to Yahoo Japan's net income to reflect an other-than-temporary impairment of a cost method investment of Yahoo Japan, of which the Company's 35 percent share was $26 million, net of tax. The impairment of the investment resulted primarily from reductions in the projected operating results of the Yahoo Japan investee.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

The fair value of the Company's ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately $7 billion as of March 31, 2011.

The following tables present summarized financial information derived from Yahoo Japan's consolidated financial statements, which are prepared on the basis of Japanese GAAP. The Company has made adjustments to the Yahoo Japan financial information to address differences between Japanese GAAP and U.S. GAAP that materially impact the summarized financial information below. Due to these adjustments, the Yahoo Japan summarized financial information presented below is not materially different than such information presented on the basis of U.S. GAAP.

	Three Months Ended	
	December 31, 2009	December 31, 2010
	(in thousands)	
Operating data:		
Revenue	$ 893,895	$ 993,831
Gross profit	$ 733,937	$ 824,265
Income from operations	$ 405,660	$ 498,271
Net income	$ 233,927	$ 226,775
Net income attributable to Yahoo Japan	$ 232,246	$ 224,706

	September 30, 2010	December 31, 2010
	(in thousands)	
Balance sheet data:		
Current assets	$ 2,332,325	$2,656,728
Long-term assets	$ 2,679,566	$2,618,573
Current liabilities	$ 938,985	$ 873,779
Long-term liabilities	$ 30,132	$ 29,460
Noncontrolling interests	$ 28,774	$ 25,259

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately $74 million and $70 million for the three months ended March 31, 2010 and 2011, respectively. As of both December 31, 2010 and March 31, 2011, the Company had net receivable balances from Yahoo Japan of approximately $40 million.

Note 5 GOODWILL

The Company's goodwill balance was $3.7 billion as of December 31, 2010, of which $2.7 billion was recorded in the Americas segment, $0.6 billion in the EMEA segment, and $0.4 billion in the Asia Pacific segment. As of March 31, 2011, the Company's goodwill balance was $3.7 billion, of which $2.7 billion was recorded in the Americas segment, $0.6 billion in the EMEA segment, and $0.4 billion in the Asia Pacific segment. The change in the carrying amount of goodwill of $53 million reflected on our condensed consolidated balance sheets during the three months ended March 31, 2011 was primarily due to the addition of $22 million related to an acquisition in the Asia Pacific segment and foreign currency translation gains of $31 million.

Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2010	March 31, 2011		
	Net	Gross Carrying Amount	Accumulated Amortization (*)	Net
Customer and advertiser related relationships	$ 62,104	$ 142,748	$ (76,475)	$ 66,273
Developed technology and patents	167,897	366,509	(210,633)	155,876
Trade names, trademarks, and domain names	25,869	71,086	(43,590)	27,496
Total intangible assets, net	$ 255,870	$ 580,343	$ (330,698)	$249,645

(*) Foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, totaled approximately $19 million as of March 31, 2011.

For the three months ended March 31, 2010 and 2011, the Company recognized amortization expense for intangible assets of $36 million and $30 million, respectively, including $28 million in cost of revenue for the three months ended March 31, 2010 and $22 million in cost of revenue for the three months ended March 31, 2011. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2011 and each of the succeeding years is as follows: nine months ending December 31, 2011: $81 million; 2012: $80 million; 2013: $42 million; 2014: $24 million; 2015: $5 million; and 2016: $1 million.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Note 7 OTHER INCOME, NET

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

	Three Months Ended	
	March 31, 2010	March 31, 2011
Interest and investment income	$ 6,343	$ 5,360
Gain on sale of Zimbra, Inc.	66,130	—
Other	13,855	(333)
Total other income, net	$86,328	$ 5,027

Interest and investment income consists of income earned from cash in bank accounts and investments made in marketable debt securities and money market funds.

In February 2010, the Company sold Zimbra, Inc. for net proceeds of $100 million and recorded a pre-tax gain of $66 million.

Other consists of gains/losses from sales of marketable debt securities and/or investments in privately held companies and foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies and other non-operating items.

Note 8 COMPREHENSIVE INCOME

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

	Three Months Ended	
	March 31, 2010	March 31, 2011
Net income	$310,191	$222,992
Change in net unrealized gains, on available-for-sale securities, net of tax and reclassification adjustments	1,046	1,479
Foreign currency translation adjustment	(59,230)	129,385
Other comprehensive (loss) income	(58,184)	130,864
Comprehensive income	$252,007	$353,856
Comprehensive income attributable to noncontrolling interests	(2,088)	(1,840)
Comprehensive income attributable to Yahoo! Inc.	$249,919	$352,016

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

	December 31, 2010	March 31, 2011
Unrealized gains and losses on available-for-sale securities, net of tax	$ 8,734	$ 10,213
Foreign currency translation, net of tax	495,520	624,906
Accumulated other comprehensive income	$ 504,254	$635,119

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

Note 9 INVESTMENTS

The following tables summarize the investments in available-for-sale securities (in thousands):

	December 31, 2010			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$1,353,064	$ 1,513	$ (514)	$1,354,063
Municipal bonds	6,609	8	—	6,617
Corporate debt securities, commercial paper, and bank certificates of deposit	740,043	1,608	(76)	741,575
Corporate equity securities	2,597	—	(1,128)	1,469
Total investments in available-for-sale securities	$2,102,313	$ 3,129	$ (1,718)	$2,103,724

	March 31, 2011			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$1,158,129	$ 1,173	$ (556)	$1,158,746
Municipal bonds	7,284	2	(1)	7,285
Corporate debt securities, commercial paper, and bank certificates of deposit	741,508	1,138	(177)	742,469
Corporate equity securities	2,597	—	(614)	1,983
Total investments in available-for-sale securities	$1,909,518	$ 2,313	$ (1,348)	$1,910,483

	December 31, 2010	March 31, 2011
Reported as:		
Short-term marketable debt securities	$1,357,661	$1,169,409
Long-term marketable debt securities	744,594	739,091
Other assets	1,469	1,983
Total	$2,103,724	$1,910,483

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial for both 2010 and the three months ended March 31, 2011 as the carrying value approximates fair value because of the short maturity of those instruments.

The contractual maturities of available-for-sale marketable debt securities were as follows (in thousands):

	December 31, 2010	March 31, 2011
Due within one year	$1,357,661	$1,169,409
Due after one year through five years	744,594	739,091
Total available-for-sale marketable debt securities	$2,102,255	$1,908,500

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

The following tables show all investments in an unrealized loss position for which an other-than-temporary impairment has not been recognized and the related gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2010					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$539,287	$ (514)	$ —	$ —	$539,287	$ (514)
Corporate debt securities, commercial paper, and bank certificates of deposit	153,209	(75)	6,006	(1)	159,215	(76)
Corporate equity securities	1,469	(1,128)	—	—	1,469	(1,128)
Total investments in available-for-sale securities	$693,965	$ (1,717)	$6,006	$ (1)	$699,971	$ (1,718)

	March 31, 2011					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$256,515	$ (556)	$ —	$ —	$256,515	$ (556)
Municipal bonds	3,186	(1)	—	—	3,186	(1)
Corporate debt securities, commercial paper, and bank certificates of deposits	167,838	(175)	6,007	(2)	173,845	(177)
Corporate equity securities	1,983	(614)	—	—	1,983	(614)
Total investments in available-for-sale securities	$429,522	$ (1,346)	$6,007	$ (2)	$435,529	$ (1,348)

The Company’s investment portfolio consists of liquid high-quality fixed income government, agency, municipal, and corporate debt securities, money market funds, and time deposits with financial institutions. 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. Fixed income securities may have their fair market value adversely impacted due to a deterioration of the credit quality of the issuer. The longer the term of the securities, the more susceptible they are to changes in market rates. Investments are reviewed periodically to identify possible other-than-temporary impairment. The Company has no current requirement or intent to sell these securities. The Company expects to recover up to (or beyond) the initial cost of investment for securities held.

The FASB’s authoritative guidance on fair value measurements establishes a framework for measuring fair value and requires disclosures about fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company’s own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

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The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy as of December 31, 2010 (in thousands):

	Fair Value Measurements at Reporting Date Using		
Assets	Level 1	Level 2	Total
Money market funds[1]	$ 291,268	$ —	$ 291,268
Available-for-sale securities:			
Government and agency securities[1]	—	1,401,991	1,401,991
Municipal bonds[1]	—	26,269	26,269
Commercial paper and bank certificates of deposit[1]	—	218,485	218,485
Corporate debt securities[1]	—	576,378	576,378
Available-for-sale securities at fair value	$ 291,268	$ 2,223,123	$ 2,514,391
Corporate equity securities[2]	1,469	—	1,469
Total assets at fair value	$ 292,737	$ 2,223,123	$ 2,515,860

(1) The money market funds, government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

The amount of cash and cash equivalents as of December 31, 2010 includes $1.1 billion in cash deposited with commercial banks, of which $425 million are time deposits.

The following table sets forth the financial assets, measured at fair value, by level within the fair value hierarchy as of March 31, 2011 (in thousands):

	Fair Value Measurements at Reporting Date Using		
Assets	Level 1	Level 2	Total
Money market funds[1]	$ 565,570	$ —	$ 565,570
Available-for-sale securities:			
Government and agency securities[1]	—	1,239,496	1,239,496
Municipal bonds[1]	—	7,285	7,285
Commercial paper and bank certificates of deposit[1]	—	261,484	261,484
Corporate debt securities[1]	—	526,528	526,528
Available-for-sale securities at fair value	$ 565,570	$ 2,034,793	$ 2,600,363
Corporate equity securities[2]	1,983	—	1,983
Total assets at fair value	$ 567,553	$ 2,034,793	$ 2,602,346

(1) The money market funds, government and agency securities, municipal bonds, commercial paper and bank certificates of deposit, and corporate debt securities are classified as part of either cash and cash equivalents or investments in marketable debt securities in the condensed consolidated balance sheets.

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

The amount of cash and cash equivalents as of March 31, 2011 includes $927 million in cash deposited with commercial banks, of which $391 million are time deposits.

The fair values of the Company's Level 1 financial assets are based on quoted market prices of the identical underlying security. The fair values of the Company's Level 2 financial assets are obtained from readily-available pricing sources for the identical underlying security that may not be actively traded. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure. During the quarter ended March 31, 2011, the Company did not make significant transfers between Level 1 and Level 2 assets. As of December 31, 2010 and March 31, 2011, the Company did not have any significant Level 3 financial assets.

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Note 10 STOCKHOLDERS' EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of March 31, 2011, there was $43 million of unamortized stock-based compensation cost related to the Company's Employee Stock Purchase Plan which will be recognized over a weighted average period of 1.1 years.

Stock Options. The Company's 1995 Stock Plan, the Directors' 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 for the three months ended March 31, 2011 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2010	80,976	$ 22.02
Options granted	5,218	$ 16.34
Options exercised(*)	(2,089)	$ 10.87
Options expired	(2,024)	$ 28.76
Options cancelled/forfeited	(2,269)	$ 15.69
Outstanding at March 31, 2011	79,812	$ 21.95

(*) The Company issued new shares to satisfy stock option exercises.

As of March 31, 2011, there was $114 million of unrecognized stock-based compensation expense related to unvested stock options which is expected to be recognized over a weighted average period of 2.5 years.

The Company determines the grant-date fair value of stock options, including the options granted under the Company's Employee Stock Purchase Plan, using a Black-Scholes model. The following weighted average assumptions were used in determining the fair value of option grants using the Black-Scholes option pricing model:

	Stock Options Three Months Ended		Purchase Plan(*) Three Months Ended	
	March 31, 2010	March 31, 2011	March 31, 2010	March 31, 2011
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	2.2%	1.7%	2.3%	1.4%
Expected volatility	31.3%	34.6%	69.8%	36.1%
Expected life (in years)	4.50	4.25	0.52	1.09

(*) Assumptions for the Employee Stock Purchase Plan relate to the annual average of the enrollment periods. Enrollment is currently permitted in May and November of each year.

Restricted stock awards and restricted stock units activity for the three months ended March 31, 2011 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share
Awarded and unvested at December 31, 2010(*)	31,395	$ 17.99
Granted(*)	14,628	$ 16.47
Vested	(4,333)	$ 15.30
Forfeited	(3,244)	$ 16.20
Awarded and unvested at March 31, 2011(*)	38,446	$ 17.86

(*) Includes the maximum number of shares issuable under the Company's performance-based executive incentive restricted stock unit awards.

As of March 31, 2011, there was $344 million of unrecognized stock-based compensation cost related to unvested restricted stock awards and restricted stock units which is expected to be recognized over a weighted average period of 2.8 years.

During the three months ended March 31, 2010 and March 31, 2011, 5.0 million shares and 4.3 million shares, respectively, that were subject to previously granted restricted stock awards and restricted stock units vested. A majority of these vested restricted stock awards and restricted stock units were net share settled. During the three months ended March 31, 2010 and March 31, 2011, the Company withheld 1.9 million and 1.6 million shares, respectively, based upon the Company's closing stock price on the vesting date to settle the employees' minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees' tax obligations to the relevant taxing authorities were $30 million and $26 million, respectively, for the three months ended March 31, 2010 and March 31, 2011 and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units and tax withholding related to reacquisition of shares of restricted stock awards. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

Performance-Based Executive Incentive Restricted Stock Units.

In February 2009 and February 2010, the Compensation Committee approved long-term performance-based incentive equity awards to Ms. Bartz and other senior officers, including three-year annual financial performance restricted stock units which generally are scheduled to vest on the third anniversary of the grant date based on the Company's attainment of certain annual financial performance targets in each of the three years as well as the executive's continued employment through that vesting date. The number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the applicable performance targets. The annual financial performance targets are established at the beginning of each fiscal year and, accordingly, the portion of the award subject to each annual target is treated as a separate annual grant for accounting purposes. The financial performance targets for the 2011 tranches of these awards were established in February 2011. The amount of stock-based compensation recorded for these restricted stock units will vary depending on the Company's attainment of the financial performance targets and each executive's completion of the service period. The fair values of the 2011 tranches of the February 2009 and February 2010 annual financial performance restricted stock unit grants are $2 million and $3 million, respectively, and are being recognized as stock-based compensation expense over one-year and two-year service periods, respectively.

In February 2011, the Compensation Committee approved a long-term performance-based incentive equity award to Ms. Bartz and other senior officers in the form of restricted stock units that generally are scheduled to vest on the third anniversary of the grant date based on the Company's attainment of certain financial performance targets for 2011 as well as the executive's continued employment through that vesting date. The number of shares which ultimately vest will range from 0 percent to 200 percent of the target amount stated in each executive's award agreement based on the performance of the Company relative to the performance targets. The financial performance targets were established in February 2011. The amount of stock-based compensation recorded for these restricted stock units will vary depending on the Company's attainment of the financial performance targets and each executive's completion of the service period. The fair value of these restricted stock unit grants is $32 million and is being recognized as stock-based compensation expense over a three-year service period.

Stock Repurchases. In June 2010, the Board authorized a stock repurchase program allowing the Company to repurchase up to $3.0 billion of its outstanding shares of common stock from time to time. The repurchase program expires in June 2013. Repurchases under this program may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. During the three months ended March 31, 2011, the Company repurchased approximately 8.4 million shares of its common stock under this stock repurchase program at an average price of $16.35 per share for a total of $137 million.

Note 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating and capital lease agreements with original lease periods of up to 13 years which expire between 2011 and 2019.

During the second quarter of 2010, the Company acquired certain office space for a total of $72 million ($7 million in cash and the assumption of $65 million in debt). In the first quarter of 2010, the property was reclassified from an operating lease to a capital lease as a result of a commitment to purchase the property. Accordingly, in the second quarter of 2010, the Company reduced the capital lease obligation for the $7 million cash outlay and reclassified the remaining $65 million as assumed debt in its condensed consolidated balance sheets.

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A summary of gross and net lease commitments as of March 31, 2011 is as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Nine months ending December 31, 2011	$ 125	$ (8)	$ 117
Years ending December 31,			
2012	139	(9)	130
2013	118	(10)	108
2014	90	(9)	81
2015	71	(6)	65
2016	35	(1)	34
Due after 5 years	35	—	35
Total gross and net lease commitments	$ 613	$ (43)	$ 570

	Capital Lease Commitment
Nine months ending December 31, 2011	$ 5
Years ending December 31,	
2012	7
2013	8
2014	8
2015	8
2016	8
Due after 5 years	23
Gross lease commitment	$ 67
Less: interest	(27)
Net lease commitment	$ 40

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs ("TAC"), to its Affiliates. As of March 31, 2011, these commitments totaled $69 million, of which $59 million will be payable in the remainder of 2011, $7 million will be payable in 2012, and $3 million will be payable in 2013.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to $36 million through 2023.

Other Commitments. In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint ventures and business partners, purchasers of assets or subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of agreements or representations and warranties made by the Company, services to be provided by the Company, intellectual property infringement claims made by third parties or, with respect to the sale of assets or a subsidiary, matters related to the Company's conduct of the business and tax matters prior to the sale. 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 might not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its condensed consolidated financial statements.

As of March 31, 2011, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

See Note 15 — “Search Agreement with Microsoft Corporation” for a description of the Company’s Search and Advertising Services and Sales Agreement and License Agreement with Microsoft.

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

On July 12, 2001, the first of several purported securities class action lawsuits was filed in the U.S. District Court for the Southern District of New York against certain underwriters involved in Overture Services Inc.’s (“Overture”) IPO, Overture, and certain of Overture’s former officers and directors. The court consolidated the cases against Overture. Plaintiffs allege, among other things, violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 (the “Exchange Act”) involving undisclosed compensation to the underwriters, and improper practices by the underwriters, and seek unspecified damages. Similar complaints were filed in the same court against numerous public companies that conducted IPOs of their common stock since the mid-1990s. All of these lawsuits were consolidated. On October 5, 2009, the court granted class certification and granted final approval of a stipulated global settlement and plan of allocation. On October 6, 2010, various individuals objecting to the settlement filed opening appeal briefs with the U.S. Court of Appeals for the Second Circuit, and in early February 2011 Yahoo! and other appellees filed reply briefs in support of the settlement.

On June 14, 2007, a stockholder derivative action was filed in the U.S. District Court for the Central District of California by Jill Watkins against members of the Board and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in a former class action relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Exchange Act. On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a shareholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment. On January 28, 2011, the court granted Yahoo!’s demurrer to plaintiff’s first amended complaint with leave to amend. On April 15, 2011, Yahoo! demurred to the second amended complaint, with arguments scheduled for July 8, 2011.

Based on current knowledge, the Company does not believe that the aggregate amount of liability that is reasonably possible with respect to the foregoing legal proceedings or claims would have a material adverse effect on its financial position, results of operations, or cash flows. In the event of a determination adverse to Yahoo!, its subsidiaries, directors, or officers in these matters, however, 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. The Company may also incur substantial expenses in defending against these claims.

Note 12 SEGMENTS

The Company manages its business geographically. The primary areas of measurement and decision-making are Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company’s segments. Prior period presentations have been updated to conform to the current profitability measures being used by the Company’s management team to evaluate the financial performance of the Company’s segments.

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011
Revenue by segment:		
Americas	$1,155,011	$ 818,931
EMEA	141,827	154,050
Asia Pacific	300,122	241,376
Total revenue	$1,596,960	$1,214,357
TAC by segment:		
Americas	$ 281,746	$ 38,141
EMEA	53,420	57,512
Asia Pacific	131,364	54,378
Total TAC	$ 466,530	$ 150,031
Revenue ex-TAC by segment:		
Americas	$ 873,265	$ 780,790
EMEA	88,407	96,538
Asia Pacific	168,758	186,998
Total revenue ex-TAC	1,130,430	1,064,326
Direct costs by segment(1) :		
Americas	144,904	136,074
EMEA	30,773	30,587
Asia Pacific	34,467	44,585
Global operating costs(2)(3)	501,824	457,772
Restructuring charges, net	4,412	10,575
Depreciation and amortization	165,246	160,438
Stock-based compensation expense	60,783	34,550
Income from operations	$ 188,021	$ 189,745

(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Beginning in the fourth quarter of 2010, the Company no longer includes TAC in segment direct costs. For comparison purposes, prior period amounts have been revised to conform to the current presentation.

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

(3) The net cost reimbursements from Microsoft are primarily included in global operating costs.

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	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011
Capital expenditures, net:		
Americas	$ 91,799	$ 127,370
EMEA	11,571	13,259
Asia Pacific	9,171	26,920
Total capital expenditures, net	$ 112,541	$ 167,549

	December 31, 2010	March 31, 2011
Property and equipment, net:		
Americas	$1,475,021	$1,492,567
EMEA	63,820	73,317
Asia Pacific	114,581	129,523
Total property and equipment, net	$1,653,422	$1,695,407

See Note 14 —"Restructuring Charges, Net" for additional information regarding segments.

Enterprise Wide Disclosures:

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011
Display	$ 491,041	$ 522,623
Search	841,214	455,121
Other	264,705	236,613
Total revenue	$1,596,960	$1,214,357

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011
Revenue:		
U.S.	$1,120,664	$ 778,969
International	476,296	435,388
Total revenue	$1,596,960	$1,214,357

	December 31, 2010	March 31, 2011
Property and equipment, net:		
U.S.	$1,471,536	$1,489,246
International	181,886	206,161
Total property and equipment, net	$1,653,422	$1,695,407

Note 13 INCOME TAXES

The effective tax rate for the three months ended March 31, 2011 was 27 percent, compared to 18 percent for the same period in 2010. The Company's rate differs from the statutory federal income tax rate of 35 percent as a result of several factors, including state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to its reserves for tax uncertainties.

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During the first quarter of 2011, the Company reached agreements with both the United Kingdom Inland Revenue (IR) and the California Franchise Tax Board (FTB) in connection with adjustments to income tax returns that spanned years from 2005 to 2008. During the same period of 2010, the Company reached agreement with the U.S. Internal Revenue Service in connection with adjustments to its 2005 and 2006 U.S. federal income tax returns. All of the above agreements resulted in net reductions to its reserves for tax uncertainties.

The Company's gross amount of unrecognized tax benefits as of March 31, 2011 is $523 million, of which, $404 million is recorded on the condensed consolidated balance sheets. As a result of the above mentioned agreements with the IR and FTB, there was a reduction to the Company's gross unrecognized tax benefit of $82 million. Of this $82 million, $21 million resulted in an effective tax rate benefit during the first quarter. These reductions to the gross unrecognized tax benefits have been offset by current year tax positions that increase unrecognized tax benefits. In total, the gross unrecognized tax benefits as of March 31, 2011 decreased by $74 million from the recorded balance as of December 31, 2010.

The Company is in various stages of the examination and appeals process in connection with all of its tax audits worldwide and it is difficult to determine when these examinations will be settled. As a result, it is reasonably possible that over the next twelve-month period the Company may experience an increase or decrease in its unrecognized tax benefits. It is not possible to determine either the magnitude or the range of any increase or decrease at this time.

Note 14 RESTRUCTURING CHARGES, NET

Restructuring charges, net was comprised of the following (in thousands):

	Three Months Ended	
	March 31, 2010	March 31, 2011
Employee severance pay and related costs	$ 258	$ 9,335
Non-cancelable lease, contract termination, and other charges	4,154	1,992
Sub-total before reversal of stock-based compensation expense	4,412	11,327
Reversal of stock-based compensation expense	—	(752)
Restructuring charges, net	$ 4,412	$ 10,575

Although the Company does not allocate restructuring charges to its segments, the amounts of the restructuring charges relating to each segment are presented below.

Q4'08 Restructuring Plan. During the fourth quarter of 2008, the Company implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. During the three months ended March 31, 2010, the Company incurred total pre-tax cash charges of approximately $4 million in facility and other restructuring costs related to the Q4'08 restructuring plan, consisting of $5 million in charges related to the Americas segment, offset by a $1 million reversal related to the EMEA segment. During the three months ended March 31, 2011, the Company incurred total pre-tax cash charges of approximately $2 million in facility and other restructuring costs related to the Q4'08 restructuring plan, the majority of which related to the Americas segment.

Q4'09 Restructuring Charges. During the fourth quarter of 2009, the Company decided to close one of its EMEA facilities and began implementation of a workforce realignment at the facility to focus resources on its strategic initiatives. The Company exited the facility in the third quarter of 2010. In connection with the strategic realignment efforts, a U.S. executive of one of the Company's acquired businesses departed. During the three months ended March 31, 2010, the Company incurred total pre-tax cash charges of less than $1 million in severance and other related costs related to the Q4'09 restructuring charges, consisting of charges related to the EMEA segment. During the three months ended March 31, 2011, the Company recorded a reversal of $1 million for adjustments to original estimates in severance and other related costs related to the Q4'09 restructuring charges, entirely related to the EMEA segment.

Q4'10 Restructuring Plan. During the fourth quarter of 2010, the Company began implementation of a worldwide workforce reduction to align resources with its product strategy. During the three months ended March 31, 2011, the Company incurred total pre-tax cash charges of $2 million in severance and other costs related to the Q4'10 restructuring plan, consisting of $1 million in charges related to the Americas segment and $1 million related to the EMEA segment.

Q1'11 Restructuring Plan. During the first quarter of 2011, the Company began implementation of a workforce realignment to further reduce its cost structure. During the three months ended March 31, 2011, the Company incurred total pre-tax cash charges of $9 million in severance and other costs related to the Q1'11 restructuring plan. The pre-tax cash charges were offset by a $1 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the $8 million in restructuring charges, net recorded in the three months ended March 31, 2011, $7 million related to the Americas segment and $1 million related to the EMEA segment.

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Restructuring Accruals. The $63 million restructuring liability as of March 31, 2011 consists of $20 million for employee severance pay expenses which the Company expects to substantially pay by the end of the first quarter of 2012, and $43 million relates to non-cancelable lease costs which the Company expects to pay over the terms of the related obligations which extend to the second quarter of 2017.

The Company's restructuring accrual activity for the quarter ended March 31, 2011 is summarized as follows (in thousands):

	Q4'08 Restructuring Plan	Q4'09 Restructuring Charges	Q4'10 Restructuring Plan	Q1'11 Restructuring Plan	Total
Balance as of January 1, 2011	$ 49,484	$ 4,286	$ 33,332	$ —	$ 87,102
Employee severance pay and related costs	3	50	2,865	9,026	11,944
Reversals of stock-based compensation expense	—	—	—	(752)	(752)
Non-cancelable lease, contract termination, and other charges	2,055	12	—	—	2,067
Reversal of previous charges	(75)	(1,426)	(1,183)	—	(2,684)
Restructuring charges, net for the quarter ended March 31, 2011	$ 1,983	$ (1,364)	$ 1,682	$ 8,274	$ 10,575
Cash paid	(8,184)	(1,105)	(22,449)	(3,591)	(35,329)
Non-cash reversals (accelerations) of stock-based compensation expense	—	—	—	752	752
Non-cash adjustments	(149)	198	(902)	915	62
Balance as of March 31, 2011	$ 43,134	$ 2,015	$ 11,663	$ 6,350	$ 63,162

Restructuring accruals by segment consisted of the following (in thousands):

	December 31, 2010	March 31, 2011
Americas	$ 68,268	$ 49,126
EMEA	16,895	12,691
Asia Pacific	1,939	1,345
Total restructuring accruals	$ 87,102	$ 63,162

Note 15 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

On December 4, 2009, the Company entered into a Search and Advertising Services and Sales Agreement ("Search Agreement") with Microsoft Corporation ("Microsoft"), which provides for Microsoft to be the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites. The Company also entered into a License Agreement with Microsoft. Under the License Agreement, Microsoft acquired an exclusive 10-year license to the Company's core search technology and will have the ability to integrate this technology into its existing Web search platforms. The Company received regulatory clearance from both the U.S. Department of Justice and the European Commission on February 18, 2010 and commenced implementation of the Search Agreement on February 23, 2010. Under the Search Agreement, the Company will be the exclusive worldwide relationship sales force for both companies' premium search advertisers, which include advertisers meeting certain spending or other criteria, advertising agencies that specialize in or offer search engine marketing services and their clients, and resellers and their clients seeking assistance with their paid search accounts. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement.

During the first five years of the term of the Search Agreement, in the transitioned markets the Company is entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties (the "Revenue Share Rate") and the Company is also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue is deducted. For new Affiliates during the term of the Search Agreement, and for all Affiliates after the first five years of such term, the Company will receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue and certain Microsoft costs are deducted. On the fifth anniversary of the date of implementation of the Search Agreement, Microsoft will have the option to terminate the Company's sales exclusivity for premium search advertisers. If Microsoft exercises its option, the Revenue Share Rate will increase to 93 percent for the remainder of the term of the Search Agreement, unless the Company exercises its option to retain the Company's sales exclusivity, in which case the Revenue Share Rate would be reduced to 83 percent for the remainder of the term. If Microsoft does not exercise such option, the Revenue Share Rate will be 90 percent for the remainder of the term of the Search Agreement. In the transitioned markets, the Company reports as revenue the 88 percent revenue share as the Company is not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft. As of March 31, 2011, the Company has collected a total amount of $56 million on behalf of Microsoft and affiliates, which is included in cash and cash equivalents as of March 31, 2011, with a corresponding liability in accrued expenses and other current liabilities that the Company will remit to Microsoft in the second quarter of 2011. The Company's uncollected 88 percent revenue share in connection with the Search Agreement was $207 million as of March 31, 2011.

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements—Continued
(unaudited)

The global transition of the algorithmic and paid search platforms to Microsoft's platform and the migration of the paid search advertisers and publishers to Microsoft's platform are being done on a market by market basis and are expected to continue through 2012, and possibly 2013. The algorithmic and paid search transition to the Microsoft platform was completed in the U.S. and Canada in the fourth quarter of 2010, and the Company plans to continue to transition algorithmic search in other markets in 2011. The transition of paid search in other markets is expected to resume in late 2011 or early 2012.

Under the Search Agreement, for each market, Microsoft guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties only, for 18 months after the transition of paid search services to Microsoft's platform in that market. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods. The Company records the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which would typically be the quarter in which the associated shortfall in revenue per search occurred.

Microsoft has agreed to reimburse the Company for certain transition costs up to an aggregate total of $150 million during the first three years of the Search Agreement. The Company's results for the three months ended March 31, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement, which were equal to the transition costs of $11 million incurred by Yahoo! related to the Search Agreement in the three months ended March 31, 2011. During the quarter ended March 31, 2010, the Company recorded reimbursements of $24 million for transition costs incurred in the first quarter of 2010 and $43 million for transition costs incurred in 2009. The 2009 transition cost reimbursements were recorded in 2010 after regulatory clearance in the U.S. and Europe was received, implementation of the Search Agreement commenced, and Microsoft became obligated to make such payments. Through the first quarter of 2011, the Company has incurred transition costs of $135 million reimbursable by Microsoft under the Search Agreement.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results for the three months ended March 31, 2010 and 2011 reflect $35 million and $56 million, respectively, in search operating cost reimbursements from Microsoft under the Search Agreement. Search operating cost reimbursements began during the quarter ended March 31, 2010 and will, subject to specified exclusions and limitations, continue until the Company has fully transitioned to Microsoft's platform.

In addition to the reimbursements for transition and search costs, the Company recorded reimbursements of $15 million for employee retention costs incurred in the first quarter of 2010 and reimbursements of $5 million for employee retention costs incurred in 2009. These employee retention cost reimbursements are separate from and in addition to the $150 million of transition cost reimbursement payments and search operating cost reimbursements.

Reimbursement receivables are recorded as the reimbursable costs are incurred and are applied against the operating expense categories in which the costs were incurred. Of the total amounts incurred in the fourth quarter of 2010, the total reimbursements not yet received from Microsoft of $64 million were classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of December 31, 2010. Of the total amounts incurred in the first quarter of 2011, the total reimbursements not yet received from Microsoft of $28 million were classified as part of prepaid expenses and other current assets on the Company's condensed consolidated balance sheets as of March 31, 2011.

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

Forward-Looking Statements

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

- expectations about revenue, including display, search, and other revenue;
- expectations about growth in users;
- expectations about cost of revenue and operating expenses;
- expectations about the amount of unrecognized tax benefits and the adequacy of our existing tax reserves;
- anticipated capital expenditures;
- expectations about the implementation and the financial and operational impacts of our Search Agreement with Microsoft;
- impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, and technologies; and
- expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements.

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

Overview

Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!," the "Company," "we," or "us"), is a premier digital media company that delivers personalized digital content and experiences, across devices and around the globe, to vast audiences. We provide engaging and innovative canvases for advertisers to connect with their target audiences using our unique blend of Science + Art + Scale. Through our proprietary technology and insights, we deliver unique content and experiences for our audience and create powerful opportunities for our advertisers to connect with their target audiences, in context and at scale. To users, we provide online properties and services ("Yahoo! Properties"). To advertisers, we provide a range of marketing services designed to reach and connect with users of our Yahoo! Properties, as well as with Internet users beyond Yahoo! Properties, through a distribution network of third-party entities (our "Affiliates") that have integrated our advertising offerings into their Websites or other offerings (those Websites and offerings, "Affiliate sites"). We believe that our marketing services enable advertisers to deliver highly relevant marketing messages to their target audiences.

Our offerings to users on Yahoo! Properties currently fall into three categories: Communications and Communities; Search and Marketplaces; and Media. The majority of what we offer is available in more than 25 languages and in more than 50 countries, regions, and territories. We have properties tailored to users in specific international markets including Yahoo! Homepage and social networking Websites such as *Meme* and *Wretch*. We manage and measure our business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific.

First Quarter Highlights

Operating Highlights	Three Months Ended March 31, 2010	Three Months Ended March 31, 2011	Dollar Change
		(In thousands)	
Revenue	$1,596,960	$1,214,357	$(382,603)
Income from operations	$ 188,021	$ 189,745	$ 1,724

Cash Flow Highlights	Three Months Ended March 31, 2010	2011	Dollar Change
	(In thousands)		
Net cash provided by operating activities	$ 143,597	$ 208,370	$ 64,773
Net cash provided by (used in) investing activities	$ 294,346	$ (19,465)	$(313,811)
Net cash used in financing activities	$(369,854)	$(123,347)	$ 246,507

Our revenue decrease of 24 percent for the three months ended March 31, 2011, compared to the same period in 2010, can be attributed primarily to a decline in our search revenue offset by an increase in display revenue. The increase in income from operations for the three months ended March 31, 2011 reflects a decrease in operating expenses of $55 million, compared to the same period in 2010. The decrease in operating expenses is primarily attributable to decreases in stock-based compensation expense and marketing expenses.

Cash generated by operating activities is a measure of the cash productivity of our business model. Our operating activities in the three months ended March 31, 2011 generated adequate cash to meet our operating needs. Cash used by investing activities in the three months ended March 31, 2011 included net proceeds from sales, maturities, and purchases of marketable debt securities of $186 million offset by $34 million used for an acquisition, net of cash acquired, and net capital expenditures of $168 million. Cash used in financing activities included $137 million used in the direct repurchase of common stock and $26 million used for tax withholding payments related to the net share settlements of restricted stock units and tax withholding related reacquisition of shares of restricted stock, offset by $23 million in proceeds from employee option exercises.

Search Agreement with Microsoft Corporation

Under the Search Agreement, for each market, Microsoft guarantees Yahoo!'s revenue per search ("RPS Guarantee") on Yahoo! Properties only, for 18 months after the transition of paid search services to Microsoft's platform in that market. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods. We record the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which would typically be the quarter in which the associated shortfall in revenue per search occurred.

Under the Search Agreement, Microsoft has agreed to reimburse us for certain transition costs up to an aggregate total of $150 million during the first three years of the Search Agreement. Our results for the three months ended March 31, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement which were equal to the transition costs of $11 million incurred by Yahoo! related to the Search Agreement in the three months ended March 31, 2011. During the quarter ended March 31, 2010, we recorded reimbursements of $24 million for transition costs incurred in the first quarter of 2010 and $43 million for transition costs incurred in 2009. The 2009 transition cost reimbursements were recorded in the first quarter of 2010 after regulatory clearance in the U.S. and Europe was received, implementation of the Search Agreement commenced, and Microsoft became obligated to make such payments. Through the first quarter of 2011, we have incurred transition costs of $135 million reimbursable by Microsoft under the Search Agreement.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. Our results for the three months ended March 31, 2011 reflect $56 million in search operating cost reimbursements from Microsoft under the Search Agreement, compared to $35 million for the same period of 2010. The global transition of the algorithmic and paid search platforms to Microsoft's platform and the migration of the paid search advertisers and publishers to Microsoft's platform are being done on a market by market basis and are expected to continue through 2012, and possibly 2013. The algorithmic and paid search transition to the Microsoft platform was completed in the U.S. and Canada in the fourth quarter of 2010, and we plan to continue to transition algorithmic search in other markets in 2011. The transition of paid search in other markets is expected to resume in late 2011 or early 2012. Search operating cost reimbursements are expected to decline as we fully transition all markets and the underlying expenses are no longer incurred under our cost structure following completion of the transition.

In addition to the reimbursements for transition and search costs, we recorded reimbursements of $15 million for employee retention costs incurred in the first quarter of 2010 and reimbursements of $5 million for employee retention costs incurred in 2009. These employee retention cost reimbursements are separate from and in addition to the $150 million of transition cost reimbursement payments and search operating cost reimbursements.

We record receivables for the reimbursements as costs are incurred and apply them against the operating expense categories in which the costs were incurred. Of the total amounts incurred in the first quarter of 2011, the total reimbursements not yet received from Microsoft of $28 million were classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets as of March 31, 2011. The $28 million of unpaid reimbursements were received during the second quarter of 2011.

During the first five years of the Search Agreement, in transitioned markets we are entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties and we are also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue and certain Microsoft costs are deducted. In the transitioned markets, for search revenue generated from Microsoft's services on Yahoo! Properties and Affiliate sites, we report as revenue the 88 percent revenue share, as we are not the primary obligor in the arrangement with the advertisers.

As a result of the required change in revenue presentation and the revenue share with Microsoft, our revenue and traffic acquisition costs for the second quarter of 2011 are expected to be lower than these amounts would otherwise have been by approximately $220 million and $190 million, respectively.

See Note 15 — "Search Agreement with Microsoft Corporation" in the Notes to the condensed consolidated financial statements for additional information.

Results of Operations

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

	Three Months Ended March 31,				Percent
	2010	(*)	2011	(*)	Change
Display	$ 491,041	30%	$ 522,623	43%	6%
Search	841,214	53%	455,121	37%	(46)%
Other	264,705	17%	236,613	20%	(11)%
Total revenue	$1,596,960	100%	$1,214,357	100%	(24)%

(*) Percent of total revenue.

We currently generate revenue principally from display advertising on Yahoo! Properties and from search advertising on Yahoo! Properties and Affiliate sites.

To assist us in evaluating display advertising and search advertising, beginning in the fourth quarter of 2010, we began reporting the number of Web pages viewed by users ("Page Views") separately for display and search. "Search Page Views" is defined as the number of Web pages viewed by users on Yahoo! Properties and Affiliate sites resulting from search queries and "revenue per Search Page View" is defined as search revenue divided by our Search Page Views. "Display Page Views" is defined as the total number of Page Views on Yahoo! Properties less the number of Search Page Views on Yahoo! Properties, and "revenue per Display Page View" is defined as display revenue divided by our Display Page Views. While we also receive display revenue for content match links (advertising in the form of contextually relevant links to advertisers' Websites) on Yahoo! Properties and Affiliate sites and for display advertising on Affiliate sites, we do not include that revenue or those Page Views in our discussion or calculation of Display Page Views or revenue per Display Page View because the net revenue and related volume metrics associated with them are not currently material to display revenue.

We periodically review and refine our methodology for monitoring, gathering, and counting Page Views on Yahoo! Properties. Based on this process, from time to time, we update our methodology to exclude from the count of Page Views interactions with our servers that we determine or believe are not the result of user visits to Yahoo! Properties.

Display Revenue. Display revenue for the three months ended March 31, 2011 increased by 6 percent, compared to the same period in 2010. Our year-over-year growth in display revenue can be primarily attributed to a higher volume of ad impressions. For the three months ended March 31, 2011, Display Page Views decreased 1 percent and revenue per Display Page View increased 10 percent, compared to the same period in 2010 due to the increase in display revenue as discussed above.

We expect display revenue to increase for the second quarter of 2011, compared to the same period of 2010, as we continue to grow our display advertising business.

Search Revenue. Search revenue for the three months ended March 31, 2011 decreased by 46 percent, compared to the same period in 2010. Search revenue decreased primarily due to the required change in revenue presentation in the fourth quarter of 2010, the associated revenue share with Microsoft for transitioned markets, and the loss of an affiliate in the Asia Pacific region. For the three months ended March 31, 2011, Search Page Views decreased 6 percent and revenue per Search Page View decreased 42 percent, compared to the same period in 2010. The decline in revenue per Search Page View for the three months ended March 31, 2011 compared to the same period in 2010 was due to the decline in search revenue as discussed above.

We expect search revenue for the second quarter of 2011 to decrease compared to the same period of 2010. The decrease is primarily attributable to several factors associated with the transition of algorithmic and paid search results to Microsoft's platform in the transitioned markets, including the required change in revenue presentation for transitioned markets from a gross to a net basis and the revenue share with Microsoft in transitioned markets.

Other Revenue. Other revenue includes listings-based services revenue, transaction revenue and fees revenue. Other revenue for the three months ended March 31, 2011 decreased by 11 percent, compared to the same period in 2010. The decrease can be attributable to changes in certain of our broadband access partnerships and to the divestiture of certain business lines throughout 2010. In addition, revenue from other premium services declined year-over-year as we continue to outsource various offerings.

We expect other revenue to decline slightly for the second quarter of 2011, compared to the same period of 2010. The divestitures and outsourcing of non-core businesses and offerings, as well as changes in certain of our broadband access partnerships from a fee-paying user structure to other fee structures such as fixed fee, are among the factors expected to contribute to the decrease in other revenue.

Costs and Expenses. Operating costs and expenses consist of cost of revenue, sales and marketing, product development, general and administrative, amortization of intangible assets, and restructuring charges, net. Cost of revenue consists of Traffic Acquisition Costs ("TAC"), Internet connection charges, and other expenses associated with the production and usage of Yahoo! Properties, including amortization of acquired intellectual property rights and developed technology.

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

	Three Months Ended March 31,				Dollar Change	Percent Change
	2010	(*)	2011	(*)		
Cost of revenue	$706,382	44%	$377,462	31%	$(328,920)	(47)%
Sales and marketing	$313,538	20%	$262,234	22%	$ (51,304)	(16)%
Product development	$266,077	17%	$243,067	20%	$ (23,010)	(9)%
General and administrative	$110,428	7%	$123,224	10%	$ 12,796	12%
Amortization of intangibles	$ 8,102	1%	$ 8,050	1%	$ (52)	(1)%
Restructuring charges, net	$ 4,412	0%	$ 10,575	1%	$ 6,163	140%

(*) Percent of total revenue.

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

	Three Months Ended March 31,	
	2010	2011
Cost of revenue	$ 1,011	$ 648
Sales and marketing	13,678	6,697
Product development	32,373	17,672
General and administrative	13,721	10,099
Restructuring expense reversals	—	(752)
Total stock-based compensation expense	$60,783	$34,364

For additional information about stock-based compensation, see Note 10 — "Stockholders' Equity and Employee Benefits" in the Notes to the condensed consolidated financial statements elsewhere in this Report as well as "Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2010 under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Compensation, Information Technology, Depreciation and Amortization, and Facilities Expenses. Compensation expense consists primarily of salary, bonuses, commissions, and stock-based compensation expense. Information and technology expense includes telecom usage charges and data center operating costs. Depreciation and amortization expense consists primarily of depreciation of server equipment and information technology assets and amortization of developed or acquired technology and intellectual property rights. Facilities expense consists primarily of building maintenance costs, rent expense, and utilities.

The changes in operating costs and expenses for the three months ended March 31, 2011 compared to the three months ended March 31, 2010 are comprised of the following (in thousands):

	Compensation	Information Technology	Depreciation and Amortization	TAC	Facilities	Other	Total
Cost of revenue	$ (9,416)	$ 882	$ (5,184)	$(316,498)	$ (169)	$ 1,465	$(328,920)
Sales and marketing	(25,335)	(250)	(946)	—	59	(24,832)	(51,304)
Product development	(23,484)	(1,158)	2,558	—	(159)	(767)	(23,010)
General and administrative	(723)	(212)	(1,184)	—	(43)	14,958	12,796
Amortization of intangibles	—	—	(52)	—	—	—	(52)
Restructuring charges, net	—	—	—	—	—	6,163	6,163
Total	$ (58,958)	$ (738)	$ (4,808)	$(316,498)	$ (312)	$ (3,013)	$(384,327)

Compensation Expense. Total compensation expense decreased $59 million for the three months ended March 31, 2011, compared to the same period in 2010. Excluding the net impact of Microsoft reimbursements, compensation expense declined $80 million, primarily due to a decrease in stock-based compensation expense, lower salaries and wages from decreased headcount across all functions, and the capitalization of otherwise expensed compensation costs associated with increased efforts in development of our technology platform and specific products. The decrease in stock-based compensation expense is primarily due to higher employee forfeitures and reduced headcount in the three months ended March 31, 2011, compared to the same period of 2010. Capitalized internal use software and Website development costs have increased as we continue to invest in improving our technology platforms. The decline in compensation expense was offset by decreased Microsoft reimbursements of $21 million during the three months ended March 31, 2011, compared to the same period of 2010. The decrease in Microsoft reimbursements in the three months ended March 31, 2011 compared to the same period in 2010 was due to the impact of 2009 transition cost reimbursements being recorded in the first quarter of 2010.

Information Technology. Information technology expense decreased less than $1 million for the three months ended March 31, 2011, compared to the same period in 2010. Excluding the net impact of Microsoft reimbursements, information technology expense increased $8 million due to data center operating costs. This increase was offset by increased reimbursements from Microsoft of $9 million during the three months ended March 31, 2011, compared to the same period of 2010. The increase in Microsoft reimbursements was due to the inclusion of three months of expenses in the three months ended March 31, 2011 compared to the inclusion of one month of expenses in the same period of 2010.

Depreciation and Amortization. Depreciation and amortization expense decreased $5 million for the three months ended March 31, 2011, compared to the same period in 2010. The decline was primarily due to increased reimbursements from Microsoft of $5 million during the three months ended March 31, 2011, compared to the same period of 2010. Excluding the net impact of Microsoft reimbursements, depreciation and amortization expense was flat compared to the same period of 2010. The increase in Microsoft reimbursements was due to the inclusion of three months of expenses in the three months ended March 31, 2011 compared to the inclusion of one month of expenses in the same period of 2010.

TAC. TAC decreased $316 million for the three months ended March 31, 2011, compared to the same period in 2010. The decrease was primarily due to the change in the recording of TAC in the fourth quarter of 2010 due to the Search Agreement with Microsoft as we no longer incur TAC for transitioned markets. We now receive an 88 percent revenue share in the transitioned markets as Microsoft is the primary obligor to the advertisers. In addition, the decrease in TAC year-over-year was due to the loss of an affiliate in the Asia Pacific region during late 2010.

Facilities and Other Expenses. Facilities and other expenses decreased $3 million for the three months ended March 31, 2011, compared to the same period in 2010. Excluding the net impact of Microsoft reimbursements, facilities and other expenses declined $18 million, primarily due to decreases in marketing-related expenses of $21 million. Marketing-related expenses decreased during the three months ended March 31, 2011 compared to the same period of 2010 due to the launch of various 2010 marketing campaigns, including our global branding campaign, for which there were no similar campaigns in the three months ended March 31, 2011. The decline in facilities and other expenses was offset by decreased Microsoft reimbursements of $15 million during the three months ended March 31, 2011, compared to the same period of 2010.The decrease in Microsoft reimbursements in the three months ended March 31, 2011 compared to the same period in 2010 was due to the impact of 2009 transition cost reimbursements being recorded in the first quarter of 2010.

We currently expect our operating costs to decrease for the second quarter of 2011, compared to the same period of 2010, primarily due to lower workforce expenses driven by restructuring activities and higher marketing expenses in 2010 than 2011 as we continue our efforts to drive efficiencies and align our spending with our strategic priorities.

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Restructuring Charges, Net. Restructuring charges, net was comprised of the following (in thousands):

	Three Months Ended	
	March 31, 2010	March 31, 2011
Employee severance pay and related costs	$ 258	$ 9,335
Non-cancelable lease, contract termination, and other charges	4,154	1,992
Sub-total before reversal of stock-based compensation expense	4,412	11,327
Reversal of stock-based compensation expense	—	(752)
Restructuring charges, net	$ 4,412	$ 10,575

Q4'08 Restructuring Plan. During the fourth quarter of 2008, we implemented certain cost reduction initiatives, including a workforce reduction and consolidation of certain real estate facilities. During the three months ended March 31, 2010, we incurred total pre-tax cash charges of approximately $4 million in facility and other restructuring costs related to the Q4'08 restructuring plan, consisting of $5 million in charges related to the Americas segment, offset by a $1 million reversal related to the EMEA segment. During the three months ended March 31, 2011, we incurred total pre-tax cash charges of approximately $2 million in facility and other restructuring costs related to the Q4'08 restructuring plan, the majority of which related to the Americas segment. As of March 31, 2011, the aggregate outstanding restructuring liability related to the Q4'08 restructuring plan was $43 million, most of which relates to non-cancelable lease costs that we expect to pay over the lease terms of the related obligations, which end by the second quarter of 2017.

Q4'09 Restructuring Charges. During the fourth quarter of 2009, we decided to close one of our EMEA facilities and began implementation of a workforce realignment at the facility to focus resources on our strategic initiatives. We exited the facility in the third quarter of 2010. In connection with the strategic realignment efforts, a U.S. executive of one of our acquired businesses departed. During the three months ended March 31, 2010, we incurred pretax cash charges of less than $1 million in severance and other related costs related to the Q4'09 restructuring charges, consisting of charges related to the EMEA segment. During the three months ended March 31, 2011, we recorded a reversal of $1 million for adjustments to original estimates in severance and other related costs related to the Q4'09 restructuring charges, entirely related to the EMEA segment. As of March 31, 2011, the aggregate outstanding restructuring liability related to the Q4'09 restructuring charges was $2 million, which we expect to substantially pay by the second quarter of 2011.

Q4'10 Restructuring Plan. During the fourth quarter of 2010, we began implementation of a worldwide workforce reduction to align resources with our product strategy. During the three months ended March 31, 2011, we incurred total pre-tax cash charges of $2 million in severance and other costs related to the Q4'10 restructuring plan, consisting of $1 million in charges related to the Americas segment and $1 million related to the EMEA segment. As of March 31, 2011, the aggregate outstanding restructuring liability related to the Q4'10 restructuring plan was $12 million, which we expect to substantially pay by the first quarter of 2012.

Q1'11 Restructuring Plan. During the first quarter of 2011, we began implementation of a workforce realignment to further reduce our cost structure. During the three months ended March 31, 2011, we incurred total pre-tax cash charges of $9 million in severance and other costs related to the Q1'11 restructuring plan. The pre-tax cash charges were offset by a $1 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the $8 million in restructuring charges, net recorded in the three months ended March 31, 2011, $7 million related to the Americas segment and $1 million related to the EMEA segment. As of March 31, 2011, the aggregate outstanding restructuring liability related to the Q1'11 restructuring plan was $6 million, which we expect to substantially pay by the first quarter of 2012.

In addition to the charges described above, we currently expect to incur future charges of approximately $15 million to $20 million primarily related to non-cancelable operating costs and accretion related to exited facilities identified as part of the Q4'08 restructuring plan. Of the total future charges, $14 million to $19 million relates to the Americas segment, $1 million relates to the EMEA segment, and no charges relate to the Asia Pacific segment. The future charges are expected to be recorded through 2017. See Note 14 — "Restructuring charges, net" in the Notes to the condensed consolidated financial statements for additional information.

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

	Three Months Ended March 31, 2010	2011	Dollar Change
		(In thousands)	
Interest and investment income	$ 6,343	$ 5,360	$ (983)
Gain on sale of Zimbra, Inc.	66,130	—	(66,130)
Other	13,855	(333)	(14,188)
Total other income, net	$ 86,328	$ 5,027	$ (81,301)

In February 2010, we sold Zimbra, Inc. for net proceeds of $100 million and recorded a pre-tax gain of $66 million. Other consists of foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies, gains/losses from sales of marketable debt securities and/or investments in privately-held companies, and other non-operating items.

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

Income Taxes. The effective tax rate for the three months ended March 31, 2011 was 27 percent, compared to 18 percent for the same period in 2010. Our rate differs from the statutory federal income tax rate of 35 percent as a result of several factors, including state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to our reserves for tax uncertainties.

During the first quarter of 2011, we reached agreements with both the United Kingdom Inland Revenue (IR) and the California Franchise Tax Board (FTB) in connection with adjustments to income tax returns that spanned years from 2005 to 2008. During the same period of 2010, we reached agreement with the U.S. Internal Revenue Service in connection with adjustments to our 2005 and 2006 U.S. federal income tax returns. All of the above agreements resulted in net reductions to our reserves for tax uncertainties.

Our gross amount of unrecognized tax benefits as of March 31, 2011 is $523 million, of which $404 million is recorded on the condensed consolidated balance sheets. As a result of the above mentioned agreements with the IR and FTB, there was a reduction to our gross unrecognized tax benefit of $82 million. Of this $82 million, $21 million resulted in an effective tax rate benefit during the first quarter. These reductions to the gross unrecognized tax benefits have been offset by current year tax positions that increase unrecognized tax benefits. In total, the gross unrecognized tax benefits as of March 31, 2011 decreased by $74 million from the recorded balance as of December 31, 2010.

Earnings in Equity Interests. Earnings in equity interests for the three months ended March 31, 2011 was $82 million, compared to $87 million for the same period in 2010. The decline for the three months ended March 31, 2011 was due primarily to a non-cash impairment charge required under U.S. GAAP of $26 million related to an investment held by Yahoo Japan whose fair value was determined to be less than its carrying value. This was offset by Yahoo Japan's improved financial performance. See Note 4 — "Investments in Equity Interests" in the Notes to the condensed consolidated financial statements for additional information.

Noncontrolling Interests. Noncontrolling interests represent the noncontrolling holders' percentage share of income or losses from the subsidiaries in which we hold a majority, but less than 100 percent, ownership interest and the results of which are consolidated in our condensed consolidated financial statements.

Business Segment Results

We manage our business geographically. The primary areas of measurement and decision-making were Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments. Prior period presentations have been updated to conform to the current profitability measures being used by our management team to evaluate the financial performance of our segments.

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

	Three Months Ended	
	March 31, 2010	March 31, 2011
Revenue by segment:		
Americas	$1,155,011	$ 818,931
EMEA	141,827	154,050
Asia Pacific	300,122	241,376
Total revenue	1,596,960	1,214,357
TAC by segment:		
Americas	$ 281,746	$ 38,141
EMEA	53,420	57,512
Asia Pacific	131,364	54,378
Total TAC	466,530	150,031
Revenue ex-TAC by segment:		
Americas	$ 873,265	$ 780,790
EMEA	88,407	96,538
Asia Pacific	168,758	186,998
Total revenue ex-TAC	1,130,430	1,064,326
Direct costs by segment[(1)]:		
Americas	144,904	136,074
EMEA	30,773	30,587
Asia Pacific	34,467	44,585
Global operating costs[(2)(3)]	501,824	457,772
Restructuring charges, net	4,412	10,575
Depreciation and amortization	165,246	160,438
Stock-based compensation expense	60,783	34,550
Income from operations	$ 188,021	$ 189,745

(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses. Beginning in the fourth quarter of 2010, we no longer include TAC in segment direct costs. For comparison purposes, prior period amounts have been revised to conform to the current presentation.

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

(3) The net cost reimbursements from Microsoft are primarily included in global operating costs.

Americas. Americas revenue ex-TAC for the three months ended March 31, 2011 decreased $92 million, or 11 percent, compared to the same period in 2010. The decrease in revenue ex-TAC was a result of a decline in our search advertising business and other revenue, partially offset by an increase in our display advertising business. Search revenue ex-TAC decreased due to the revenue share with Microsoft associated with the Search Agreement. These decreases were offset by an increase in display revenue ex-TAC driven by a higher volume of ad impressions. For the three months ended March 31, 2011, direct costs attributable to the Americas segment decreased $9 million, or 6 percent, compared to the same period in 2010. The decrease is primarily due to lower compensation costs driven by lower headcount and lower direct marketing costs, offset by higher content costs.

Revenue ex-TAC in the Americas accounted for approximately 73 percent of total revenue ex-TAC for the three months ended March 31, 2011, compared to 77 percent for the three months ended March 31, 2010.

EMEA. EMEA revenue ex-TAC for the three months ended March 31, 2011 increased $8 million, or 9 percent, compared to the same period in 2010. The increase in revenue ex-TAC was primarily a result of an increase in our display advertising business. For the three months ended March 31, 2011, direct costs attributable to the EMEA segment were flat compared to the same period in 2010.

Revenue ex-TAC in EMEA accounted for approximately 9 percent of total revenue ex-TAC for the three months ended March 31, 2011, compared to 8 percent for the three months ended March 31, 2010.

Asia Pacific. Asia Pacific revenue ex-TAC for the three months ended March 31, 2011 increased $18 million, or 11 percent, compared to the same period in 2010. The increase in Asia Pacific revenue ex-TAC was primarily driven by an increase in our display advertising business and the favorable effects of foreign currency exchange rate fluctuations, offset by the loss of an Affiliate in the Asia Pacific region in late 2010. For the three months ended March 31, 2011, direct costs attributable to the Asia Pacific segment increased $10 million, or 29 percent, compared to the same period in 2010. The increase is primarily due to higher compensation costs driven by higher average headcount as well as increased data center costs.

Revenue ex-TAC in Asia Pacific accounted for approximately 18 percent of total revenue ex-TAC for the three months ended March 31, 2011, compared to 15 percent for the three months ended March 31, 2010.

Our international operations expose us to foreign currency exchange rate fluctuations. Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese Yen, Korean won, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced consolidated revenue ex-TAC and operating expenses. Conversely, our consolidated revenue ex-TAC and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates for the three months ended March 31, 2010, revenue ex-TAC for the Americas segment for the three months ended March 31, 2011 would have been lower than we reported by $2 million, revenue ex-TAC for the EMEA segment would have been higher than we reported by $1 million, and revenue ex-TAC for the Asia Pacific segment would have been lower than we reported by $13 million. Using the foreign currency exchange rates from the three months ended March 31, 2010, direct costs for the Americas segment for the three months ended March 31, 2011 would have been lower than we reported by $1 million, direct costs for the EMEA segment would have been higher than we reported by $1 million, and direct costs for the Asia Pacific segment would have been lower than we reported by $3 million.

Critical Accounting Policies 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 U.S. 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, revenue 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. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

For a discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” included in our Annual Report on Form 10-K for the year ended December 31, 2010 under the caption Management’s Discussion and Analysis of Financial Condition and Results of Operations. We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Liquidity and Capital Resources

	As of December 31, 2010	As of March 31, 2011
	(Dollars in thousands)	
Cash and cash equivalents	$1,526,427	$1,619,177
Short-term marketable debt securities	1,357,661	1,169,409
Long-term marketable debt securities	744,594	739,091
Total cash, cash equivalents, and marketable debt securities	$3,628,682	$3,527,677
Percentage of total assets	24%	24%

Cash Flow Highlights	Three Months Ended March 31, 2010	2011
	(In thousands)	
Net cash provided by operating activities	$ 143,597	$ 208,370
Net cash provided by (used in) investing activities	$ 294,346	$ (19,465)
Net cash used in financing activities	$(369,854)	$(123,347)

Our operating activities for the three months ended March 31, 2011 generated adequate cash to meet our operating needs. As of March 31, 2011, we had cash, cash equivalents, and marketable debt securities totaling $3.5 billion, compared to $3.6 billion at December 31, 2010. During the three months ended March 31, 2011, we repurchased 8.4 million shares for $137 million.

During the three months ended March 31, 2011, we generated $208 million of cash from operating activities, net proceeds from sales, maturities and purchases of marketable debt securities of $186 million, and $23 million from the issuance of common stock as a result of the exercise of employee stock options. This was offset by a net $168 million in capital expenditures, $26 million in tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock, $137 million used in the direct repurchase of common stock and a net $34 million for an acquisition. During the three months ended March 31, 2010, we generated $144 million of cash from operating activities, net proceeds from sales, maturities, and purchases of marketable debt securities of $312 million, $100 million of proceeds from the sale of a divested business, and $13 million from the issuance of common stock as a result of the exercise of employee stock options. This was offset by a net $113 million in capital expenditures, $30 million in tax withholding payments related to net share settlements of restricted stock units and tax withholding related reacquisition of shares of restricted stock, and $385 million used in the direct repurchase of common stock.

We expect to continue to generate positive cash flows from operations for the second quarter of 2011. 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 debt securities or obtain credit facilities to further enhance our liquidity position.

See Note 9 — "Investments" in the Notes to the condensed consolidated financial statements for additional information.

Cash flow changes

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes, and non-operating gains from sales of investments. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense, non-cash restructuring charges, tax benefits from stock-based awards, excess tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. Cash provided by operating activities was lower than net income in the three months ended March 31, 2011 due to changes in working capital.

Cash used in investing activities was primarily attributable to capital expenditures. In the three months ended March 31, 2011, we invested $168 million in net capital expenditures and used $34 million, net of cash acquired, for an acquisition, which was offset by net proceeds from sales, maturities, and purchases of marketable debt securities of $186 million. During the three months ended March 31, 2010, we invested $113 million in net capital expenditures, which was offset by proceeds from the sale of a divested business of $100 million and net proceeds from sales, maturities, and purchases of marketable debt securities of $312 million.

Cash used in financing activities is driven by stock repurchases offset by employee stock option exercises. Our cash proceeds from employee stock option exercises were $23 million for the three months ended March 31, 2011, compared to $13 million for the same period of 2010. During the three months ended March 31, 2011, we used $137 million in the direct repurchase of 8.4 million shares of common stock at an average price of $16.35 per share. We used $26 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock. During the three months ended March 31, 2010, we used $385 million in the direct repurchase of 24.8 million shares of common stock at an average price of $15.54 per share. We used $30 million for tax withholding payments related to net share settlements of restricted stock units and tax withholding-related reacquisition of shares of restricted stock.

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Capital expenditures

Capital expenditures have generally comprised purchases of computer hardware, software, server equipment, furniture and fixtures, and real estate. Capital expenditures, net were $168 million for the three months ended March 31, 2011, compared to $113 million in the same period of 2010. Our capital expenditures in 2011 are expected to be lower compared to 2010 due in part to higher infrastructure costs in 2010 in connection with our initiatives to build out our owned and operated data centers.

Contractual obligations and commitments

Leases. We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 13 years, expiring between 2011 and 2019.

During the second quarter of 2010, we acquired certain office space for a total of $72 million ($7 million in cash and the assumption of $65 million in debt). In the first quarter of 2010, the property was re-classified from an operating lease to a capital lease as a result of a commitment to purchase the property. Accordingly, in the second quarter of 2010, we reduced the capital lease obligation for the $7 million cash outlay and reclassified the remaining $65 million as assumed debt in our condensed consolidated balance sheets.

A summary of lease commitments as of March 31, 2011 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Nine months ending December 31, 2011	$ 125	$ 5
Years ending December 31,		
2012	139	7
2013	118	8
2014	90	8
2015	71	8
2016	35	8
Due after 5 years	35	23
Total gross lease commitments	$ 613	$ 67
Less: interest	—	(27)
Net lease commitments	$ 613	$ 40

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of March 31, 2011, these commitments totaled $69 million, of which $59 million will be payable in the remainder of 2011, $7 million will be payable in 2012, and $3 million will be payable in 2013.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to $36 million through 2023.

Income Taxes. As of March 31, 2011, the unrecognized tax benefits of $404 million and accrued liabilities for potential interest and penalties of $3 million are recorded on our condensed consolidated balance sheets. As of March 31, 2011, the settlement period for our income tax liabilities cannot be determined.

Other Commitments and Off-Balance Sheet Arrangements. In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint venture and business partners, purchasers of assets or subsidiaries and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements or representations and warranties made by us, services to be provided by us, intellectual property infringement claims made by third parties or, with respect to the sale of assets or a subsidiary, matters related to our conduct of the business and tax matters prior to the sale. 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 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 might 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.

As of March 31, 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, as of March 31, 2011, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

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

We are exposed to the impact of interest rate changes, foreign currency exchange rate 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 cash and marketable debt securities portfolio. We invest excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, U.S. municipalities, and high-credit corporate issuers which are classified as marketable debt securities and cash equivalents.

Investments in fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in an approximate $14 million decrease in the fair value of our available-for-sale debt securities as of both March 31, 2011 and December 31, 2010.

Foreign Currency Risk. Revenue and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese Yen, Korean won, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced revenue, operating expenses, and net income. Conversely, our revenue, operating expenses, and net income will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates for the three months ended March 31, 2010, revenue for the Americas segment for the three months ended March 31, 2011 would have been lower than we reported by $2 million, revenue for the EMEA segment would have been higher than we reported by $2 million, and revenue for the Asia Pacific segment would have been lower than we reported by $15 million. Using the foreign currency exchange rates from the three months ended March 31, 2010, direct costs for the Americas segment for the three months ended March 31, 2011 would have been lower than we reported by $1 million, direct costs for the EMEA segment would have been higher than we reported by $1 million, and direct costs for the Asia Pacific segment would have been lower than we reported by $3 million.

As mentioned above, we are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in a 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 respective entity's functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a gain or loss. We record these foreign currency transaction gains and losses, realized and unrealized, in other income, net on the condensed consolidated statements of income. During the three months ended March 31, 2011 and 2010, our net realized and unrealized foreign currency transaction gains and losses were not material.

Investment Risk. We are exposed to investment risk as it relates to changes in the market value of our investments. We have investments in marketable debt securities.

Our cash and marketable debt securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of March 31, 2011 and 2010, net unrealized gains and losses on these investments were not material.

Item 4. *Controls and Procedures*

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

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

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

For a description of our material legal proceedings, see the section captioned "Contingencies" included in Note 11 — "Commitments and Contingencies" in the Notes to the condensed consolidated financial statements, which is incorporated by reference herein.

Item 1A. *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2010, which was filed with the Securities and Exchange Commission on February 28, 2011, as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in the Form 10-K for the year ended December 31, 2010.

We face significant competition for users, advertisers, publishers, developers, and distributors.

We face significant competition from integrated online media companies as well as from social networking sites, traditional print and broadcast media, general purpose and vertical search engines and various e-commerce sites. In a number of international markets, especially those in Asia, Europe, the Middle East and Latin America, we face substantial competition from local Internet service providers and other portals that offer search, communications, and other commercial services.

Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo!. Among other areas, we compete against these companies to attract and retain users, advertisers, developers, and third-party Website publishers as participants in our Affiliate network, and to obtain agreements with third parties to promote or distribute our services.

In addition, several competitors offer products and services that directly compete for users with our offerings, including consumer e-mail, local search, instant messaging, photos, maps, video sharing, content channels, mobile applications, and shopping. Similarly, the advertising networks operated by our competitors offer services that directly compete with our offerings for advertisers, including advertising exchanges, ad serving technologies and sponsored search offerings. We also compete with traditional print and broadcast media companies to attract advertising dollars, both domestically and internationally. We further compete for users, advertisers and developers with social media and networking sites as well as the wide variety of other providers of online services. Social networking sites in particular are attracting a substantial and increasing share of users and users' online time, which could enable them to attract an increasing share of online advertising dollars.

Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in a particular segment of the market, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate with each other or collaborate, and new competitors may enter the market. Some of our competitors in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater brand recognition, are focused on a single market are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we are subject to both U.S. and foreign regulatory requirements.

If our competitors are more successful than we are in developing and deploying compelling products or in attracting and retaining users, advertisers, publishers, developers, or distributors, our revenue and growth rates could decline.

The majority of our revenue is derived from display and search, and the reduction in spending by or loss of current or potential advertisers would cause our revenue and operating results to decline.

For the three months ended March 31, 2011, 81 percent of our total revenue came from display and search. Our ability to continue to retain and grow display and search revenue depends upon:

- maintaining and growing our user base;
- maintaining and growing our popularity as an Internet destination site;
- maintaining and expanding our advertiser base on the Internet and mobile devices;
- broadening our relationships with advertisers to small- and medium-sized businesses;
- the successful implementation of changes and improvements to our advertising management platforms and acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;
- the effective monetization of search queries;

- continuing to innovate and improve users' search experiences;
- maintaining and expanding our Affiliate program for search and display advertising services; and
- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

In most cases, our agreements with advertisers have a term of one year or less, and may be terminated at any time by the advertiser or by us. Search marketing agreements often have payments dependent upon usage or click-through levels. Accordingly, it is difficult to forecast display and search revenue accurately. In addition, our expense levels are based in part on expectations of future revenue, including occasional guaranteed minimum payments to our Affiliates in connection with search and/or display advertising, and are fixed over the short-term in some categories. The state of the global economy and availability of capital has impacted and could further impact the advertising spending patterns of existing and potential advertisers. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results. Further, we may be unable to adjust our expenses and capital expenditures quickly enough to compensate for any unexpected revenue shortfall.

Adverse general economic conditions have caused and could cause decreases or delays in display and search services spending by our advertisers and could harm our ability to generate display and search revenue and our results of operations.

Display and search expenditures tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive most of our revenue from display and search, adverse economic conditions have caused, and a continuation of adverse economic conditions could cause, additional decreases in or delays in advertising spending, a reduction in our display and search revenue and a negative impact on our short-term ability to grow our revenue. Further, any decreased collectability of accounts receivable or early termination of agreements, whether resulting from customer bankruptcies or otherwise due to the current economic conditions, could negatively impact our results of operations.

If we do not manage our operating expenses effectively, our profitability could decline.

We have implemented cost reduction initiatives to better align our operating expenses with our revenue, including reducing our headcount, outsourcing some administrative functions, consolidating space and terminating leases or entering into subleases. We plan to continue to manage costs to better and more efficiently manage our business. However, our operating expenses might also increase, from their reduced levels, as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo! brand, fund product development, and acquire and integrate complementary businesses and technologies. Our operating costs might also increase if we do not effectively manage costs as we transition markets under the Search Agreement and reimbursements from Microsoft under the Search Agreement decline or cease. In addition, weak economic conditions or other factors could cause our business to contract, requiring us to implement additional cost cutting measures. If our expenses increase at a greater pace than our revenue, or if we fail to implement additional cost cutting if required in a timely manner, our profitability will decline.

Transition, implementation and execution risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo! Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. The parties commenced implementation of the Search Agreement on February 23, 2010. The global transition of the algorithmic and paid search platforms to Microsoft's platform and the migration of the paid search advertisers and publishers to Microsoft's platform are being done on a market by market basis and are expected to continue through 2012, and possibly 2013. The transition process is complex and requires the expenditure of significant time and resources by us. The algorithmic and paid search transition to the Microsoft platform was completed in the U.S. and Canada in the fourth quarter of 2010, and we plan to continue to transition algorithmic search in other markets in 2011. The transition of paid search in other markets is expected to resume in late 2011 or early 2012. Delays or difficulties in, or disruptions and inconveniences caused by, the transition process could result in the loss of advertisers, publishers, Affiliates, and employees, as well as delays in recognizing or reductions in the anticipated benefits of the transaction, any of which could negatively impact our business and operating results.

If Microsoft fails to perform as required under the Search Agreement for any reason or suffers service level interruptions or other performance issues (including if Microsoft is unable to effectively monetize search queries in markets where paid search has transitioned under the Search Agreement), if advertisers, Affiliates, or users are less satisfied than expected with the services provided or results obtained after transition or during the period prior to transition of search to Microsoft in their respective markets, we may not realize the anticipated benefits of the Search Agreement, we may lose advertisers, publishers and Affiliates and our search revenue or our profitability could decline. In addition, to the extent the RPS Guarantee payments we receive do not fully offset any shortfall relating to revenue per search in transitioned markets, our search revenue or our profitability could decline.

If we are unable to provide innovative search experiences and other services that generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

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' search experience—presenting users with a search experience that is responsive to their needs and preferences—in order to continue to attract, retain, and expand our user base and paid search advertiser base.

We currently deploy our own technology to provide search results on our network, except in markets where we have transitioned to Microsoft's platform. Even after we complete the transition to Microsoft's platform in all markets, we will need to continue to invest and innovate to improve our users' search experience.

We also generate revenue through other online services, such as Yahoo! Mail. If we are unable to provide innovative search and other services which generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

If we are unable to license or acquire compelling content and services at reasonable cost or if we do not develop or commission compelling content of our own, the number of users of our services may not grow as anticipated, or may decline, or users' level of engagement with our services may decline, all or any of which could harm our operating results.

Our future success depends in part on our ability to aggregate compelling content and deliver that content through our online properties. We license from third parties much of the content and services on our online properties, such as news items, stock quotes, weather reports, music video, music radio, and maps. We believe that users will increasingly demand high-quality content and services, including music videos, film clips, news footage, and special productions. Such content and services may require us to make substantial payments to third parties from whom we license or acquire such content or services. Our ability to maintain and build relationships with such third-party providers is 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 agreements with existing third-party providers to cover the new devices. We may be unable to enter into new, or preserve existing, relationships with the third-parties whose content or services we seek to obtain. In addition, as competition for compelling content increases both domestically and internationally, our third-party providers may increase the prices at which they offer their content and services to us, and potential providers may not offer their content or services to us at all, or may offer them on terms that are not agreeable to us. An increase in the prices charged to us by third-party providers could harm our operating results and financial condition. Further, many of our content and services licenses with third parties are non-exclusive. Accordingly, other media providers may be able to offer similar or identical content. This increases the importance of our ability to deliver compelling editorial content and personalization of this content for users in order to differentiate Yahoo! from other businesses. If we are unable to license or acquire compelling content at reasonable prices, if other companies distribute content or services that are similar to or the same as that provided by us, 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.

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 is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We also believe that the importance of brand recognition will increase due to the relatively low barriers to entry in the Internet market. We have spent considerable money and resources to date on the establishment and maintenance of our brands, and we anticipate continuing to spend and devote resources to, advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors, including among other issues: service outages; product malfunctions; data privacy and security issues; exploitation of our trademarks by others without permission; and poor presentation or integration of our search marketing offerings by Affiliates on their sites or in their software and services.

Further, while we attempt to ensure that the quality of our brands is maintained by our licensees, our licensees might take actions that could impair the value of our brands, our proprietary rights, or the reputation of our products and media properties. If we are unable to maintain or enhance customer awareness of, and trust in, our brands in a cost-effective manner, or if we incur excessive expenses in these efforts, our business, operating results and financial condition could be harmed.

Our intellectual property rights are valuable, and any failure or inability to sufficiently protect them could 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 collectively among our most valuable assets. We seek to protect our intellectual property assets through patent, copyright, trade secret, trademark, and other laws of the U.S. and other countries of the world, and through contractual provisions. However, the efforts we have taken to protect our intellectual property and proprietary rights might not be sufficient or effective at stopping unauthorized use of those rights. Protection of the distinctive elements of Yahoo! might not always be available under copyright law or trademark law, or we might not discover or determine the full extent of any unauthorized use of our copyrights and trademarks in order to protect our rights. In addition, effective trademark, patent, copyright, and trade secret protection might not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. Changes in patent law, such as changes in the law regarding patentable subject matter, could also impact our ability to obtain patent protection for our innovations. Further, given the costs of obtaining patent protection, we might choose not to protect (or not to protect in some jurisdictions) certain innovations that later turn out to be important. There is also a risk that the scope of protection under our patents may not be sufficient in some cases or that existing patents may be deemed invalid or unenforceable. With respect to maintaining our trade secrets, we have entered into confidentiality agreements with most of our employees and contractors, and confidentiality agreements with many of the parties with whom we conduct business in order to limit access to and disclosure of our proprietary information. However, these agreements might be breached and our trade secrets might be compromised by outside parties or by our employees, which could cause us to lose any competitive advantage provided by maintaining our trade secrets.

If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. 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 or other third-party 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, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other Internet-related technologies, as well as a variety of online business models and methods.

We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As a result, disputes regarding the ownership of technologies and rights associated with online businesses are likely to continue to arise in the future. From time to time, parties assert patent infringement claims against us. Currently, we are engaged in a number of lawsuits regarding patent issues and have been notified of a number of other potential disputes.

In addition to patent claims, third parties have asserted, and are likely in the future to assert, claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition, violation of federal or state statutes or other claims, including alleged violation of international statutory and common law. In addition, third parties have made, and may continue to make, infringement and related claims against us over the display of content or search results triggered by search terms that include trademark terms. Currently, we are engaged in lawsuits regarding such trademark issues.

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement claims. In the event that there is a determination that we have infringed third-party proprietary rights such as patents, copyrights, trademark rights, trade secret rights, or other third-party rights such as publicity and privacy rights, we could incur substantial monetary liability, be required to enter into costly royalty or licensing agreements or be prevented from using such rights, which could require us to change our business practices in the future and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party infringement claims regardless of the merit of such claims. In addition, many of our agreements with our customers or Affiliates require us to indemnify them for some types of 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 brands and negatively impact our operating results.

We are subject to a variety of new and existing U.S. and foreign government laws and regulations which could subject us to claims, judgments, monetary liabilities and other remedies, 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, or VOIP, services both domestically and internationally. The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, telecommunications, mobile, television, 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 us 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. We may incur substantial liabilities for expenses necessary to defend such litigation or to comply with these laws and regulations, as well as potential substantial penalties for any failure to comply. Compliance with these laws and regulations may also cause us to change or limit our business practices in a manner adverse to our business.

A number of U.S. federal laws, including those referenced below, impact our business. The Digital Millennium Copyright Act ("DMCA") is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. Portions of the Communications Decency Act ("CDA") are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business. If these laws or judicial interpretations are changed to narrow their protections, or if international jurisdictions refuse to apply similar provisions in foreign lawsuits, we will be subject to greater risk of liability, our costs of compliance with these regulations or to defend litigation may increase, or our ability to operate certain lines of business may be limited. The Children's Online Privacy Protection Act is intended to impose restrictions on the ability of online services to collect some types of information from children under the age of 13. In addition, Providing Resources, Officers, and Technology to Eradicate Cyber Threats to Our Children Act of 2008 ("PROTECT Act") requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Other federal and state laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us. U.S. export control laws and regulations impose requirements and restrictions on exports to certain nations and persons and on our business. The cost of compliance with these and any other laws or regulations may increase in the future as a result of changes in the laws or regulations or the interpretation of them. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant liabilities.

Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect our business.

Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we receive from and about our users. Our privacy policies and practices concerning the collection, use, and disclosure of user data are posted on our and many of our Affiliates' Websites. Any failure, or perceived failure, by us to comply with our posted privacy policies, to make effective modifications to our privacy policies, or to comply with any data-related consent orders, Federal Trade Commission requirements or orders, or other federal, state, or international privacy or data-protection-related laws, regulations or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, which could potentially have an adverse effect on our business.

Further, failure or perceived failure by us to comply with our policies, applicable requirements, or industry self-regulatory principles related to the collection, use, sharing or security of personal information, or other privacy, data-retention or data-protection matters could result in a loss of user confidence in us, damage to the Yahoo! brands, and ultimately in a loss of users, advertising partners, or Affiliates which could adversely affect our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues which could adversely impact our business. The interpretation and application of privacy, data protection and data retention laws and regulations are currently unsettled in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current 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.

If our security measures are breached, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of Yahoo!'s, users' and customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise, and, as a result, an unauthorized party may obtain access to our data or our users' or customers' data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, increased costs to defend litigation or damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

We may be subject to legal liability associated with providing online services.

We host a wide variety of services and technology products that enable individuals and businesses to exchange information, upload or otherwise generate photos, videos, text, and other content; advertise products and services; conduct business; and engage in various online activities both domestically and internationally. The law relating to the liability of providers of these online services and products for activities of their users is currently unsettled both within the U.S. and internationally. Claims have been threatened and have been brought against us for defamation, negligence, breaches of contract, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information which we publish or to which we provide links or that may be posted online or generated by our users. In addition, we have been and may again in the future be subject to domestic or international actions alleging that the availability of certain content within our services violates laws in domestic and international jurisdictions. Defense of any such actions could be costly and involve significant time and attention of our management and other resources and may require us to change our business in an adverse manner.

We arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content, such as stock quotes and trading information, under the Yahoo! brand or via distribution on Yahoo! Properties. 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 may be disputed, could result in substantial costs to enforce or defend, and depends on the financial resources of the other party to the agreement, and any amounts received might not be adequate to cover our liabilities or the costs associated with defense of such proceedings.

It is also possible that if the manner in which information is provided or any information provided directly by us contains errors or is otherwise wrongfully provided to users, third parties could make claims against us. For example, we offer Web-based e-mail services, which expose us to potential risks, such as liabilities or claims resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, alleged violations of policies or privacy protections, or interruptions or delays in e-mail service. We may also face purported consumer class actions or state actions relating to our online services, including our fee-based services (particularly in connection with any decision to discontinue a fee-based service). In addition, our customers, third parties or government entities may assert claims or actions against us if our online services or technologies are used to spread or facilitate malicious or harmful code or applications. Investigating and defending these types of claims are expensive, even if the claims are without merit or do not ultimately result in liability, and could subject us to significant monetary liability or cause a change in business practices that could negatively impact our ability to compete.

Acquisitions and strategic investments could result in adverse impacts on our operations and in unanticipated liabilities.

We have acquired, and have made strategic investments in, a number of companies (including through joint ventures) in the past, and we expect to make additional acquisitions and strategic investments in the future. Such transactions may result in dilutive issuances of our equity securities, use of our cash resources, and incurrence of debt and amortization expenses related to intangible assets. Our acquisitions and strategic investments to date were accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of our acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement claims against the acquired company;
- litigation or other claims in connection with acquisitions or the acquired company;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- in the case of foreign acquisitions and investments, the difficulty of integrating operations and systems as a result of cultural, systems, and operational differences and the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and
- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, 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.

Any failure to manage expansion and changes to our business could adversely affect our operating results.

We continue to evolve our business. As a result of acquisitions, and international expansion in recent years, more than 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 expand our business, we must also expand and adapt our operational infrastructure. Our business relies on data systems, billing systems, and financial reporting and control systems, among others. All of these systems have become increasingly complex in the recent past due to the growing complexity of our business, due to acquisitions of new businesses with different systems, and due to increased regulation over controls and procedures. To manage our business in a cost-effective manner, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures and controls. In some cases, we are outsourcing administrative functions to lower-cost providers. These upgrades, improvements and outsourcing changes will require a dedication of resources and in some cases are likely to be complex. If we are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In particular, sustained failures of our billing systems to accommodate increasing numbers of transactions, to accurately bill users and advertisers, or to accurately compensate Affiliates could adversely affect the viability of our business model.

Any failure to scale and adapt our existing technology architecture to manage expansion of user-facing services and to respond to rapid technological change could adversely affect our business

As some of the most visited sites on the Internet, Yahoo! Properties deliver a significant number of products, services, page views, and advertising impressions to users around the world. The products and services offered by us are expected to continue to expand and change significantly and rapidly in the future to accommodate new technologies and Internet advertising solutions, and new means of content delivery.

In addition, 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 and platforms 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 additional changes to our, or move to completely new, architectures, platforms 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 delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising platform participants to become dissatisfied with our service and move to competing providers or seek remedial actions or compensation.

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, platforms 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.

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

We offer fee-based enhancements for many of our free services, including e-mail, personals and finance. The development cycles for these technologies are long and generally require significant investment by us. We have invested and will continue to invest in new products and services. Some of these new products and services might not generate anticipated revenue or might not meet anticipated user adoption rates. We have previously discontinued some 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 revenue 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 revenue from these services that are greater than the cost of providing such services, our operating results could be harmed.

If we are unable to recruit and retain key personnel, we may not be able to execute our business plan.

Our business is dependent on our ability to recruit, hire, motivate, and retain 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 and other metropolitan areas where our offices and the offices of several of our vertical and horizontal competitors are located, as well as fluctuations in global economic and industry conditions, changes in our 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 revenue and profitability may decline.

We rely on third-party providers of rich media formats to provide the technologies necessary to deliver rich media content and advertising to our users, and any change in the licensing terms, costs, availability, or user acceptance of these formats and technologies could adversely affect our business.

We rely on leading providers of media formats and media player technology to deliver rich media content and advertising to our users. There can be no assurance that these providers will continue to license their formats and player technologies to us on reasonable terms, or at all. Providers of rich media formats and player technologies may begin charging users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. In order for our rich media services to be successful, there must be a large base of users of these rich media technologies. We have limited or no control over the availability or acceptance of rich media technologies, and any change in the licensing terms, costs, availability, or user acceptance of these technologies could adversely affect our business.

If we are unable to attract, sustain and renew distribution arrangements on favorable terms, our revenue may decline.

We enter into distribution arrangements with third parties such as operators of third-party Websites, online networks, software companies, electronics companies, computer manufacturers and others to promote or supply our services to their users. For example:

- We maintain search and display advertising relationships with Affiliate sites, which integrate our advertising offerings into their Websites;
- We enter into distribution alliances with Internet service providers (including providers of cable and broadband Internet access) and software distributors to promote our services to their users; and
- We enter into agreements with mobile, tablet, netbook, television, and other device manufacturers, electronics companies and carriers to promote our software and services on their devices.

In some markets, we depend on a limited number of distribution arrangements for a significant percentage of our user activity. A failure by our distributors to attract or retain their user bases would negatively impact our user activity and, in turn, would reduce our revenue.

Distribution agreements often involve revenue sharing or fees. Over time competition to enter into distribution arrangements may cause our traffic acquisition costs to increase. In some cases, we guarantee distributors a minimum level of revenue and, as a result, run a risk that the distributors' performance (in terms of ad impressions, toolbar installations, etc.) might not be sufficient to otherwise earn their minimum payments. In other cases, we agree that if the distributor does not realize specified minimum revenue we will adjust the distributor's revenue-share percentage or provide make-whole arrangements.

Some of our distribution agreements are not exclusive, have a short term, are terminable at will, or are subject to early termination provisions. The loss of distributors, increased distribution costs, or the renewal of distribution agreements on significantly less favorable terms may cause our revenue to decline.

More individuals are utilizing non-PC devices to access the Internet, and versions of our services developed for these devices might not gain widespread adoption by the devices' users, manufacturers, or distributors or might fail to function as intended on some devices.

The number of individuals who access the Internet through devices other than a PC, such as mobile telephones, personal digital assistants, handheld computers, tablets, netbooks, 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 PCs. The different hardware and software, memory, operating systems, resolution, and other functionality associated with alternative devices currently available may make our PC services unusable or difficult to use on such devices. Similarly, the licenses we have negotiated to present third-party content to PC users may not extend to users of alternative devices. In those cases, we may need to enter into new or amended agreements with the content providers in order to present a similar user-experience on the new devices. The content providers may not be willing to enter into such new or amended agreements on reasonable terms or at all.

We offer versions of many of our popular services (such as sports, finance, and news) designed to be accessed on a number of models of alternative devices. We also offer versions of some of our services (such as instant messaging) designed for specific popular devices. As new devices are introduced, it is difficult to predict the problems we may encounter in developing versions of our services for use on those devices, and we may need to devote significant resources to the creation, support, and maintenance of such versions or risk loss of market share. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, content providers, and users to our services, or to capture a sufficient share of an increasingly important portion of the market for these services, we may be unsuccessful in attracting both advertisers and premium service subscribers to these services.

To the extent that an access provider or device manufacturer enters into a distribution arrangement with one of our competitors (or as our competitors design mobile devices and mobile device operating systems), we face an increased risk that our users will favor the services or properties of that competitor. The manufacturer or access provider might promote a competitor's services or might impair users' access to our services by blocking access through their devices or by not making our services available in a readily-discoverable manner on their devices. If competitive distributors impair access to our services, or if they simply are more successful than our distributors in developing compelling products that attract and retain users or advertisers, then our revenue could decline.

In the future, as new methods for accessing the Internet and our services become available, including through alternative devices, we may need to enter into amended distribution agreements with existing access providers, distributors and manufacturers to cover the new devices and new arrangements. We face a risk that existing and potential new access providers, distributors, and manufacturers may decide not to offer distribution of our services 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.

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 revenue from our foreign operations and expand our international market position, there are risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions, and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to government officials;
- seasonal volatility in business activity and local economic conditions;
- laws and business practices that favor local competitors or prohibit foreign ownership of certain businesses;
- different or more stringent user protection, content, data protection, privacy and other laws; and
- risks related to other government regulation or required compliance with local laws.

We are subject to both U.S. and foreign laws and regulations. Violations of these complex laws and regulations that apply to our international operations could result in damage awards, fines, criminal actions or sanctions against us, our officers or our employees, prohibitions on the conduct of our business and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors or agents will not violate our policies. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in harm to our business, operating results, and financial condition.

New technologies could block display advertisements or search advertisements or shift the location in which search results appear, which could harm our operating results.

Technologies have been developed and are likely to continue to be developed that can block display or search advertisements or shift the location in which search results appear so that our advertisements appear below those of our competitors. Most of our revenue is derived from fees paid by advertisers in connection with the display of graphical advertisements or clicks on search advertisements on Web pages. As a result, advertisement-blocking or search result shifting technology could reduce the number of display and search advertisements that we are able to deliver and, in turn, could reduce our advertising revenue and operating results.

Proprietary document formats may limit the effectiveness of our search technology by preventing our technology from accessing the content of documents in such formats, which could limit the effectiveness of our products and services.

A large amount of information on the Internet is provided in proprietary document formats. These proprietary document formats may limit the effectiveness of search technology by preventing the technology from accessing the content of such documents. The providers of the software applications used to create these documents could engineer the document format to prevent or interfere with the process of indexing the document contents with search technology. This would mean that the document contents would not be included in search results even if the contents were directly relevant to a search. The software providers may also seek to require us to pay them royalties in exchange for giving us the ability to search documents in their format. If the search platform technology we employ is unable to index proprietary format Web documents as effectively as our competitors' technology, usage of our search services might decline, which could cause our revenue to fall.

Interruptions, delays, or failures in the provision of our services could harm our operating results.

Delays or disruptions to our service could result from a variety of causes, including the following:

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, tsunami, other natural disasters, power loss, telecommunications failures, cyber attacks, terrorist attacks, political or social unrest, and similar events.

- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced as we roll out improvements and upgrades, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.
- 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 access and tampering, as well as coordinated denial-of-service attacks. We are distributing servers among additional data centers around the world to create redundancies; however, 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 delays or disruptions to service.
- We rely on third-party providers for our principal Internet connections and co-location of a significant portion of our data servers, as well as for our payment processing capabilities and key components or features of our search, e-mail and VOIP services, news, stock quote and other content delivery, chat services, mapping, streaming, geo-targeting, music, games, and other services. We have little or no control over these third-party providers. Any disruption of the services they provide us or any failure of these third-party providers to handle higher volumes of use could, in turn, cause delays or disruptions in our services and loss of revenue. In addition, if our agreements with these third-party providers are terminated for any reason, we might not have a readily available alternative

Prolonged delays or disruptions to our service could result in a loss of users, damage our brands and harm our operating results.

If we or our third-party service provider fail to prevent click fraud or choose to manage traffic quality in a way that advertisers find unsatisfactory, our profitability may decline.

A portion of our display and search revenue comes from advertisers that pay for advertising on a price-per-click basis, meaning that the advertisers pay a fee every time a user clicks on their advertising. This pricing model can be vulnerable to so-called "click fraud," which occurs when clicks are submitted on ads by a user who is motivated by reasons other than genuine interest in the subject of the ad. On Yahoo! Properties and Affiliate sites, we are exposed to the risk of click fraud or other clicks or conversions that advertisers may perceive as undesirable. If fraudulent or other malicious activity is perpetrated by others and we or our third-party service provider are unable to detect and prevent it, or 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 and they might refuse to pay, demand refunds, or withdraw future business. Undetected click fraud could damage our brands and lead to a loss of advertisers and revenue. Moreover, 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. Advertisers may also be issued refunds or credits as a result of such activity. Any increase in costs due to any such litigation, government regulation or legislation, or refunds or credits could negatively impact our profitability.

Fluctuations in foreign currency exchange rates affect our operating results in U.S. dollar terms.

A portion of our revenue comes from international operations. Revenue generated and expenses incurred by our international subsidiaries are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries are translated from local currencies into U.S. dollars. In addition, our financial results are subject to changes in exchange rates that impact the settlement of transactions in non-local currencies.

We may be required to record a significant charge to earnings if our goodwill, amortizable intangible assets, or investments in equity interests, including investments held by our equity investees, become impaired.

We are required under generally accepted accounting principles to test goodwill for impairment at least annually and to review our amortizable intangible assets and investments in equity interests, including investments held by our equity investees, for impairment when events or changes in circumstance indicate the carrying value may not be recoverable. Factors that could lead to impairment of goodwill and amortizable intangible assets include significant adverse changes in the business climate (affecting our company as a whole or affecting any particular segment) and declines in the financial condition of our business. Factors that could lead to impairment of investments in equity interests include a prolonged period of decline in the stock price or operating performance of, or an announcement of adverse changes or events by, the companies in which we invested or the investments held by those companies. We have recorded and may be required in the future to record additional charges to earnings if a portion of our goodwill, amortizable intangible assets, or investments in equity interests, including investments held by our equity investees, becomes impaired. Any such charge would adversely impact our financial results.

We may have exposure to additional tax liabilities which could negatively impact our income tax provision, net income, and cash flow.

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. 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. We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for us. In the past there have been proposals to change U.S. tax laws that could significantly impact how U.S. multinational corporations are taxed on foreign earnings. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax expense and cash flow. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. 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 and settlement is made.

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 broad fluctuations. During the three months ended March 31, 2011, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $15.57 to $17.77 per share and the closing sale price on April 29, 2011 was $17.70 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results, announcements and implementations of technological innovations or new services 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 current and anticipated future operating performance of companies in which we have an equity investment, including Yahoo Japan Corporation (“Yahoo Japan”) and Alibaba Group Holding Limited (“Alibaba Group”); and news reports or rumors relating to us, 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. 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. A sustained decline in our stock price and market capitalization could lead to an impairment charge of our long-lived assets.

Delaware statutes and certain provisions in our charter documents could make it more difficult for a third-party to acquire us.

Our Board of Directors has the authority to issue up to 10 million shares of 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 in control of Yahoo! without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Some 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 changes in our management, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third-party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control of us.

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

Share repurchase activity during the three months ended March 31, 2011 was as follows:

Period	Total Number of Shares Purchased (*)	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 Program (in 000s) (*)
January 1 — January 31, 2011	—	—	—	$ 2,224,088
February 1 — February 28, 2011	1,402,000	$ 16.28	1,402,000	$ 2,201,262
March 1 — March 31, 2011	6,999,100	$ 16.37	6,999,100	$ 2,086,720
Total	8,401,100	$ 16.35	8,401,100	

(*) The shares repurchased in the three months ended March 31, 2011 were under our stock repurchase program that was announced in June 2010 with an authorized level of $3.0 billion. This program, according to its terms, will expire in June 2013. 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.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 5. ***Other Information***

On March 1, 2011, our stockholder rights plan expired by its terms.

Item 6. ***Exhibits***

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

SIGNATURES

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

	YAHOO! INC.
Dated: May 10, 2011	By: /s/ CAROL BARTZ **Carol Bartz** **Chief Executive Officer**
Dated: May 10, 2011	By: /s/ TIMOTHY R. MORSE **Timothy R. Morse** **Chief Financial Officer** **(Principal Financial Officer)**

Table of Contents

YAHOO! INC.

Index to Exhibits

Exhibit Number	Description
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement (including the form of Rights Certificate), dated as of April 1, 2005, by and between the Registrant and Equiserve Trust Company, N.A., as rights agent and previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 4, 2005 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to Amendment No. 1 to the Registrant's Current Report on Form 8-K filed December 20, 2010 and incorporated herein by reference).
10.3(B)+*	Form of Enrollment Agreement under Yahoo! Inc. 1996 Employee Stock Purchase Plan.
10.12+*	Summary of Compensation Payable to Named Executive Officers.
10.18(D)†*	First Amendment to Search and Advertising Services and Sales Agreement, dated as of July 14, 2010, by and between the Registrant and Microsoft Corporation.
10.18(E)†*	Second Amendment to Search and Advertising Services and Sales Agreement, dated as of October 10, 2010, by and between the Registrant and Microsoft Corporation.
10.18(F)†*	Third Amendment to Search and Advertising Services and Sales Agreement, dated as of March 31, 2011, by and between the Registrant and Microsoft Corporation.
10.18(G)†*	Amendment No. 1 to License Agreement, dated as of October 10, 2010, by and between the Registrant and Microsoft Corporation.
10.20+*	Employment Offer Letter, dated May 28, 2010, between the Registrant and Blake Irving.
10.21+*	Employment Offer Letter, dated October 27, 2010, between the Registrant and Ross Levinsohn.
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 10, 2011.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 10, 2011.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 10, 2011.
101.INS*‡	XBRL Instance
101.SCH*‡	XBRL Taxonomy Extension Schema
101.CAL*‡	XBRL Taxonomy Extension Calculation
101.DEF*‡	XBRL Taxonomy Extension Definition
101.LAB*‡	XBRL Taxonomy Extension Labels
101.PRE*‡	XBRL Taxonomy Extension Presentation

* Filed herewith.

\+ Indicates a management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

‡ Pursuant to applicable securities laws and regulations, the Company is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions or other liability provisions of the federal securities laws as long as the Company has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. In addition, users of this data are advised that, pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

YAHOO! INC.
1996 EMPLOYEE STOCK PURCHASE PLAN
ENROLLMENT AGREEMENT

1. I hereby elect to participate in the Yahoo! Inc. 1996 Employee Stock Purchase Plan, as amended from time to time (the "Plan"), and subscribe to purchase Shares of the Company's Common Stock, subject to the terms of this Enrollment Agreement and the Plan. Capitalized terms not defined herein shall have the meanings ascribed to them in the Plan and the ESPP Administrative Rules adopted pursuant to the Plan (the "ESPP Rules"). I understand that my participation in the Plan will commence with the first Purchase Period that begins after the date I enroll in the Plan.

2. By enrolling in the Plan and making my online enrollment elections, I agree to have Contributions in the amount of the elected percentage of my Compensation applied to this purchase. I understand that this amount must not be less than 1% and not more than 15% of my Compensation during an Offering Period. (Please note that no fractional percentages are permitted).

3. By enrolling in the Plan and making my online enrollment elections, I authorize payroll deductions from each paycheck during the Offering Periods in the amount of the elected percentage of my Compensation. I understand that all payroll deductions authorized by me shall be credited to my account under the Plan and that I may not make any additional payments into such account. I understand that all payments made by me shall be accumulated for the purchase of Shares at the applicable Purchase Price determined in accordance with the Plan. I further understand that, except as otherwise set forth in the Plan, Shares will be purchased for me automatically on each Purchase Date during the Offering Period unless I otherwise withdraw from the Plan in accordance with the withdrawal procedures in effect at the time of my withdrawal.

4. I understand that I may discontinue participation in the Plan during a Purchase Period only as provided in Section 10 of the Plan and the ESPP Rules. I also understand that I can decrease the rate of my Contributions on one occasion only during any Purchase Period, or increase the rate of my Contributions for any subsequent Purchase Period during its Open Enrollment Period, by making a new online election in my account at the ESPP Broker's internet site. Any such change will be effective as provided in the Plan and the ESPP Rules. In addition, I acknowledge that, unless I discontinue my participation in the Plan in accordance with the withdrawal procedures in effect at such time, my election will continue to be effective for each successive Offering Period.

5. In addition to this Enrollment Agreement and the Plan and ESPP Rules (both of which are hereby incorporated by reference in this Enrollment Agreement), I acknowledge that I have reviewed and understand the Company's most recent prospectus. The Plan, the ESPP Rules and such prospectus are available free of charge on the Yahoo! Inc. corporate intranet site ("Backyard") at http://backyard.yahoo.com/resources/forms/stock/ESPP/ESPP_PlanDocuments.html. I understand that my participation in the Plan is in all respects subject to the terms of the Plan, the ESPP Rules and this Enrollment Agreement.

6. Shares purchased for me under the Plan should be deposited into my account at the brokerage firm designated by the Company from time to time as the broker to receive Shares under the Plan.

7. I understand that if I dispose of any Shares received by me pursuant to the Plan within two (2) years after the Offering Date (the first day of the Offering Period during which I purchased such Shares or, if I joined the Plan after such date, the first business day of the Purchase Period with respect to which I joined the Plan during such Offering Period) or within one (1) year after the Purchase Date, and at a price in excess of the discounted purchase price I paid for the shares, I will be treated for United States federal income tax purposes as having received ordinary compensation income at the time of such disposition in an amount equal to the excess of the Fair Market Value of the Shares on the Purchase Date over the price which I paid for the Shares, regardless of whether I disposed of the Shares at a price less than their Fair Market Value at the Purchase Date. The remainder of the gain or loss, if any, recognized on such disposition will be treated as capital gain or loss.

By enrolling in the Plan and making my online enrollment elections, I agree to notify the Company in writing within thirty (30) days after the date of any such disposition, and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon such disposition of the Shares. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to the sale or early disposition of Shares by me.

I understand that the Prospectus for the Plan includes a more general discussion of the United States tax consequences of the Plan and that, in any event, I should consult my own tax advisor for specific advice concerning the tax implications of participation in the Plan and the sale of stock acquired under the Plan.

8. The Company may, in its sole discretion, decide to deliver any documents related to the purchase rights and participation in the Plan or future purchase rights that may be granted under the Plan by electronic means or to request my consent to participate in the Plan by electronic means. I hereby consent to receive such documents by electronic delivery and to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

9. If I relocate to another country while I am participating in the Plan or holding Shares acquired under the Plan, the Company reserves the right to impose other requirements on my participation in the Plan and/or on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require me to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

10. The provisions of this Enrollment Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

11. By making my online enrollment elections, I hereby enroll in the Plan and agree to be bound by the terms of the Plan, the ESPP Rules and this Enrollment Agreement. I understand and acknowledge that the effectiveness of this Enrollment Agreement and my participation in the Plan are dependent upon my eligibility to participate in the Plan.

Exhibit 10.12

Summary of Compensation Payable to Named Executive Officers

Base Salary. The Compensation Committee (the "Committee") of the Board of Directors of Yahoo! Inc. ("Yahoo!") has approved the 2011 base salaries of Yahoo!'s principal executive officer, principal financial officer, and the other persons named in the Summary Compensation Table of Yahoo!'s Proxy Statement filed with the Securities and Exchange Commission on April 29, 2011 who are currently employed as executive officers by Yahoo! (together, the "Named Executive Officers"). The following table shows for each of the Named Executive Officers the annual base salary for 2011, which became effective on April 1, 2011 (with the exception of the base salary for Ms. Bartz, which is unchanged from 2010):

Name and Principal Position	2011 Annual Base Salary ($)
Carol Bartz Chief Executive Officer	1,000,000
Timothy R. Morse Executive Vice President and Chief Financial Officer	600,000
Blake Irving Executive Vice President and Chief Product Officer	755,000
Ross Levinsohn Executive Vice President, Americas	700,000
Michael J. Callahan Executive Vice President, General Counsel and Secretary	500,000

Bonus. In addition to receiving a base salary, Yahoo!'s Named Executive Officers are also eligible to receive an annual bonus.

Yahoo!'s Named Executive Officer bonuses for 2011 will be determined under Yahoo!'s Executive Incentive Plan. The Named Executive Officers' respective target bonus opportunities (expressed as a percentage of annual base salary) under the Executive Incentive Plan for 2011 are as follows: Ms. Bartz – 200%, Mr. Morse – 120%, Mr. Irving – 120%, Mr. Levinsohn – 120%, and Mr. Callahan – 90%. The Committee also has the ability to award discretionary bonuses from time to time in circumstances the Committee determines to be appropriate.

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

FIRST AMENDMENT TO SEARCH AND ADVERTISING SERVICES AND SALES AGREEMENT

This First Amendment to Search and Advertising Services and Sales Agreement (this "First Amendment") is entered into as of July 14, 2010 ("First Amendment Effective Date") by and between Yahoo! Inc., a Delaware corporation ("Yahoo!") and Microsoft Corporation, a Washington corporation ("Microsoft").

WHEREAS, Yahoo! and Microsoft are parties to that certain Search and Advertising Services and Sales Agreement, entered into as of December 4, 2009 (the "Agreement"); and

WHEREAS, the parties wish to amend the Agreement as more fully described herein to provide Microsoft with a limited number of additional permitted uses of Covered Data.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Definitions. Capitalized terms used but not defined herein have the same meanings given in the Agreement.

2. Use of Covered Data. The following shall be inserted immediately after the fourth sentence of Section 13.2.2 of the Agreement (Disclosure of Personal End User Information):

> "In addition, and subject to the restrictions of this Section 13 (including, e.g., the prohibition on Microsoft's use of Yahoo! Search Data in connection with display advertising services contained in Section 13.1.1), Microsoft may use Covered Data in connection with Paid Search Services, Contextual Advertising Services and Mobile Paid Search Services implemented in the United States and Canada for the limited purposes stated in Exhibit K (and then only in the manner described therein)."

3. Exhibit K. Exhibit K, attached hereto, is hereby added to the Agreement.

4. Miscellaneous. This First Amendment will be governed and construed, to the extent applicable, in accordance with the laws of the State of New York, without regard to its conflict of law principles. This First Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. This First Amendment may be amended or modified only by a written agreement that (a) refers to this First Amendment; and (b) is executed by an authorized representative of each party. This First Amendment shall be binding on the parties hereto and their respective personal and legal representatives, successors, and permitted assigns. Except as expressly set forth herein, the Agreement remains in full force and effect and this First Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the Agreement. To the extent of any conflict between this First Amendment and any provisions of the Agreement, this First Amendment shall control with respect to the subject matter hereof.

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

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this First Amendment as of the First Amendment Effective Date.

YAHOO! INC.		**MICROSOFT CORPORATION**	
By:	/s/ Mike Gupta	By:	/s/ Greg Nelson
Name:	Mike Gupta	Name:	Greg Nelson
Title:	SVP Finance	Title:	General Manager Search Alliance

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

EXHIBIT K

ADDITIONAL PERMITTED USES FOR COVERED DATA

A. Pooled Use of Covered Data for [*]

Purpose: Provide Customers with quality traffic by [*] in connection with the Services across the Microsoft Network that are associated with Covered Data. The model described below will be used by Microsoft to [*].

Microsoft's [*] process for Paid Search Services, Contextual Advertising Services and Mobile Paid Search Services works as follows:

- [*].
- [*].
- [*].
- [*].
- [*].

B. Pooled Use of Covered Data for [*] of Ads

Purpose: Use Covered Data across the Microsoft Network in connection with the Paid Search Services, Contextual Advertising Services and Mobile Paid Search Services for accurate measurement of [*] accordingly in order to [*] to members of the Microsoft Network. This information is used to [*] to provide best experience for Customer and members of the Microsoft Network.

Microsoft's "[*]" process works as follows:

- [*].
- [*].
- [*].
- [*].
- [*].

C. Pooled Use of Covered Data for [*]

Purpose: To develop a [*] in connection with the Paid Search Services, Contextual Advertising Services and Mobile Paid Search Services across the Microsoft Network [*].

Microsoft's [*] process works as follows:

---

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

— [*].

— [*].

— [*].

— [*].

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

Execution Version

SECOND AMENDMENT TO

SEARCH AND ADVERTISING SERVICES AND SALES AGREEMENT

This Second Amendment to Search and Advertising Services and Sales Agreement (this "Second Amendment") is entered into as of October 10, 2010 ("Second Amendment Effective Date") by and between Yahoo! Inc., a Delaware corporation ("Yahoo!") and Microsoft Corporation, a Washington corporation ("Microsoft").

WHEREAS, Yahoo! and Microsoft are parties to that certain Search and Advertising Services and Sales Agreement, entered into as of December 4, 2009 (the "Agreement"), as amended by that certain First Amendment to Search and Advertising Services and Sales Agreement; and

WHEREAS, Yahoo! and Microsoft desire to further amend the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Definitions. Capitalized terms used but not defined herein have the same meanings given in the Agreement.

2. Data Elements. Sections 2.2.4(b) and (c) of the Agreement are deleted and replaced with the following:

"(b) The Microsoft API for Paid Search Services runtime will provide, [*], the following 15 data elements for each Paid Listing:

- [*]

(c) Yahoo! may not use any of the optimization data provided by Microsoft to reverse engineer, disassemble or otherwise attempt to obtain Microsoft's confidential information relating to the technology or algorithms associated with the Services. Yahoo! may not disclose to, or share with, any third party the [*], [*], or [*] elements provided by the Microsoft API. For clarity, the foregoing sentence does not apply to Yahoo!'s receipt of data through [*]."

3. Sales Exclusivity and Transition.

(a) The first sentence of Section 5.3.1 of the Agreement is amended by replacing the words "following the first Migration Date for a Premium Direct Advertiser in each Region" with the words "following the first Initial Implementation Date in each Region".

(b) Section 5.4.1 of the Agreement is hereby deleted and replaced with the following:

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

"5.4.1. Starting on the Initial Implementation Date in a country and except as otherwise set forth in Section 7.2.2 and Section 7.2.3 or as otherwise mutually agreed to by the parties in writing on a case-by-case basis, Yahoo! will perform all Paid Search Services and Contextual Advertising Services sales and sales functions, account management and Tier 1 Services (but not Tier 2 Services) in connection with each such Premium Direct Advertiser in the country. Yahoo! will provide Tier 1 Services at least at the same level as the service levels it provides Tier 1 Services to Yahoo!'s field and mid-tier category advertisers, as applicable, as of the Letter Agreement Effective Date."

(c) The first sentence of Section 7.1.5 of the Agreement is amended by replacing the words "Beginning on the first Migration Date for each country" with the words "Beginning on the Initial Implementation Date for each country".

(d) The first sentence of Section 7.2.1(a) of the Agreement is amended by replacing the words "and such exclusivity for each Premium Direct Advertiser commences on the Migration Date for such Premium Direct Advertiser" with the words "and such exclusivity for each Premium Direct Advertiser commences on the Initial Implementation Date in each country, except as otherwise agreed by the parties in writing on a case-by-case basis".

4. <u>Data</u>.

(a) <u>Definition of Covered Data</u>. The third sentence of Section 13.2.2 of the Agreement is deleted and replaced with the following:

"'Covered Data' includes (i) such full IP address information; (ii) any Geo-Location data that Yahoo! elects to pass directly to Microsoft in connection with a Query, non-Internet Search Query or call to Microsoft in connection with the Services or Additional Services but limited to the jurisdictions in which such Geo-Location Data is subject to Privacy Laws that restrict the disclosure of such Geo-Location Data to third parties; (iii) any unique-end-user identifier, unique-device identifier, or unique-browser installation identifier (i.e., an identifier which is unique to a specific installation of a browser on a particular computer) provided or passed to Microsoft by Yahoo! or any Syndication Partner, (iv) the data referred to in the parties' email correspondence of July 9, 2010 as the "[*]" and (v) other data that was collected by Yahoo! or Syndication Partners in connection with Yahoo!'s services and then passed directly by Yahoo! to Microsoft to the extent that the parties mutually agree in writing that such data should be provided to Microsoft and treated as Covered Data because (A) such data would have fallen within (i), (ii) or (iii) had it been collected in connection with the Services or Additional Services or (B) the parties otherwise agree that such data should be treated as Covered Data."

5. <u>Indemnity of Microsoft</u>. The introductory clause of Section 16.2 of the Agreement is deleted and replaced with the following:

"Yahoo! will defend at Yahoo!'s cost (with legal counsel selected by Yahoo! and approved by Microsoft, which approval will not be unreasonably withheld) the Microsoft Indemnified Parties from and against any Third Party Claim and indemnify each of the

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

Microsoft Indemnified Parties from all Covered Amounts, to the extent that the Third Party Claim is based upon:"

6. Guarantee Calculation. If the Initial Implementation Date for the [*] occurs during the [*], then the following amendments shall apply:

(a) Section 9.1.4 of the Agreement will be deleted and replaced with the following:

"9.1.4 Calculation of Guarantee From Microsoft to Yahoo!.

(a) [*].

(1) [*].

(2) [*].

(3) [*].

(4) [*].

(5) [*].

(b) [*].

(1) [*].

(2) [*].

(3) [*].

(4) [*].

(c) [*].

(d) [*].

(e) The following table provides 3 illustrative calculations:

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

[*]			
Example 1	[*]	[*]	[*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ [*]	$ [*]	$ [*]
Example 2	[*]	[*]	[*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ —	$ —	$ —
Example 3	[*]	[*]	[*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ [*]	$ [*]	$ [*]
[*]	$ [*]	$ [*]	$ —

”

(b) Section 9.2.3(b) of the Agreement will be deleted and replaced with the following:

“(b) Guarantee Payments. Payments required to be paid pursuant to Section 9.1.4 (Guarantee), subject to any offsets permitted pursuant to Sections 9.1.4(a)(4), 9.1.4(b)(2) and 9.1.4(b)(3), shall be paid (or offset) within [*] after the last day of each calendar month for True-Up Periods that ended during such month.”

(c) Section 1(k) of the Exhibit E will be deleted and replaced with the following:

“(k) “Reference Period” is defined as the time period that has the same beginning and end dates as the True-Up Period and occurs during the 12-month period immediately prior to the Initial Implementation Date in the applicable country. [*]”

(d) Section 2 of Exhibit E will be deleted and replaced with the following:

“2. True-Up Periods. For [*], there will be [*] consecutive ‘True-Up Periods’ comprised of [*]. For [*], there will be [*] consecutive “True-Up Periods” of [*] each starting on the Initial Implementation Date in such country. The “Guarantee Term” for each country refers collectively to all of its True-Up Periods.”

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

(e) Sections 3.1(a)(1)(A) and 3.1(a)(2) of Exhibit E will be amended by deleting the words "[*]" in the first sentence.

(f) The first sentence of Section 3.1(a)(1)(B) of Exhibit E is amended by deleting the first sentence and replacing it with the following:

> "'GDP Adjustment' is equal to [*] plus the percentage change in nominal GDP/capita from the Reference Period to the corresponding True-Up Period in that country, except for the [*] True-Up Period ([*] True-Up Period in the [*]), where the GDP Adjustment is measured as the change in nominal GDP/capita from the first ([*] for the [*]) Reference Period (the start and end dates of which are [*] preceding the True-Up Period) to the [*] True-Up Period in that country ([*] True-Up Period in the [*])."

(g) Section 3.1(a)(1)(C) of Exhibit E will be deleted and replaced with the following:

> "(C) Further, for the [*], during the [*] True Up Periods, the version of the data to use shall be the most current version of quarterly data available as of the end of each True Up Period. There will be no subsequent retroactive revisions to the GDP Data for the [*] True Up Periods. For the [*] True Up Period, the version of data to use shall be the most current version of quarterly data available as of the end of that True Up Period and subject to retroactive revision in the subsequent True Up Period. For the [*] True Up Period, the version of data to use shall be the most current version of quarterly data available as of the end of that True Up Period. For [*], the version of the data to use shall be the most current version of quarterly data available as of the end of each True Up Period, and subject to retroactive revision in the subsequent True Up Periods for the country until the [*] and final True Up Period at which time no further revision shall be undertaken. If quarterly data for a country is not reported or available, semi-annual data shall be used, or if semi-annual data is not available, then the annual version shall be used."

(h) The parties agree that any [*] conducted prior to the date that the parties have identified as the [*] for Queries from Yahoo! Properties ([*]) for the [*] shall not trigger the Initial Implementation Date in the [*]. Notwithstanding the preamble of this Section 6, this Section 6(h) shall be effective immediately.

7. Serving Costs and Discount. Section 9.1.5(a) of the Agreement is deleted and replaced with the following:

"(a) Serving Costs. [*]. The reporting provided in Section 9.2.2(g) shall also include the amount due for this Section 9.1.5(a) broken down for Algorithmic Search Services, Paid Search Services and Contextual Advertising Services. [*].

(1) [*]. [*].

(2) [*]. [*].

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

(3) [*]. [*].

[*]

(4) [*]. [*].

(5) [*]. [*].

(6) [*]. [*].

(7) [*]. [*].

8. [*].

(a) Exhibit L, attached hereto, is hereby added to the Agreement. Section 9.1.5 of the Agreement is amended by adding new subsection (v) as follows:

"(v) Microsoft shall pay to Yahoo! the [*], if any, as set forth in [*]."

9. Miscellaneous. This Second Amendment will be governed and construed, to the extent applicable, in accordance with the laws of the State of New York, without regard to its conflict of law principles. This Second Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. This Second Amendment may be amended or modified only by a written agreement that (a) refers to this Second Amendment; and (b) is executed by an authorized representative of each party. This Second Amendment shall be binding on the parties hereto and their respective personal and legal representatives, successors, and permitted assigns. Except as expressly set forth herein, the Agreement remains in full force and effect and this Second Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the Agreement. To the extent of any conflict between this Second Amendment and any provisions of the Agreement, this Second Amendment shall control with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this Second Amendment as of the Second Amendment Effective Date.

YAHOO! INC.		**MICROSOFT CORPORATION**	
By:	/s/ Mike Gupta	By:	/s/ Greg Nelson
Name:	Mike Gupta	Name:	Greg Nelson
Title:	SVP Finance	Title:	General Manager Search Alliance

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

EXHIBIT L

[*]

1. Definitions. The following definitions apply to this Exhibit L:

(a) "Ad Unit" means an identifier or "source tag" submitted as part of an ad call to identify the source of traffic (or location of Results) from one or more Web sites, applications or other online digital properties.

(b) "[*]" means, for each applicable [*], the value set forth in the table below, as may be further adjusted by [*]:

[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]

(c) "CPA" means, with respect to a Customer, the cost per action, [*], based upon the performance of such Customer's Paid Listings delivered through the Paid Search Services and the Contextual Advertising Services [*].

(d) "[*]" means [*].

(e) "[*]" means a Syndication Partner [*].

(f) "[*]" means all Ad Units for Syndication Properties [*] and [*] Ad Units for New Syndication Partners [*].

(g) "[*]" means the greater of [*].

(h) "[*]" means the Yahoo! Properties and the Microsoft O&O Properties [*].

(i) "[*]" means [*]. As used in this Exhibit L, [*].

(j) "[*]" means [*]. For example, [*].

(k) "[*]" is defined as [*]. For example, [*].

2. [*].

(a) Prior to January 2011, this Section 2 will not apply and Microsoft will [*].

(b) [*], the parties will share in the [*] under this Section 2. Notwithstanding the foregoing, Microsoft will not be required to [*].

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

(c) The maximum amounts payable will be calculated as follows:

(A) [*].

(B) For example, if Microsoft [*].

(d) [*]. Yahoo! may choose to [*]. Yahoo! may choose to [*].

3. Mechanics.

(a) [*], Yahoo! will provide to Microsoft the [*].

(b) [*].

(c) After [*], this Exhibit L and associated restrictions relating to [*] shall no longer apply; [*].

(d) Microsoft's Marketplace's team will promptly inform Yahoo! of [*].

(e) [*], Microsoft will use commercially reasonable efforts to [*].

4. Miscellaneous.

(a) [*].

(b) The provisions of this Exhibit L apply [*]. However, the parties [*] to Paid Search Services and Contextual Advertising Services [*]. The parties intend to work together to reach agreement upon and document the details of such concept [*] as described in the prior sentence.

(c) [*].

(d) Nothing in this Exhibit L is intended to limit [*].

5. O&O. In addition to [*] of the Agreement, (i) Queries typed by end users (i.e., not clicks on links or preformed queries) for Web Internet Searches from Paid Search Services [*], but excluding [*] Yahoo! Results Pages and Microsoft Results Pages (as applicable), [*].

6. [*]. [*].

7. [*]. [*]. Until such update has been deployed, the parties will develop and thereafter use a mutually agreeable process to enable Yahoo! to obtain and use [*].

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

Execution Version

THIRD AMENDMENT TO

SEARCH AND ADVERTISING SERVICES AND SALES AGREEMENT

This Third Amendment to Search and Advertising Services and Sales Agreement (this "Third Amendment") is entered into to be effective as of March 31, 2011 ("Third Amendment Effective Date") by and between Yahoo! Inc., a Delaware corporation ("Yahoo!") and Microsoft Corporation, a Washington corporation ("Microsoft").

WHEREAS, Yahoo! and Microsoft are parties to that certain Search and Advertising Services and Sales Agreement, entered into as of December 4, 2009, as amended (collectively, the "Agreement"); and

WHEREAS, Yahoo! and Microsoft desire to further amend the Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

1. Definitions. Capitalized terms used but not defined herein have the same meanings given in the Agreement.

2. Guarantee Calculation.

(a) Sections 9.1.4(a)(3) to 9.1.4(a)(5) of the Agreement are hereby deleted and replaced with the following:

"(3) [*].

(4) [*].

(5) [*]."

(b) Section 9.1.4(d) is deleted and replaced with the following:

"[*]."

(c) The following table replaces the table set forth in Section 6(e) of the Second Amendment to the Agreement and provides 4 illustrative calculations:

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

[*]

<u>Example 1</u>	[*]	[*]	[*]	[*]	[*]	[*]
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]*	$[*]	$[*]	$[*]	$[*]		
[*]*	$[*]	$[*]	$[*]	$[*]		$[*]
[*]*	N/A	N/A	N/A	N/A		
<u>Example 2</u>	[*]	[*]	[*]	[*]	[*]	[*]
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]*	$[*]	$[*]	$[*]	$[*]		
[*]*	N/A	N/A	N/A	N/A		$[*]
[*]*	$[*]	$[*]	$[*]	$[*]		
<u>Example 3</u>	[*]	[*]	[*]	[*]	[*]	[*]
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]*	$[*]	$[*]	$[*]	$[*]		
[*]*	$[*]	$[*]	N/A	N/A		$[*]
[*]*	N/A	N/A	N/A	$[*]		
<u>Example 4</u>	[*]	[*]	[*]	[*]	[*]	[*]
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]	$[*]	$[*]	$[*]	$[*]	$[*]	
[*]*	$[*]	$[*]	$[*]	$[*]		
[*]*	$[*]	N/A	$[*]	N/A		$[*]
[*]*	N/A	$[*]	N/A	N/A		

*[*]

(d) Section 9.2.3(b) of the Agreement will be deleted and replaced with the following:

"(b) <u>Guarantee Payments</u>. Payments or refunds required to be paid pursuant to Section 9.1.4 (Guarantee), subject to any offsets permitted pursuant to Sections 9.1.4(b)(2) and 9.1.4(b)(3), shall be paid (or offset) within [*] after the last day of each calendar month for True-Up Periods that ended during such month."

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

(e) Section 2 of Exhibit E will be deleted and replaced with the following:

"2. True-Up Periods. For the [*], there will be [*] consecutive 'True-Up Periods' comprised of [*]. For all other [*], there will be [*] consecutive "True-Up Periods" of [*] each starting on the Initial Implementation Date in such country. The "Guarantee Term" for each country refers collectively to all of its True-Up Periods."

(f) The first sentence of Section 3.1(a)(1)(B) of Exhibit E is amended by deleting the first sentence and replacing it with the following:

"'GDP Adjustment' is equal to [*] plus the percentage change in nominal GDP/capita from the Reference Period to the corresponding True-Up Period in that country, except for the [*] True-Up Period ([*] True-Up Periods in the [*]), where the GDP Adjustment is measured as the change in nominal GDP/capita from the first ([*] for the [*]) Reference Period (the start and end dates of which are [*] preceding the True-Up Period) to the [*] True-Up Period in that country ([*] True-Up Periods in the [*])."

(g) Section 3.1(a)(1)(C) of Exhibit E will be deleted and replaced with the following:

"(C) Further, [*], for each True-Up Period, the version of the data to use shall be the most current version of quarterly data available as of the end of each True-Up Period. There will be no subsequent retroactive revisions to the GDP Data for any True-Up Period for the [*]. For [*], the version of the data to use shall be the most current version of quarterly data available as of the end of each True-Up Period, and subject to retroactive revision in the subsequent True-Up Periods for the country until the [*] and final True-Up Period at which time no further revision shall be undertaken. If quarterly data for a country is not reported or available, semi-annual data shall be used, or if semi-annual data is not available, then the annual version shall be used."

3. Miscellaneous. This Third Amendment will be governed and construed, to the extent applicable, in accordance with the laws of the State of New York, without regard to its conflict of law principles. This Third Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. This Third Amendment may be amended or modified only by a written agreement that (a) refers to this Third Amendment; and (b) is executed by an authorized representative of each party. This Third Amendment shall be binding on the parties hereto and their respective personal and legal representatives, successors, and permitted assigns. Except as expressly set forth herein, the Agreement remains in full force and effect and this Third Amendment shall not be construed to alter, amend or change any of the other terms or conditions set forth in the Agreement. To the extent of any conflict between this Third Amendment and any provisions of the Agreement, this Third Amendment shall control with respect to the subject matter hereof.

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

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this Third Amendment as of the Third Amendment Effective Date.

YAHOO! INC.		MICROSOFT CORPORATION	
By:	/s/ Mark Morrissey	By:	/s/ Greg Nelson
Name:	Mark Morrissey	Name:	Greg Nelson
Title:	Senior Vice President	Title:	General Manager

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

AMENDMENT NO. 1 TO LICENSE AGREEMENT

This Amendment No. 1 to License Agreement ("**Amendment**") is entered into and effective as of October 10, 2010 ("**Amendment Effective Date**") by and between Yahoo! Inc., a Delaware corporation ("**Yahoo!**"), and Microsoft Corporation, a Washington corporation ("**Microsoft**").

A. Yahoo! and Microsoft have entered into that certain Search and Advertising Services and Sales Agreement dated December 4, 2009 (the "**Search Agreement**") pursuant to which Microsoft is to provide to Yahoo! certain search services and monetization services and that certain License Agreement dated December 4, 2009 (the "**License Agreement**" and, as amended by this Amendment, the "**Amended License Agreement**") pursuant to which the parties have granted and received certain licenses (or options with respect to licenses).

B. The parties now wish to amend the License Agreement to provide for the possibility of each party granting to the other party certain additional, nonexclusive licenses of software, documentation, specifications and other technology.

C. The parties also wish, pursuant to Section 11.2 of the Search Agreement, to memorialize their respective rights and obligations with respect to certain ancillary materials that may be exchanged in connection with the Search Agreement.

THEREFORE, the parties hereby agree as follows:

Section 1

DEFINITIONS

The following capitalized terms shall have the following meanings. Capitalized terms used and not otherwise defined in this Amendment have the meanings ascribed to them in the License Agreement or, if not defined therein, in the Search Agreement.

1.1 "**Developing Party**" means, with respect to any Scheduled Ancillary Materials to be provided hereunder, the party that receives such Scheduled Ancillary Materials from the other party.

1.2 "**Identified Solely-Owned Software**" means, with respect to any Scheduled Ancillary Materials, the Solely-Owned Software of the Developing Party for which such Scheduled Ancillary Materials are provided as set forth in the applicable Supplemental Technology Schedule.

1.3 "**Identified Solely-Owned Software as Modified**" means any modified version of the Identified Solely-Owned Software if and to the extent made pursuant to and in accordance with the license and other terms of the Amended License Agreement (including, *e.g.*, any

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modifications made to such Identified Solely-Owned Software using the Scheduled Ancillary Materials, and any portions of the Scheduled Ancillary Materials as incorporated into such Identified Solely-Owned Software, if and to the extent authorized by the Amended License Agreement).

1.4 "**MS Licensed Supplemental Non-Patent IPR**" means the copyrights and trade secrets embodied in and specific to the MS Supplemental Technology to the extent owned or otherwise licensable by Microsoft or its Subsidiaries.

1.5 "**MS Supplemental Technology**" means the software, documentation, specifications and other technology listed in a Supplemental Technology Schedule to the extent owned or licensable by Microsoft or its Subsidiaries. MS Supplemental Technology also includes any Scheduled Ancillary Materials provided by Microsoft to Yahoo!.

1.6 "**MS Supplemental Technology License**" has the meaning set forth in Section 2.1(b).

1.7 "**Providing Party**" means, with respect to any Scheduled Ancillary Materials to be provided hereunder, the party that provides such Scheduled Ancillary Materials to the other party.

1.8 "**Schedule Effective Date**" means, with respect to each Supplemental Technology Schedule, the effective date of such Supplemental Technology Schedule as set forth therein or, if an effective date is not specified, then the date upon which the Supplemental Technology Schedule is signed by the party to sign last.

1.9 "**Scheduled Ancillary Materials**" means any Supplemental Technology that is designated as Ancillary Materials in the applicable Supplemental Technology Schedule.

1.10 "**Supplemental Non-Patent IPR**" means the MS Licensed Supplemental Non-Patent IPR or the Yahoo! Licensed Supplemental Non-Patent IPR, as applicable.

1.11 "**Supplemental Technology**" means the MS Supplemental Technology or the Yahoo! Supplemental Technology, as applicable.

1.12 "**Supplemental Technology Licenses**" means the MS Supplemental Technology License and the Yahoo! Supplemental Technology License.

1.13 "**Supplemental Technology Schedule**" means a schedule that (i) is substantially in the form of Exhibit A (or such other form as the parties expressly agree in writing shall constitute a Supplemental Technology Schedule for purposes of the Amended License Agreement), (ii) describes certain Supplemental Technology to be provided under the Amended License Agreement and the terms and conditions in addition to those set forth in the Amended License Agreement, if any, under which such Supplemental Technology is provided, and (iii) is agreed upon and executed by an authorized representative of each party.

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

1.14 “**Technology License-Related Terms**” means the License-Related Terms set forth in the License Agreement as and to the extent applicable to the Technology.

1.15 “**Unscheduled Ancillary Materials**” means any Ancillary Materials that are not Scheduled Ancillary Materials.

1.16 “**Yahoo! Licensed Supplemental Non-Patent IPR**” means the copyrights and trade secrets embodied in and specific to the Yahoo! Supplemental Technology to the extent owned or otherwise licensable by Yahoo! or its Subsidiaries.

1.17 “**Yahoo! Supplemental Technology**” means the software, documentation, specifications and other technology listed in a Supplemental Technology Schedule to the extent owned or licensable by Yahoo! or its Subsidiaries. Yahoo! Supplemental Technology also includes any Scheduled Ancillary Materials provided by Yahoo! to Microsoft.

1.18 “**Yahoo! Supplemental Technology License**” has the meaning set forth in Section 2.1(a).

Section 2

SUPPLEMENTAL LICENSES

2.1 Supplemental Technology Licenses

(a) **License to Microsoft**. Subject to the Technology License-Related Terms, and except as otherwise provided in the applicable Supplemental Technology Schedule, Yahoo! hereby grants to Microsoft a non-exclusive license under the Yahoo! Licensed Supplemental Non-Patent IPR to Exploit the Yahoo! Supplemental Technology and derivative works thereof solely in connection with providing services in the Field of Use and any Expanded Field of Use (the “**Yahoo! Supplemental Technology License**”). The Yahoo! Supplemental Technology License shall, except as otherwise provided in the applicable Supplemental Technology Schedule, (1) be effective as to any Yahoo! Supplemental Technology on the later of the Schedule Effective Date or the delivery of such Yahoo! Supplemental Technology to Microsoft under the Amended License Agreement, (2) be [*]. The Yahoo! Supplemental Technology License shall also be subject to other terms and conditions, if any, set forth in the applicable Supplemental Technology Schedule, including, without limitations, any limitations on Exploitation and requirements for payment. The Yahoo! Supplemental Technology License shall not apply to any Ancillary Materials provided by Yahoo! to Microsoft (which, if Scheduled Ancillary Materials, shall instead be subject to Section 2.2).

(b) **License to Yahoo!**. Subject to the Technology License-Related Terms, and except as otherwise provided in the applicable Supplemental Technology Schedule, Microsoft hereby grants to Yahoo! a non-exclusive license under the MS Licensed Supplemental Non-Patent IPR to Exploit the MS Supplemental Technology and derivative works thereof solely in connection with (i) utilizing services provided by Microsoft under the Search Agreement, (ii) providing services to third parties in the Field of Use and Expanded Field of Use, and/or

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

(iii) sales and marketing of advertising (the "**MS Supplemental Technology License**"). The MS Supplemental Technology License shall, except as otherwise provided in the applicable Supplemental Technology Schedule, (1) be effective as to any MS Supplemental Technology on the later of the Schedule Effective Date or the delivery of such MS Supplemental Technology to Yahoo! under the Amended License Agreement, (2) be [*], and (3) [*]. The MS Supplemental Technology License shall also be subject to other terms and conditions, if any, set forth in the applicable Supplemental Technology Schedule, including, without limitations, any limitations on Exploitation and requirements for payment. The MS Supplemental Technology License shall not apply to any Ancillary Materials provided by Microsoft to Yahoo! (which, if Scheduled Ancillary Materials, shall instead be subject to Section 2.2).

2.2 **Scheduled Ancillary Materials**. This Section 2.2, rather than Section 2.1, applies with respect to any Scheduled Ancillary Materials provided by the Providing Party to the Developing Party. Subject to the Technology License-Related Terms, the Providing Party hereby grants to the Developing Party a nonexclusive license, under the Providing Party's Supplemental Non-Patent IPR, to use any Scheduled Ancillary Materials provided by the Providing Party to the Developing Party (i) with the Identified Solely-Owned Software and/or (ii) to modify the Identified Solely-Owned Software, in each case unless otherwise provided in the applicable Supplemental Technology Schedule. Except as otherwise set forth in the applicable Supplemental Technology Schedule, the license shall be [*] and shall include the right to reproduce the Scheduled Ancillary Materials as reasonably necessary for the uses permitted by this Section 2.2 and the applicable Supplemental Technology Schedule. In addition, if and to the extent set forth in the applicable Supplemental Technology Schedule, the license shall include the right to modify the Scheduled Ancillary Materials and to incorporate the Scheduled Ancillary Materials in the Identified Solely-Owned Software. Except as otherwise set forth in the applicable Supplemental Technology Attachment, such use, incorporation or modification as permitted by this Section 2.2 [*]. For avoidance of doubt, except as otherwise set forth in the applicable Supplemental Technology Schedule, the licenses granted in this Amendment with respect to Scheduled Ancillary Materials do not permit the Developing Party to (and the Developing Party shall not (and shall not authorize any third party to), except as may be otherwise permitted under the Search Agreement or the Amended License Agreement), use or otherwise Exploit the Scheduled Ancillary Materials of the Providing Party on a standalone basis or for modification of or incorporation into any software or other materials of the Developing Party other than the Identified Solely-Owned Software. The licenses granted to each Developing Party with respect to any Scheduled Ancillary Materials pursuant to this Section 2.2 are referred to herein as, respectively, the "**Yahoo! Ancillary Materials License**" (with respect to Scheduled Ancillary Materials provided by Yahoo!) and the "**MS Ancillary Materials License**" (with respect to Scheduled Ancillary Materials provided by MS).

2.3 **License Terms**. The Yahoo! Supplemental Technology License and Yahoo! Ancillary Materials License on the one hand, and the MS Supplemental Technology License and MS Ancillary Materials License on the other hand, are subject to the same terms and conditions as, respectively, the Yahoo! Technology License and MS Technology License as set forth in the License Agreement (to the same extent as if the Supplemental Technology of each party constituted, as applicable, Yahoo! Technology or MS Technology); and, without limitation of the generality of the foregoing, (a) references in the License Agreement to the Yahoo! Technology

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

and Yahoo! Technology License shall include and refer to the Yahoo! Supplemental Technology and Yahoo! Supplemental Technology License (or, as applicable, the Yahoo! Ancillary Materials License), respectively, and (b) references in the License Agreement to the MS Technology and MS Technology License shall include and refer to the MS Supplemental Technology and MS Supplemental Technology License (or, as applicable the MS Ancillary Materials License), respectively; except that [*].

2.4 **Reservation of Rights; No Implied Licenses**. Without limitation of the generality of Section 2.3 above (or the reservations of rights and disclaimers of implied licenses already set forth in the License Agreement), no patent license or other patent rights (or authorization under any Patents) are granted to Microsoft or Yahoo! under this Amendment. The Yahoo! Supplemental Technology License and Yahoo! Ancillary Materials License, on the one hand, and the MS Supplemental Technology License and MS Ancillary Materials License, on the other hand, apply only to, respectively, the Yahoo! Licensed Supplemental Non-Patent IPR and MS Licensed Supplemental Non-Patent IPR, and expressly exclude any license or other rights under any Patents (whether by implication, estoppel or otherwise). Subject only to the specific licenses granted in this Amendment and the applicable provisions of Section 6 (Confidentiality) of the License Agreement, Yahoo! expressly reserves all rights with respect to the Yahoo! Supplemental Technology (including Scheduled Ancillary Materials provided by Yahoo!) and any Unscheduled Ancillary Materials provided by Yahoo!, and Microsoft expressly reserves all rights with respect to the MS Supplemental Technology (including Scheduled Ancillary Materials provided by Microsoft) and any Unscheduled Ancillary Materials provided by Microsoft, and no other licenses shall be implied. The parties acknowledge and agree that they have negotiated for the above exclusions, that the consideration and other terms and conditions hereof are based in part on such exclusions, and that such exclusions do not derogate from the licenses expressly granted hereunder, and the parties shall not make any assertion to the contrary.

Section 3

GENERAL

3.1 **Applicable License Terms**. Notwithstanding anything to the contrary in the License Agreement or this Amendment, if the applicable Supplemental Technology Schedule (or another writing entered into by the parties after the Amendment Effective Date in which the parties agree that software, documentation, specifications or other technology owned or licensable by Yahoo! or Microsoft will be included in the licenses granted under this Amendment) does not specify expressly that the applicable software, documentation, specifications or other technology is to be licensed on an exclusive basis, then such software, documentation, specifications or other technology will be deemed to be licensed on a non-exclusive basis. This Section 3.1 will apply regardless of whether the applicable Supplemental Technology Schedule or other writing identifies such software, documentation, specifications or other technology as “**Technology**,” “**Supplemental Technology**,” “**Ancillary Materials**,” or by some other name. However, nothing in this Section 3.1 will be interpreted or construed to amend Exhibit A of the License Agreement, to remove any software, documentation, specifications or other technology listed in Exhibit A of the License Agreement from the Yahoo! Technology that is licensed exclusively to Microsoft under Section 2.1(b) of the License

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

Agreement or to amend or supersede any other express written agreement between the parties that specifies certain software, documentation, specifications or other technology as software, documentation, specifications or other technology that Yahoo! licenses or will license exclusively to Microsoft in accordance with Section 2.1(b) of the License Agreement or the terms of such other agreement.

3.2 **No Other Amendments; Entire Agreement**. Except as expressly provided in this Amendment, the License Agreement remains in full force and effect. This Amendment together with the License Agreement, the Search Agreement and the Letter Agreement (to the extent specified in the License Agreement and the Search Agreement) constitutes the entire agreement with respect to the subject matter hereof. In the event of any conflict between this Amendment and the License Agreement, the Search Agreement or the Letter Agreement (or any ambiguity resulting from the relationship between such agreements), this Amendment shall prevail (and shall resolve any such ambiguity). The parties agree that this Amendment satisfies the requirement that the parties enter into an addendum with respect to Ancillary Materials as set forth in Section 11.2 of the Search Agreement.

IN WITNESS WHEREOF, the parties by their duly authorized representatives have executed this Amendment as of the date first above written.

YAHOO! INC.		**MICROSOFT CORPORATION**	
By:	/s/ Mike Gupta Signature	By:	/s/ Greg Nelson Signature
Name:	Mike Gupta Print or Type	Name:	Greg Nelson Print or Type
Title:	SVP Finance	Title:	General Manager Search Alliance

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

Exhibit A

Supplemental Technology Schedule

Provider of Supplemental Technology	☐ Microsoft ☐ Yahoo
Description of Technology	
For Supplemental Technology provided to Microsoft (other than "Ancillary Materials")	☐ Option 1: [*]. ☐ Option 2: [*]: ______________________________ (leave blank if Option 2 not checked). NOTE: Check either Option 1 or Option 2 (not both).
For Supplemental Technology provided to Yahoo! (other than "Ancillary Materials")	☐ Option 1: [*]. ☐ Option 2: Use limited only to the following: __________________________ (leave blank if Option 2 not checked). NOTE: Check either Option 1 or Option 2 (not both).
License Term	☐ Perpetual ☐ Limited Duration of ______________
Additional Fee (if any)	☐ No Additional Fee ☐ $________
Is the Supplemental Technology "Ancillary Materials"?	☐ Yes ☐ No
If the Supplemental Technology is Ancillary Materials, what is the associated "Identified Solely-Owned Software"?	☐ N/A (Supplemental Technology is not Ancillary Materials) ☐ ______________________________]
If the Supplemental Technology is Ancillary Materials, may the receiving party modify and/or reproduce the Ancillary Materials and/or incorporate the Ancillary	☐ Modification allowed ☐ Modification not allowed ☐ Reproduction allowed ☐ Reproduction not allowed

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

Materials into its own Solely Owned Software (in each case, subject to Sec. 2.2)?	☐ Incorporation allowed ☐ Incorporation not allowed
Additional Conditions or License Restrictions (scope, field of use, geographical, etc.) (if any). Leave blank if none.	
Providing party's support or update obligations (if any). Leave blank if none.	
Microsoft Contact	
Yahoo! Contact	

This Schedule is agreed upon and executed by the parties' duly authorized representatives as of ______, 20__ ("**Schedule Effective Date**").

YAHOO! INC.	MICROSOFT CORPORATION
By: ____________________	By: ____________________
Signature	Signature
Name: ____________________	Name: ____________________
Print or Type	Print or Type
Title: ____________________	Title: ____________________
Date Signed: ____________________	Date Signed: ____________________

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

YAHOO! [*] CONSENT
TO
ADDENDUM TO LICENSE AGREEMENT

Yahoo! [*], a company registered in [*] ("[*]") and a Subsidiary of Yahoo! Inc. ("**Yahoo!**"), acknowledges that Yahoo! has entered into a Nonexclusive License and Ancillary Materials Amendment dated as of October 10, 2010 between Yahoo and Microsoft Corporation ("**Amendment**"). To the extent that [*], holds any rights with respect to the Yahoo! Supplemental Technology (as defined in the Amendment) (or any intellectual property therein), [*] hereby consents to [*].

YAHOO! [*]

By: /s/ Jean-Christophe Conti
Signature

Name: Jean-Christophe Conti
Print or Type

Title: ______________________

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

Exhibit 10.20

[Yahoo! Letterhead]

May 28, 2010 (Supersedes offer letter of April 15, 2010)

Blake Irving
[address]

Dear Blake:

On behalf of Yahoo! Inc. ("Yahoo!" or the "Company"), I am pleased to offer you the position of Chief Product Officer, reporting to Yahoo!'s Chief Executive Officer, Carol Bartz. Your appointment is subject to approval by the Company's Board of Directors and your compensation package as outlined herein is subject to approval of the Compensation Committee of the Board of Directors ("Compensation Committee"). For purposes of this letter, your first day of work at Yahoo! will be considered your "Employment Start Date". This letter is your amended and restated offer letter.

Base Salary. Your starting annual base salary will be $50,000.00 per month ($600,000.00 annually), less applicable taxes and withholdings, paid semi-monthly and subject to annual review.

Executive Incentive Plan. You also will be eligible to participate in the Executive Incentive Plan (EIP) (for 2010 eligibility your Employment Start Date must be on or before October 1, 2010), with a target incentive of 100% of your annual base salary, pro-rated based on the period of time you are employed at Yahoo! in an EIP eligible position during the relevant year, less applicable taxes, deductions, and withholdings. Target incentives do not constitute a promise of payment. To qualify for the incentive bonus, you must remain employed with the Company through the date that the incentive bonus is paid (as specified in the EIP). Your actual EIP payout will depend on Yahoo! financial performance and management's assessment of your individual performance, and it is subject to, and governed by, the terms and requirements of the EIP document. Eligibility for participation in the EIP is subject to annual review.

In addition, subject to approval by the Compensation Committee, as a senior leader of Yahoo!, in 2011 you also will be eligible for consideration to receive long term incentive equity awards under the Yahoo! Inc. 1995 Stock Plan similar to other executives at your level.

Sign-On Bonus. You also will receive a sign-on bonus of $250,000.00, less applicable taxes and withholdings, payable to you on the first semi-monthly paycheck that occurs 30 days after your Employment Start Date. If during the first twelve (12) months following your Employment Start Date you voluntarily resign from your employment with Yahoo! or your employment with Yahoo! is terminated by Yahoo! with Cause[1], then this sign-on bonus will become due and payable by you to Yahoo! on your last day of employment.

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[1] For purposes of this letter, "Cause" shall mean termination of your employment with the Company based upon the occurrence of one or more of the following which, with respect to clauses (1), (2) and (3) below, if curable, you have not cured within fourteen (14) days after you receive written notice from the Company specifying with reasonable particularity such occurrence: (1) your refusal or material failure to perform your job duties and responsibilities (other than by reason of your serious physical or mental illness, injury or medical condition), (2) your failure or refusal to comply in any material respect with material Company policies or lawful directives, (3) your material breach of any contract or agreement between you and the Company (including but not limited to this letter agreement and any Employee Confidentiality and Assignment of Inventions Agreement or similar agreement between you and the Company), or your material breach of any statutory duty, fiduciary duty or any other obligation that you owe to the Company, (4) your commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or your engaging in unprofessional, unethical or other intentional acts that materially discredit the Company or are materially detrimental to the reputation, character or standing of the Company, or (5) your indictment or conviction or *nolo contendre* or guilty plea with respect to any felony or crime of moral turpitude. Following notice and cure as provided in the preceding sentence, upon any additional one-time occurrence of one or

Stock Options. As a part of the Yahoo! team, we strongly believe that ownership of the Company by Yahoos is an important factor to our success. Therefore, as part of your compensation, management will recommend that the Compensation Committee grant you an option to purchase 400,000 shares of Yahoo! Inc.'s common stock (the "Option"). The exercise price for the Option will be the fair market value of Yahoo! common stock on the date of grant as determined by the Compensation Committee. The Option will be subject to the terms and conditions of Yahoo! Inc.'s 1995 Stock Plan, as amended, and the applicable notice of stock option grant and stock option agreement (which will include the stock option vesting schedule), and vesting of the Option is contingent on your continued employment with Yahoo! through each vesting date. Subject to approval by the Compensation Committee, twenty-five percent (25%) of the shares subject to the Option will vest on the first anniversary of your Employment Start Date. Thereafter, one-eighth of the shares subject to the Option shall vest and become exercisable every six months, such that the Option will be fully vested on the fourth anniversary of the Employment Start Date.

Restricted Stock Units. In addition, management will also recommend that the Compensation Committee grant you an award of 125,000 Restricted Stock Units ("RSUs"), subject to the terms and conditions of the Yahoo! Inc. 1995 Stock Plan, as amended, and the applicable restricted stock unit award agreement. Subject to the approval of the Compensation Committee, the RSUs will vest on the third anniversary of the date of grant, provided that you have been continuously employed with Yahoo! through such date. If, however, during the first twelve (12) months after your Employment Start Date your employment with Yahoo! is terminated by Yahoo! without Cause (as defined above), then 41,667 RSUs will vest (and the balance shall terminate) as of the date your employment with Yahoo! terminates, and payment of the vested RSUs will be satisfied promptly and in no event later than 2 1/2 months following the date your employment with Yahoo! terminates. If your employment with Yahoo! is terminated by Yahoo! without Cause (as defined above) after the one (1) year anniversary of your Employment Start Date and prior to the third anniversary of the grant date of the RSUs, then you will receive pro-rata accelerated vesting of 3,472.22 RSUs for each full month worked at Yahoo! after the grant date of the RSUs (and the balance shall terminate) as of the date your employment with Yahoo! terminates, and payment of the vested RSUs will be satisfied promptly and in no event later than 2 1/2 months following the date your employment with Yahoo! terminates. Any fractional shares will be rounded down to the nearest whole share. Following the vesting of the RSUs, you will receive one share of Yahoo! Inc. common stock as payment for each vested RSU (subject to tax withholding).

Benefits. A significant part of your total compensation at Yahoo! is derived from the benefits that Yahoo! provides. Yahoo! provides a very competitive benefits package for its eligible full- and part-time employees. Eligible Yahoos may participate in Yahoo!'s health insurance benefits (medical, dental and vision), life insurance, short term and long term disability, the Employee Stock Purchase Plan, 401(k) Plan, and Yahoo!'s Flexible Spending Plan (Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account). Yahoos working less than 40 hours per week may not be eligible for all benefit programs or certain benefits may be provided on a pro-rated basis. Please refer to benefit plan documents for eligibility. Of course, Yahoo! may change its benefits at any time. Prior to your Employment Start Date, you will be provided a website address and logon instructions to access detailed information about Yahoo! benefits programs, including the plan documents.

Paid Time Off. You will accrue vacation at a rate of fifteen (15) days for the first year of your employment at Yahoo!. Thereafter, you will accrue vacation at the regular Yahoo! vacation accrual rate (up to the maximum as specified in our Vacation Policy). Vacation is accrued based on hours worked, therefore Yahoos who work a part-time schedule accrue vacation on a pro-rata basis. In addition, Yahoo! currently provides eligible employees with designated company paid holidays each year.

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more of the events enumerated in that sentence, the Company may terminate your employment for Cause without notice and opportunity to cure. However, should the Company choose to offer you another opportunity to cure, it shall not be deemed a waiver of its rights under this provision.

Commute Expenses. Although you will not be required to move to the San Francisco Bay Area, you will be expected to travel to Yahoo!'s office in Sunnyvale as your primary business location. In lieu of providing you with relocation benefits at this time and while you are living outside the San Francisco Bay Area, Yahoo! will initially pay you a monthly commuting allowance of $11,250, less applicable taxes and withholdings. This allowance is a taxable benefit to you.

Proprietary Agreement and No Conflict with Prior Agreements. As an employee of Yahoo!, it is likely that you will become knowledgeable about confidential and/or proprietary information related to the operations, products and services of Yahoo! and its clients. Similarly, you may have confidential or proprietary information from prior employers that should not be used or disclosed to anyone at Yahoo!. Therefore, Yahoo! requests that you read, complete, and sign the enclosed Employee Confidentiality and Assignment of Inventions Agreement ("Proprietary Agreement") and the Proprietary Information Obligations Checklist and return it to Yahoo! prior to your Employment Start Date. In addition, Yahoo! requests that you comply with any existing and/or continuing contractual obligations that you may have with your former employers. By signing this offer letter, you represent that your employment with Yahoo! shall not breach any agreement you have with any third party.

Obligations. During your employment, you shall devote your full business efforts and time to Yahoo!. This obligation, however, shall not preclude you from engaging in appropriate civic, charitable or religious activities or from serving on the boards of directors of one or two companies that are not competitors to Yahoo!, as long the activities do not materially interfere or conflict with your responsibilities to or your ability to perform your duties of employment at Yahoo!. Any outside activities must be in compliance with and approved if required by Yahoo!'s Code of Ethics.

Non-competition. In addition to the obligations specified in the Proprietary Agreement, you agree that, during your employment with Yahoo! you will not engage in, or have any direct or indirect interest in any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, consultant, partner or otherwise) that is competitive with the business of Yahoo!, including, without limitation, any then-current activities relating to providing Internet navigational products or services and any then-current activities providing search, e-mail, chat, e-commerce, instant messaging, content (e.g., music, video), ISP (e.g., connectivity, bandwidth or storage) or other Internet-based delivery or functionality. Notwithstanding the preceding sentence, you may own not more than 1% of the securities of any company whose securities are publicly traded.

Employment At-Will. Please understand that this letter does not constitute a contract of employment for any specific period of time, but will create an employment at-will relationship that may be terminated at any time by you or Yahoo!, with or without cause and with or without advance notice. The at-will nature of the employment relationship may not be modified or amended except by written agreement signed by Yahoo!'s Chief Human Resources Officer and you.

Code of Ethics and Yahoo! Policies. Yahoo! is committed to creating a positive work environment and conducting business ethically. As an employee of Yahoo!, you will be expected to abide by the Company's policies and procedures including, but not limited to, Yahoo!'s Guide2Working@Y! and Yahoo!'s Code of Ethics. Yahoo! requests that you review, sign and bring with you on your Employment Start Date, the enclosed Code of Ethics Acknowledgment Form.

Entire Agreement. This offer letter and the referenced documents and agreements constitute the entire agreement between you and Yahoo! with respect to the subject matter hereof and supersede any and all prior or contemporaneous oral or written representations, understandings, agreements or communications between you and Yahoo! concerning those subject matters.

Work Authorization/Visa. If you are in need of a work authorization, please let our Staffing Coordinator know at the time that you accept this offer. Please note that the number of employment visas available each year is limited by the U.S. government. In the event that your request for or extension of an employment visa is denied or an employment visa cannot be obtained within a reasonable amount of time (as determined by Yahoo!, in its sole discretion), Yahoo! reserves the right to withdraw or suspend this offer and/or your employment may be terminated (or if your employment has not begun, you may not become employed by Yahoo!). In the event that Yahoo! has agreed to sponsor you for an employment visa, Yahoo! will cover all expenses associated with the visa application process.

Eligibility to Work in the United States. In order for Yahoo! to comply with United States law, we ask that on your Employment Start Date you bring to Yahoo! appropriate documentation to verify your authorization to work in the United States. Yahoo! may not employ anyone who cannot provide documentation showing that they are legally authorized to work in the United States.

Foreign National Export License. Before releasing certain export-controlled technology and software to you during your employment at Yahoo!, Yahoo! may be required to obtain an export license in accordance with United States law. Yahoo! will inform you if an export license is needed. If an export license is required, then this offer of employment and/or your continued employment (if applicable) with Yahoo! is contingent upon receipt of the export license or authorization, and Yahoo! will have no obligation to employ you or provide you with any compensation or benefits until the export license or authorization is secured.

Background Check. Please understand that this offer is contingent upon the successful completion of your background check.

Accepting this Offer. This offer is contingent on you starting employment at Yahoo! on or before 05/24/2010 or a date mutually agreed upon between you and the Company. **To accept this offer, please sign this letter in the space provided below and fax it, the signed Proprietary Agreement, and the signed Proprietary Information Obligations Checklist to [contact]. Please also mail the original signed offer letter, the signed Proprietary Agreement and the signed Proprietary Information Obligations Checklist to Grant Bassett in the envelope provided.** A second copy of each document has been provided for you to keep for your records.

Day 1: After your acceptance is received, your Recruiter/Coordinator will email you information about New Hire Orientation. If you will not be starting on a Monday coinciding with orientation, please make arrangements with me to complete the necessary eligibility to work and payroll forms on your Employment Start Date.

We can’t wait to start working with you and hope that you’ll find working at Yahoo! one of the most rewarding experiences of your life, both professionally and personally.

Start practicing your yodel!

/s/ David Windley

David Windley
Chief Human Resources Officer

I accept this offer of employment with Yahoo! Inc. and agree to the terms and conditions outlined in this letter.

/s/ Blake Irving	06/04/10
Signature	Date
Blake Irving	May 17, 2010
Full Name	Planned Employment Start Date (Contingent upon completion of a satisfactory background check.)

Enclosures:
Employee Confidentiality and Assignment of Inventions Agreement
Proprietary Information Obligations Checklist
Code of Ethics Acknowledgment Form
At-Will Employment, Guide2Working@Yahoo!, and Privacy Policy Acknowledgment Form

cc: HR file

Exhibit 10.21

[Yahoo! Letterhead]

October 27, 2010

Ross Levinsohn
[address]

Dear Ross:

On behalf of Yahoo! Inc. ("Yahoo!" or the "Company"), I am pleased to offer you the position of Executive Vice President, Americas reporting to Carol Bartz, working in Santa Monica, CA. Your appointment is subject to approval by the Company's Board of Directors and your compensation package as outlined herein is subject to approval of the Compensation Committee of the Board of Directors ("Compensation Committee"). For purposes of this letter, your first day of work at Yahoo! will be considered your "Employment Start Date".

Base Salary. Your starting annual base salary will be $58,333.33 per month ($700,000 annually), less applicable taxes and withholdings, paid semi-monthly and subject to annual review. Yahoo!'s regularly scheduled pay days are currently on the 10th and 25th of every month.

Executive Incentive Plan. You also will be eligible to participate in the Executive Incentive Plan (EIP) (for 2011 eligibility your Employment Start Date must be on or before October 1, 2011), with a target incentive of 100% of your annual base salary, pro-rated based on the period of time you are employed at Yahoo! in an EIP eligible position during the relevant company fiscal year, less applicable taxes, deductions, and withholdings. Target incentives do not constitute a promise of payment. To qualify for the incentive bonus, you must remain employed with the Company through the date that the incentive bonus is paid (as specified in the EIP). Your actual EIP payout will depend on Yahoo! financial performance and management's assessment of your individual performance, and it is subject to, and governed by, the terms and requirements of the EIP document. Eligibility for participation in the EIP is subject to annual review.

In addition, subject to approval by the Compensation Committee, as a senior leader of Yahoo!, beginning in 2011 and continuing for each year in which you remain employed by Yahoo! and in good standing, you also will be eligible for consideration to receive long term incentive equity awards under the Yahoo! Inc. 1995 Stock Plan similar to other executives at your level.

Sign-On Bonus. You also will receive a Sign-On Bonus of $500,000.00, less applicable taxes and withholdings, payable to you on the first semi-monthly paycheck that occurs 30 days after your Employment Start Date. If during the first twelve (12) months following your Employment Start Date you voluntarily resign from your employment with Yahoo! without Good Reason[1] or your employment with Yahoo! is terminated by Yahoo! with Cause[2], then a

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[1] For purposes of this letter, "Good Reason" shall be deemed to exist only if the Company shall fail to correct within 30 days after receipt of written notice from you specifying in reasonable detail the reasons you believe one of the following events or conditions has occurred (provided such notice is delivered by you no later than 30 days after the initial existence of the occurrence): (1) a material diminution of your then current aggregate base salary and target bonus amount (other than reductions that also affect other similarly situated employees) without your prior written agreement; (2) the material diminution of your authority, duties or responsibilities as an employee of the Company without your prior written agreement (except that change in title or assignment to a new supervisor by itself shall not constitute Good Reason); or (3) the relocation of your position with the Company to a location that is greater than 50 miles from Santa Monica, California and that is also further from your principal place of residence, without your prior written agreement, provided that in all events the termination of your service with the Company shall not be treated as a termination for "Good Reason" unless such termination occurs not more than six (6) months following the initial existence of the occurrence of the event or condition claimed to constitute "Good Reason.

prorated amount of the Sign-On Bonus (based on a rate of 1/12th of the Sign-On Bonus for each month of service your termination precedes the one year anniversary of your Employment Start Date) shall become due and payable by you to Yahoo! on your last day of employment. Notwithstanding the foregoing, if during the first twelve (12) months following your Employment Start Date, you voluntarily resign from your employment at Yahoo! as a result a material diminution in the authority, duties, or responsibilities of the supervisor to whom you are required to report, then you shall not be required to repay any portion of the Sign-On Bonus, provided that the Company fails to correct within 30 days after receipt of written notice from you specifying in reasonable detail the reasons you believe such diminution has occurred (provided such notice is delivered by you no later than 30 days after the initial existence of the occurrence) and further provided that in all events the termination of your service occurs not more than six (6) months following the initial existence of the diminution in the authority, duties, or responsibilities of the supervisor to whom you are required to report.

Stock Options. As a part of the Yahoo! team, we strongly believe that ownership of the Company by Yahoos is an important factor to our success. Therefore, as part of your compensation, management will recommend that the Compensation Committee grant you an option to purchase 400,000 shares of Yahoo! Inc.'s common stock. The exercise price for this option will be the fair market value of Yahoo! common stock on the date of grant as determined by the Compensation Committee. Subject to Compensation Committee approval, one-fourth of the shares subject to the Option shall vest and become exercisable on the first anniversary of the Vesting Commencement Date (as such term is defined in the applicable notice of stock option grant and stock option agreement), and thereafter, one-eighth of the shares subject to the Option shall vest and become exercisable every six months, such that the Option will be fully vested on the fourth anniversary of the Vesting Commencement Date, provided in each case that you remain continuously employed with Yahoo! through the applicable vesting date. The option will also be subject to the other terms and conditions of Yahoo! Inc.'s 1995 Stock Plan, as amended, and the applicable notice of stock option grant and stock option agreement.

Restricted Stock Units. In addition, management will also recommend that the Compensation Committee grant you an award of 175,000 Restricted Stock Units ("RSUs"). The RSUs will be subject to the terms and conditions of Yahoo! Inc.'s 1995 Stock Plan, as amended, and the applicable RSU award agreement. One-quarter of the RSUs (*i.e*., 43,750 RSUs) will vest and become non-forfeitable on each of the first 4 anniversaries of the date of grant, provided in each case that you remain continuously employed with Yahoo! through the applicable vesting date. Following the vesting of the RSUs, you will receive one share of Yahoo! Inc. common stock for each vested RSU (subject to tax withholding).

Benefits. A significant part of your total compensation at Yahoo! is derived from the benefits that Yahoo! provides. Yahoo! provides a very competitive benefits package for its eligible full- and part-time employees. Eligible Yahoos

[2] For purposes of this letter, "Cause" shall mean termination of your employment with the Company based upon the occurrence of one or more of the following which, with respect to clauses (1), (2) and (3) below, if curable, you have not cured within fourteen (14) days after you receive written notice from the Company specifying with reasonable particularity such occurrence: (1) your refusal or material failure to perform your job duties and responsibilities (other than by reason of your serious physical or mental illness, injury or medical condition), (2) your failure or refusal to comply in any material respect with material Company policies or lawful directives, (3) your material breach of any contract or agreement between you and the Company (including but not limited to this letter agreement and any Employee Confidentiality and Assignment of Inventions Agreement or similar agreement between you and the Company), or your material breach of any statutory duty, fiduciary duty or any other obligation that you owe to the Company, (4) your commission of an act of fraud, theft, embezzlement or other unlawful act against the Company or involving its property or assets or your engaging in unprofessional, unethical or other intentional acts that materially discredit the Company or are materially detrimental to the reputation, character or standing of the Company, or (5) your indictment or conviction or *nolo contendre* or guilty plea with respect to any felony or crime of moral turpitude. Following notice and cure as provided in the preceding sentence, upon any additional one-time occurrence of one or more of the events enumerated in that sentence, the Company may terminate your employment for Cause without notice and opportunity to cure. However, should the Company choose to offer you another opportunity to cure, it shall not be deemed a waiver of its rights under this provision.

may participate in Yahoo!'s health insurance benefits (medical, dental and vision), life insurance, short term and long term disability, the Employee Stock Purchase Plan, 401(k) Plan, and Yahoo!'s Flexible Spending Plan (Healthcare Reimbursement Account and/or Dependent Care Reimbursement Account). Yahoos working less than 40 hours per week may not be eligible for all benefit programs or certain benefits may be provided on a pro-rated basis. Please refer to benefit plan documents for eligibility. Of course, Yahoo! may change its benefits at any time. Prior to New Hire Orientation, you will be provided a website address and logon instructions to access detailed information about Yahoo! benefits programs, including the plan documents.

The Company will reimburse you for reasonable legal fees incurred in connection with negotiating and reviewing this letter up to a maximum of twenty five thousand dollars ($25,000) (based on your attorney's normal charges and upon providing Yahoo! with documentation of the charges). You will, not later than December 31, 2010, provide the Company with appropriate documentation of such legal fees that you incur and, upon receipt of such documentation from you, the Company will provide such reimbursement to you within thirty (30) days. This will be a taxable benefit to you.

You will be expected to travel in connection with your employment. Yahoo! will reimburse you for reasonable business expenses incurred in connection with your employment, upon presentation of appropriate documentation in accordance with the Company's expense reimbursement policies and you will be eligible to participate in the travel policy established by the Company generally for its senior management.

Paid Time Off. You will accrue vacation at a rate of twenty (20) days (up to the maximum vacation accrual cap for others accruing at that same rate as specified in the Vacation Policy) for the first 4 years of your employment at Yahoo!. Thereafter, you will accrue vacation at the regular Yahoo! vacation accrual rate (up to a maximum as specified in our Vacation Policy). Vacation is accrued based on hours worked, therefore Yahoos who work less than 40 hours per week accrue vacation on a pro-rata basis. In addition, Yahoo! currently provides eligible employees with designated company paid holidays each year.

Proprietary Agreement and No Conflict with Prior Agreements. As an employee of Yahoo!, it is likely that you will become knowledgeable about confidential and/or proprietary information related to the operations, products and services of Yahoo! and its clients. Similarly, you may have confidential or proprietary information from prior employers that should not be used or disclosed to anyone at Yahoo!. Therefore, Yahoo! requests that you read, complete, and sign the enclosed Employee Confidentiality and Assignment of Inventions Agreement ("Proprietary Agreement") and the Proprietary Information Obligations Checklist and return it to Yahoo! prior to your Employment Start Date. In addition, Yahoo! requests that you comply with any existing and/or continuing contractual obligations that you may have with your former employers. By signing this offer letter, you represent that your employment with Yahoo! shall not breach any agreement you have with any third party.

Obligations. During your employment, you shall devote your full business efforts and time to Yahoo!. This obligation, however, shall not preclude you from engaging in appropriate civic, charitable or religious activities or from serving on the boards of directors of one or two companies that are not competitors to Yahoo!, as long the activities do not materially interfere or conflict with your responsibilities to or your ability to perform your duties of employment at Yahoo!. Any outside activities must be in compliance with and approved if required by Yahoo!'s Code of Ethics.

Non-competition. In addition to the obligations specified in the Proprietary Agreement, you agree that, during your employment with Yahoo! you will not engage in, or have any direct or indirect interest in any person, firm, corporation or business (whether as an employee, officer, director, agent, security holder, creditor, consultant, partner or otherwise) that is competitive with the business of Yahoo!, including, without limitation, any then-current activities relating to providing Internet navigational products or services and any then-current activities providing search, e-mail, chat, e-commerce, instant messaging, content (e.g., music, video), ISP (e.g., connectivity, bandwidth or storage) or other Internet-based delivery or functionality. Notwithstanding the preceding sentence, you may own not more than 1% of the securities of any company whose securities are publicly traded.

Employment At-Will. Please understand that this letter does not constitute a contract of employment for any specific period of time, but will create an employment at-will relationship that may be terminated at any time by you or Yahoo!, with or without cause and with or without advance notice. The at-will nature of the employment relationship may not be modified or amended except by written agreement signed by Yahoo!'s Chief Human Resources Officer and you. Notwithstanding the foregoing, if your employment is terminated by Yahoo! without Cause or you resign for Good Reason, then Yahoo! will offer you severance benefits pursuant to its normal practice at the time of your termination and similar to what is offered to other executives at your level. All severance benefits are conditioned on you signing a full release of any and all claims against Yahoo! in a release form acceptable to Yahoo! (within the period specified in it by the Company) after the termination of your employment and your not revoking such release pursuant to any revocation rights afforded by applicable law.

Code of Ethics and Yahoo! Policies. Yahoo! is committed to creating a positive work environment and conducting business ethically. As an employee of Yahoo!, you will be expected to abide by the Company's policies and procedures including, but not limited to, Yahoo!'s Guide2Working@Y! and Yahoo!'s Code of Ethics. Yahoo! requests that you review, sign and bring with you on your Employment Start Date, the enclosed Code of Ethics Acknowledgment Form.

Entire Agreement. This offer letter and the referenced documents and agreements constitute the entire agreement between you and Yahoo! with respect to the subject matter hereof and supersede any and all prior or contemporaneous oral or written representations, understandings, agreements or communications between you and Yahoo! concerning those subject matters.

Work Authorization/Visa. If you are in need of a work authorization, please let our Staffing Coordinator know at the time that you accept this offer. Please note that the number of employment visas available each year is limited by the U.S. government. In the event that your request for or extension of an employment visa is denied or an employment visa cannot be obtained within a reasonable amount of time (as determined by Yahoo!, in its sole discretion), Yahoo! reserves the right to withdraw or suspend this offer and/or your employment may be terminated (or if your employment has not begun, you may not become employed by Yahoo!). In the event that Yahoo! has agreed to sponsor you for an employment visa, Yahoo! will cover all expenses associated with the visa application process.

Eligibility to Work in the United States. In order for Yahoo! to comply with United States law, we ask that on your Employment Start Date you bring to Yahoo! appropriate documentation to verify your authorization to work in the United States. Yahoo! may not employ anyone who cannot provide documentation showing that they are legally authorized to work in the United States.

Foreign National Export License. Before releasing certain export-controlled technology and software to you during your employment at Yahoo!, Yahoo! may be required to obtain an export license in accordance with United States law. Yahoo! will inform you if an export license is needed. If an export license is required, then this offer of employment and/or your continued employment (if applicable) with Yahoo! is contingent upon receipt of the export license or authorization, and Yahoo! will have no obligation to employ you or provide you with any compensation or benefits until the export license or authorization is secured.

IRC 409a. To the extent that this letter is subject to Internal Revenue Code Section 409A, you and Yahoo! agree that the terms and conditions of this letter shall be construed and interpreted to the maximum extent reasonably possible, without altering the fundamental intent of this letter, to comply with and avoid the imputation of any tax, penalty or interest under Code Section 409A.

Background Check. Please understand that this offer is contingent upon the successful completion of your background check.

Accepting this Offer. We're really excited to have you on our team and can't wait to receive your acceptance by 5:00 p.m. (PST) on October 28, 2010. This offer is contingent on you starting employment at Yahoo! on or before November 30, 2010 or a date mutually agreed upon between you and your Hiring Manager.

To accept this offer, please:

1. **Sign** this letter in the space provided below **and fax** the following signed documents to [Contact]. A second copy of each of the documents has been provided for your records.
   - Offer Letter
   - Employee Confidentiality and Assignment of Inventions Agreement (NDA)
   - Export Compliance Form
   - Proprietary Information Obligations Checklist
2. **Mail** all of the signed documents listed on the New Hire Document Checklist to Uzma Khan in the envelope provided at least five (5) business days prior to your Employment Start Date.

We can't wait to start working with you and hope that you'll find working at Yahoo! one of the most rewarding experiences of your life, both professionally and personally.

Start practicing your yodel!

/s/ David Windley

David Windley
Chief Human Resources Officer

I accept this offer of employment with Yahoo! Inc. and agree to the terms and conditions outlined in this letter.

/s/ Ross Levinsohn	10-27-10
Signature	Date
Ross Levinsohn	
Full Name	Planned Employment Start Date (Contingent upon completion of a satisfactory background check.)

Enclosures

Cc: HR file

EXHIBIT 31.1

**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, Carol Bartz, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2011

By: /s/ CAROL BARTZ
Carol Bartz
Chief Executive Officer

EXHIBIT 31.2

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, Timothy R. Morse, certify that:

1. I have reviewed this Form 10-Q of Yahoo! Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2011

By: /s/ TIMOTHY R. MORSE
Timothy R. Morse
Chief Financial Officer

EXHIBIT 32

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

In connection with the Quarterly Report on Form 10-Q of Yahoo! (the "Company") for the quarter ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Carol Bartz, as Chief Executive Officer of the Company, and Timothy R. Morse, 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 her or 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/ CAROL BARTZ
Name:	Carol Bartz
Title:	Chief Executive Officer
Dated:	May 10, 2011

	/s/ TIMOTHY R. MORSE
Name:	Timothy R. Morse
Title:	Chief Financial Officer
Dated:	May 10, 2011

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.