

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 0-28018

YAHOO! INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0398689

(I.R.S. Employer Identification No.)

701 First Avenue
Sunnyvale, California 94089

(Address of principal executive offices)

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

Indicate by check mark whether the Registrant (1) has filed all reports required 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 15, 2002
Common Stock, \$0.001 par value	600,571,000

YAHOO! INC.

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PART I—FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements (unaudited)****YAHOO! INC.****Condensed Consolidated Statements of Operations****(unaudited, in thousands except per share amounts)**

	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Net revenues	\$ 225,792	\$ 182,165	\$ 418,457	\$ 362,380
Costs and expenses:				
Cost of revenues	41,708	40,559	79,529	79,102
Sales and marketing	110,015	101,991	206,161	209,219
Product development	35,162	32,221	67,944	65,342
General and administrative	25,437	20,202	52,106	39,396
Amortization of intangibles	5,952	15,576	9,374	30,473
Restructuring costs	—	40,700	—	40,700
Acquisition-related costs	—	4,750	—	4,750
Total operating expenses	218,274	255,999	415,114	468,982
Income (loss) from operations	7,518	(73,834)	3,343	(106,602)
Other income, net	29,228	26,490	51,897	49,766
Minority interests in operations of consolidated subsidiaries	139	233	351	462
Income (loss) before income taxes and cumulative effect of accounting change	36,885	(47,111)	55,591	(56,374)
Provision for income taxes	15,491	1,413	23,722	3,636
Net income (loss) before cumulative effect of accounting change	21,394	(48,524)	31,869	(60,010)
Cumulative effect of accounting change	—	—	(64,120)	—
Net income (loss)	\$ 21,394	\$ (48,524)	\$ (32,251)	\$ (60,010)
Net income (loss) per share — basic:				
Net income (loss) before cumulative effect of accounting change	\$ 0.04	\$ (0.09)	\$ 0.05	\$ (0.11)
Cumulative effect of accounting change	\$ —	\$ —	\$ (0.10)	\$ —
Net income (loss) per share — basic	\$ 0.04	\$ (0.09)	\$ (0.05)	\$ (0.11)

Net income (loss) per share — diluted								
Net income (loss) before cumulative effect of accounting change	\$	0.03	\$	(0.09)	\$	0.05	\$	(0.11)
Cumulative effect of accounting change	\$	—	\$	—	\$	(0.10)	\$	—
Net income (loss) per share — diluted	\$	0.03	\$	(0.09)	\$	(0.05)	\$	(0.11)
Shares used in per share calculation — basic		598,740		569,768		592,809		567,608
Shares used in per share calculation — diluted		615,542		569,768		612,781		567,608

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

YAHOO! INC.

Condensed Consolidated Balance Sheets

(unaudited, in thousands)

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 303,591	\$ 372,632
Short-term investments in marketable securities	526,411	553,795
Accounts receivable, net	86,340	68,648
Prepaid expenses and other current assets	56,435	56,458
Total current assets	972,777	1,051,533
Long-term investments in marketable securities	643,080	580,418
Restricted long-term investments	258,662	258,662
Property and equipment, net	135,653	131,648
Goodwill	458,132	192,987
Intangible assets, net	108,362	19,457
Other assets, net	149,097	144,641
Total assets	\$ 2,725,763	\$ 2,379,346
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,164	\$ 13,218
Accrued expenses and other current liabilities	257,576	235,897
Deferred revenue	135,811	109,402
Total current liabilities	407,551	358,517
Other liabilities	89,694	23,806
Minority interests in consolidated subsidiaries	29,655	30,006
Stockholders' equity:		
Common Stock	606	581
Additional paid-in capital	2,343,926	2,067,410
Treasury stock	(59,988)	(59,988)
Accumulated deficit	(82,559)	(50,308)
Accumulated other comprehensive income (loss)	(3,122)	9,322
Total stockholders' equity	2,198,863	1,967,017
Total liabilities and stockholders' equity	\$ 2,725,763	\$ 2,379,346

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

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Six Months Ended	
	June 30, 2002	June 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (32,251)	\$ (60,010)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	50,431	62,453
Tax benefits from stock options	20,756	3,163
Cumulative effect of accounting change	64,120	—
Earnings in equity interests	(9,800)	(1,328)
Minority interests in operations of consolidated subsidiaries	(351)	(462)
Noncash (gains) losses from investments	(3,101)	12,562
Noncash restructuring costs	—	11,659
Other noncash charges	6,776	7,057
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	(3,526)	30,415
Prepaid expenses and other assets	23,874	(18,385)
Accounts payable	(67)	(14,729)
Accrued expenses and other current liabilities	(10,613)	31,248
Current deferred revenue	14,577	1,806
Long term deferred revenue	30,000	—
Net cash provided by operating activities	150,825	65,449
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(21,588)	(55,056)
Purchases of marketable securities	(543,037)	(723,012)
Proceeds from sales and maturities of marketable securities	495,745	781,624
Increase in restricted investments	—	(193,108)
Acquisitions, net of cash acquired, and purchases of other investments	(189,168)	(18,801)
Proceeds from the sale of other investments	687	5,000
Net cash used in investing activities	(257,361)	(203,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of Capital Stock, net	35,699	53,947
Net cash provided by financing activities	35,699	53,947
Effect of exchange rate changes on cash and cash equivalents	1,796	(4,600)
Net change in cash and cash equivalents	(69,041)	(88,557)
Cash and cash equivalents at beginning of period	372,632	456,877
Cash and cash equivalents at end of period	\$ 303,591	\$ 368,320

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 Basis of Presentation

Yahoo! Inc. ("Yahoo!" or the "Company") is a leading provider of comprehensive online products and services to consumers and businesses worldwide. The Company, a Delaware corporation, commenced operations in 1995.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, consisting of only normal and recurring items, which in the opinion of management, are necessary for a fair presentation 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 fiscal year or for any future period.

These 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 fiscal year ended December 31, 2001. Certain prior period balances have been reclassified to conform to current period presentation.

Note 2—Recent Accounting Pronouncements

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. In addition, the statement includes provisions upon adoption for the reclassification of certain existing recognized intangibles to goodwill, the identification of reporting units for the purpose of assessing potential future impairments of goodwill, the reassessment of the useful lives of existing recognized intangibles and the reclassification of certain intangibles out of previously reported goodwill.

Upon the adoption of SFAS 142, the Company recognized a transitional goodwill impairment loss of \$64.1 million as of January 1, 2002, which was recorded as the cumulative effect of an accounting change in the Company's consolidated statements of operations. Any further impairment losses recorded in the future could have a material adverse impact on our financial conditions and results of operations. See also Note 3—Goodwill.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment of long-lived assets. The adoption of this statement did not have a significant impact on the Company's results of operations or financial position.

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Note 3—Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2002 are as follows (in thousands):

	United States	International	Total
Balance as of January 1, 2002	\$ 47,590	\$ 145,397	\$ 192,987
Acquisitions and other (1)	319,844	9,421	329,265
Cumulative effect of accounting change	—	(64,120)	(64,120)
Balance as of June 30, 2002	\$ 367,434	\$ 90,698	\$ 458,132

- (1) Other primarily includes the reclassification of certain intangibles to goodwill in connection with the adoption of SFAS 142 and certain purchase price adjustments to existing goodwill. See also Note 9—Acquisition.

The Company performed a transitional impairment test of its goodwill and intangible assets as of January 1, 2002. Due to, among other things, the overall softening of the global economy and the related decline in international advertising, the Company recorded a goodwill transitional impairment loss of \$64.1 million, which was recorded during the first quarter as a cumulative effect of an accounting change in the Company's Consolidated Statements of Operations. The fair value of the reporting unit giving rise to the transitional impairment loss was estimated using the expected present value of future cash flows.

Due to the adoption of SFAS 142 on January 1, 2002, the Company ceased amortizing goodwill. Had SFAS 142 been in effect during the three and six months ended June 30, 2001, the Company would not have recorded goodwill amortization expense of \$13.9 million and \$26.5 million, respectively. The following summarizes net income (loss) adjusted to exclude goodwill amortization expense, and the related tax effect, that is no longer subject to amortization (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Reported net income (loss)	\$ 21,394	\$ (48,524)	\$ (32,251)	\$ (60,010)
Goodwill amortization, net of tax	—	13,945	—	26,456
Adjusted net income (loss)	\$ 21,394	\$ (34,579)	\$ (32,251)	\$ (33,554)
Basic earnings per share — as reported	\$ 0.04	\$ (0.09)	\$ (0.05)	\$ (0.11)
Basic earnings per share — adjusted	\$ 0.04	\$ (0.06)	\$ (0.05)	\$ (0.06)
Diluted earnings per share — as reported	\$ 0.03	\$ (0.09)	\$ (0.05)	\$ (0.11)
Diluted earnings per share — adjusted	\$ 0.03	\$ (0.06)	\$ (0.05)	\$ (0.06)

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Note 4—Intangible Assets, Net
(in thousands)

	June 30, 2002		December 31, 2001	
	Gross carrying amount	Accumulated amortization	Net	Net
Trademarks	\$ 57,100	\$ (3,923)	\$ 53,177	\$ 2,890
Customer agreements	52,730	(8,413)	44,317	10,275
Developed technology	8,700	(616)	8,084	—
Content and other	4,950	(2,166)	2,784	6,292
	<u>\$ 123,480</u>	<u>\$ (15,118)</u>	<u>\$ 108,362</u>	<u>\$ 19,457</u>

The intangible assets are all amortizable and have original estimated useful lives as follows: Trademarks—four to seven years; Customer agreements—one to seven years; Developed technology—three to five years; Content and other—two to three years. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows: 2002: \$21.2 million; 2003: \$21.7 million; 2004: \$19.6 million; 2005: \$15.2 million; and 2006: \$14.1 million. See also Note 9—Acquisition.

Note 5—Restructuring Costs

In 2001, the Company announced restructuring programs to balance its investment in growth areas with the desire to modify its near-term business plan to reflect the current economic and capital market slowdown. These restructuring programs included worldwide workforce reductions, consolidation of excess facilities and other charges. As a result of these restructuring programs, the Company recorded restructuring costs of \$57.5 million classified as operating expenses in 2001.

The worldwide workforce reductions totaling approximately 660 employees across certain business functions, operating units and geographic regions commenced in the second quarter of 2001 and were substantially completed by December 31, 2001. Amounts related to the net lease expense due to the consolidation of facilities will be paid over the respective lease terms through December 2012. If facilities rental rates continue to decrease in their respective markets or if it takes longer than expected to sublease these facilities, the actual loss could increase the original total restructuring costs of \$57.5 million.

A summary of the restructuring costs during the six months ended June 30, 2002 is as follows (in thousands):

	Restructuring Accrual at December 31, 2001	Cash Payments	Restructuring Accrual at June 30, 2002
Workforce reduction	\$ 3,825	\$ (3,825)	\$ —
Consolidation of excess facilities and other charges	25,675	(11,946)	13,729
Total	<u>\$ 29,500</u>	<u>\$ (15,771)</u>	<u>\$ 13,729</u>

The restructuring accrual is included on the balance sheet in accrued expenses and other current liabilities.

Note 6—Other Liabilities

Other liabilities includes deferred tax liabilities of \$59.7 million and \$23.8 million and long-term deferred revenue of \$30.0 million and \$0 as of June 30, 2002 and December 31, 2001, respectively.

Note 7—Basic and Diluted Net Income (Loss) per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted average number of common and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon conversion of convertible preferred stock (using the if-converted method) and shares issuable upon the exercise of stock options and warrants (using the treasury stock method). For the three and six month period ended June 30, 2002, potential common shares of 16.8 million and 20.0 million were included in the computation and were primarily related to shares issuable upon the exercise of stock options. For the three and six month period ended June 30, 2001, potential common shares related to shares issuable upon the exercise of stock options of 26.6 million and 28.8 million were not included in the computation because they were antidilutive.

Note 8—Comprehensive Income (Loss)

The components of comprehensive income (loss), net of tax, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 21,394	\$ (48,524)	\$ (32,251)	\$ (60,010)

Unrealized gains (losses)				
on available-for-sale securities	(529)	2,986	(12,380)	(12,129)
Foreign currency translation gains (losses)	3,468	425	(64)	(4,893)
Comprehensive income (loss)	\$ 24,333	\$ (45,113)	\$ (44,695)	\$ (77,032)

Accumulated other comprehensive income (loss) consists of the unrealized gains or losses on available-for-sale securities, net of tax and the cumulative translation adjustment, as presented on the accompanying unaudited condensed consolidated balance sheets.

Note 9—Acquisition

In February 2002, the Company completed the acquisition of HotJobs.com, Ltd. ("HotJobs"), a recruiting solutions company, which became a part of the Company's listings properties and generates revenue for the Company primarily through listings and subscription fees for access to HotJobs' database.

The total purchase price of \$439.1 million consisted of \$191.8 million in Yahoo! Common Stock, representing approximately 12 million shares, \$206.6 million in cash consideration, \$33.7 million of stock options exchanged and direct transaction costs of \$7.0 million. The value of the common stock and stock options was determined based on the average market price of the Company's common stock over the 5-day period surrounding the date the terms of the exchange offer were finalized in February 2002.

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The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the fair value of HotJobs was as follows (in millions):

Cash acquired	\$ 53.3
Other tangible assets acquired	47.1
Amortizable intangible assets	98.6
Goodwill	325.6
Liabilities	(50.0)
Deferred income taxes	(39.4)
Deferred compensation	3.9
Total	\$ 439.1

Amortizable intangible assets acquired have estimated useful lives as follows: Tradename, trademark and domain name—seven years; Customer contracts—five to seven years; Developed technology—three to five years. Goodwill of \$325.6 million 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. In accordance with SFAS 142, goodwill is not amortized and will be tested for impairment at least annually.

The following unaudited pro forma information presents a summary of the results of operations of the Company assuming the acquisition of HotJobs occurred on January 1, 2001 (in thousands, except per share amounts):

	Six Months Ended June 30,	
	2002	2001
Net Revenues	\$ 429,252	\$ 427,433
Net Loss	(41,859)	(75,452)
Basic EPS	\$ (0.07)	\$ (0.13)
Diluted EPS	\$ (0.07)	\$ (0.13)

Note 10—Segment Information

The Company conducts business globally and manages it geographically. The Company's primary areas of measurement and decision-making are the United States and International. The Company's management relies on an internal management reporting process that provides revenue and segment EBITDA information for making financial decisions and allocating resources. Segment EBITDA information includes income from operations before certain unallocated operating costs and expenses, including stock compensation expense, amortization of intangibles, and depreciation. Management believes that segment EBITDA is an appropriate measure of evaluating the operating performance of the Company's segments. However, segment EBITDA should be considered only in addition to, not as a substitute for or superior to, operating income, cash flows or other measures of financial performance prepared in accordance with generally accepted accounting principles.

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10% of net revenues during

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the three and six months ended June 30, 2002 and 2001. Property and equipment information is based on the physical location of the assets.

Summarized information by segment, as excerpted from the internal management reports, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net revenues:				
United States	\$ 187,465	\$ 149,111	\$ 354,077	\$ 296,085
International	38,327	33,054	64,380	66,295
Total net revenues	\$ 225,792	\$ 182,165	\$ 418,457	\$ 362,380
Segment EBITDA:				
United States	\$ 39,673	\$ (27,733)	\$ 72,123	\$ (17,677)
International	(3,560)	(10,217)	(11,609)	(19,415)
Total segment EBITDA	36,113	(37,950)	60,514	(37,092)
Corporate and unallocated operating costs and expenses:				
Stock compensation expense	(1,119)	(3,642)	(6,740)	(7,057)
Amortization of intangibles	(5,952)	(15,576)	(9,374)	(30,473)
Depreciation	(21,524)	(16,666)	(41,057)	(31,980)
Income (loss) from operations	\$ 7,518	\$ (73,834)	\$ 3,343	\$ (106,602)
Capital expenditures, net:				
United States	\$ 13,279	\$ 12,027	\$ 19,792	\$ 49,519
International	1,022	1,574	1,796	5,537
Total consolidated capital expenditures, net	\$ 14,301	\$ 13,601	\$ 21,588	\$ 55,056

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Marketing services	\$ 135,696	\$ 140,919	\$ 256,691	\$ 282,879
Fees and listings	74,082	35,510	129,072	68,746
Transactions	16,014	5,736	32,694	10,755
	\$ 225,792	\$ 182,165	\$ 418,457	\$ 362,380

Note 11—Commitments and Contingencies

Operating Leases. During 1999, the Company entered into agreements for the development of an office complex in Sunnyvale, California to serve as the Company's new headquarters. Construction was completed in the third quarter of 2001. Upon substantial completion of the construction, the Company funded the lease facility with deposited funds drawn on the facility by the lessors. The total amount funded was approximately \$258.7 million. Approximately \$222.4 million of this amount represents an investment in the lease facility resulting from the Company's role as a participant in the master lease facility. The remaining \$36.3 million represents collateral for funds provided by the facility's other participants. These amounts have been classified as restricted long-term investments at June 30, 2002. Rent obligations for the complex bear a direct relationship to the lessor's carrying costs of \$258.4 million. The lease provides the Company with the option at the end of the lease term in 2006 to (i) acquire the complex for an amount equal to the lessor's carrying costs; (ii) re-market the complex; or (iii) renew the lease for a second, five-year term, upon written consent of the participating parties. In addition, the Company has the right to acquire the complex pursuant to a purchase option in the master lease agreement. The Company has guaranteed the residual value associated with the buildings under the lease to the lessor of approximately 86% of the lessor's carrying costs. Subsequent to June 30, 2002, the Company exercised its right to acquire the complex pursuant to the master lease agreement. See also Note 12- Subsequent Event.

The Company has entered into various non-cancelable operating lease agreements for its other offices throughout the U.S. and its international subsidiaries with original lease periods ranging from 6 months to 13 years and expiring between 2002 and 2012.

In addition, the Company has entered into various sublease arrangements associated with its excess facilities under the 2001 restructuring programs. Such subleases have terms extending through 2006 and amounts estimated to be received have been included in determining the restructuring accrual.

Net lease commitments as of June 30, 2002, excluding future payments for the Sunnyvale headquarters as the lease was terminated subsequent to period end, can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Six months ended December 31, 2002	\$ 10.7	\$ (3.8)	\$ 6.9
Year ended December 31,			
2003	20.5	(7.9)	12.6
2004	16.7	(6.1)	10.6
2005	12.5	(4.0)	8.5
2006	10.9	(3.2)	7.7
2007	7.3	—	7.3
Thereafter	12.8	—	12.8

The Company also entered into an agreement committing to lease two additional buildings adjacent to the Company's headquarters in Sunnyvale, California. Construction began in the fourth quarter of 2001 and the buildings are expected to be ready for occupancy in the third quarter of 2003. Upon completion of the building construction, the Company has committed to a 15 year lease obligation, with annual lease payments under the lease of approximately \$5.1 million in year one, approximately \$6.7 million in year two, and with incremental increases of 3.5% in each of the following

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years. After year one of the lease, the Company has the right to (i) purchase the buildings for approximately \$68.9 million, plus fees, or (ii) restructure the lease through an alternate financing arrangement, or (iii) continue leasing the buildings under the original agreement for the remaining fourteen years. These amounts are not included in the table above.

Other Commitments. In the ordinary course of business the Company enters into various arrangements with vendors and other business partners, principally for marketing, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond 2002.

Contingencies. From time to time, the Company is subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with the Company's email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy. Currently, the Company's subsidiary Launch Media, Inc. ("Launch") is engaged in a lawsuit regarding copyright issues which commenced prior to the Company entering into an agreement to acquire Launch. In addition, from time to time, third parties assert patent infringement claims against the Company in the form of letters, lawsuits and other forms of communication. Currently, the Company is engaged in one lawsuit regarding patent issues and has been notified of a number of other potential patent disputes.

The Company is not currently aware of any legal proceedings or claims that the Company believes are likely to have a material adverse effect on the Company's financial position, results of operations or cash flows. However, the Company may incur substantial expenses in defending against third party claims. In the event of a determination adverse to the Company, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these could have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 12—Subsequent Event

During July 2002, the Company exercised its right pursuant to the master lease agreement to acquire its Sunnyvale headquarters for approximately \$259 million, which was funded by restricted long-term investments. As a result, the Company increased property and equipment by approximately \$259 million and eliminated its restricted long-term investments.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended including, without limitation, statements regarding the Company's expectations, beliefs, intentions or future strategies that are signified by the words "expects," "anticipates," "intends," "believes," or similar language. These forward-looking statements are based upon current expectations and beliefs of the Company's management and are subject to risks and uncertainties that could cause results to differ materially from those indicated in the forward-looking statements. Some, but not all, of the factors, which could cause actual results to differ materially include those set forth in the risks discussed below under the subheading "Risk Factors" and elsewhere in this report. The Company undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements, or to explain why actual results differ. Readers should carefully review the risk factors described in this section below and any subsequently filed SEC reports.

Overview

Yahoo! Inc. ("Yahoo!") is a leading provider of comprehensive online products and services to consumers and businesses worldwide. Headquartered in Sunnyvale, California, Yahoo!'s global network includes 25 World properties and is available in 13 languages. We have offices in the United States, Europe, Asia, Latin America, Australia and Canada.

We conduct our business globally and manage it geographically. We rely on an internal management reporting process that provides revenue and certain operating cost information for making financial decisions and allocating resources. Our principal areas of measurement and decision-making are the United States and International.

Results of Operations

Net Revenues

Net revenues by groups of similar service were as follows (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002	*	2001	*	2002	*	2001	*
Marketing services	\$ 135,696	60%	\$ 140,919	77%	\$ 256,691	61%	\$ 282,879	78%
Fees and listings	74,082	33%	35,510	20%	129,072	31%	68,746	19%
Transactions	16,014	7%	5,736	3%	32,694	8%	10,755	3%
	\$ 225,792	100%	\$ 182,165	100%	\$ 418,457	100%	\$ 362,380	100%

* Percent of Net revenues

Marketing Services Revenues. Marketing services revenues are primarily generated from the sale of banner and sponsorship advertisements, including sponsored search services provided through our alliance with Overture Services, Inc. Marketing services in the second quarter of 2002 decreased by \$5.2 million, or 4%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, marketing services decreased \$26.2 million, or 9%, as compared to the corresponding year ago period. The decreases are due primarily to a decrease in renewals of previous advertising arrangements from Internet companies offset partially by an increase in revenues from small and medium sized companies, realized through our sponsored search services and inside sales organization.

We currently believe that 2002 marketing services revenues will remain comparable in absolute dollars with our 2001 marketing services revenues.

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Fees and Listings Revenues. Fees and listings revenues consist of revenues generated from a variety of fee and listings-based services we provide. These services primarily include access to the HotJobs database, Small Business Services, Yahoo! Portal Solutions, broadcasting live and on-demand events, Yahoo! Personals, and certain Search and Directory services. Fees and listings revenues in the second quarter of 2002 increased \$38.6 million, or 109%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, fees and listings revenues increased \$60.3 million, or 88%, as compared to the corresponding year ago period. The increases are primarily attributable to the acquisition of HotJobs' during the first quarter of 2002, the monetization of Yahoo! Personals, as well as the increase in number of paying customers for our other fee- and listings-based services.

For 2002, we currently expect fees and listings revenues to increase in absolute dollars as compared to 2001.

Transactions Revenues. Transactions revenues in the second quarter of 2002 increased by \$10.3 million, or 179%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, transactions revenues increased \$21.9 million, or 204%, as compared to the corresponding year ago period. The increase in transactions is primarily driven by a shift from some of our marketing service and fee-based arrangements towards performance-based agreements and an increasing number of electronic commerce transactions from the Small Business Services properties.

For 2002, transactions revenues are also currently expected to increase in absolute dollars as compared to 2001.

Overall, we currently expect total combined revenues for marketing services, fees and listings, and transactions to increase in 2002 as compared to 2001.

Costs and Expenses:

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002	*	2001	*	2002	*	2001	*
Cost of revenues	\$ 41,708	18%	\$ 40,559	22%	\$ 79,529	19%	\$ 79,102	22%
Sales and marketing	110,015	49%	101,991	56%	206,161	49%	209,219	58%
Product development	35,162	16%	32,221	18%	67,944	16%	65,342	18%
General and administrative	\$ 25,437	11%	\$ 20,202	11%	\$ 52,106	12%	\$ 39,396	11%

* Percent of Net revenues

Cost of Revenues. Cost of revenues consists of the expenses associated with the production and usage of the Yahoo! network. These costs primarily consist of fees paid to third parties for content included on our online media properties, Internet connection charges, equipment depreciation, live event production costs, license fees and compensation related expenses.

Cost of revenues in the second quarter of 2002 increased by \$1.1 million, or 3%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, cost of revenues increased \$0.4 million, or 1%, as compared to the corresponding year ago period. The increases are primarily attributable to the acquisition of HotJobs during the first quarter of 2002 and an increase in costs associated with greater network usage, partially offset by achieving more favorable bandwidth pricing during 2002.

We currently anticipate that cost of revenues will increase modestly in absolute dollars in 2002.

Sales and Marketing. Sales and marketing expenses consist primarily of advertising and other marketing related expenses, compensation related expenses, sales commissions and travel costs.

Sales and marketing expenses in the second quarter of 2002 increased \$8.0 million, or 8%, as compared to the second quarter of 2001. This is primarily the result of the acquisition of HotJobs offset by our overall effort to manage discretionary costs and our 2001 Restructuring programs described further below. For the six months ended June 30, 2002, sales and marketing expenses decreased \$3.1 million, or 1%, as compared to the corresponding year ago period, which is primarily the result of our overall effort to manage discretionary costs and our 2001 Restructuring programs.

We currently anticipate that sales and marketing expenses in absolute dollars will increase in 2002 as compared to 2001.

Product Development. Product development expenses consist primarily of compensation related expenses incurred for enhancements to and maintenance of the Yahoo! network, classification and organization of listings within Yahoo! properties, research and development expenses, and other operating costs.

Product development expenses in the second quarter of 2002 increased \$2.9 million, or 9%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, product development expenses increased \$2.6 million, or 4%, as compared to the corresponding year ago period. The increases are primarily the result of our acquisition of HotJobs as well as overall increases in our total compensation expense related to engineers that develop and enhance properties and services throughout the Yahoo! Network, offset by savings obtained through our 2001 Restructuring programs described below.

We believe that continued investments in product development are required to remain competitive. Consequently, we currently anticipate that product development costs in absolute dollars will increase in 2002 as compared to 2001.

General and Administrative. General and administrative expenses consist primarily of compensation related expenses and fees for professional services.

General and administrative expenses in the second quarter of 2002 increased \$5.2 million, or 26%, as compared to the second quarter of 2001. For the six months ended June 30, 2002, general and administrative expenses increased \$12.7 million, or 32%, as compared to the corresponding year ago period. The increases are primarily attributable to increases in compensation related expenses and incremental general and administrative expenses as a result of the acquisition of HotJobs, partially offset by decreases from cost efficiencies obtained through our 2001 Restructuring programs, described below.

We currently believe that general and administrative expenses in absolute dollars will increase in 2002 as compared to 2001.

Amortization of Intangibles. From time to time we have purchased, and expect to continue purchasing, assets or businesses which may result in the creation of intangible assets.

Amortization of intangibles expense was \$6.0 million for the second quarter of 2002, or 3%, of net revenues. For the second quarter of 2001, amortization of intangibles expense was \$15.6 million, or 9% of net revenues. For the six months ended June 30, 2002, amortization of intangible expense was \$9.4 million, or 2% of net revenues, compared to \$30.5 million, or 8% of net revenues, for the corresponding year ago period. The decrease in amortization of intangibles is primarily the result of the discontinuance of goodwill amortization in accordance with the adoption of Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," offset by

additional amortizable intangibles acquired in conjunction with acquisitions during the first quarter of 2002.

Effective January 1, 2002, we have adopted the provisions of SFAS 142, and as a result, we performed a transitional impairment test of our goodwill and intangibles as of January 1, 2002. Due to the overall softening of the global economy, and the related decline in international advertising, we recorded a transitional impairment loss of \$64.1 million, which was recorded as a cumulative effect of an accounting change in our Consolidated Statements of Operations. The fair value of the reporting unit giving rise to the transitional impairment loss was estimated using the expected present value of future cash flows.

Restructuring Costs. In 2001, we announced restructuring programs to balance our investment in growth areas with the desire to modify our near-term business plan to reflect the current economic and capital market slowdown. These restructuring programs included worldwide workforce reductions, consolidation of excess facilities and other charges. As a result of these restructuring programs, we recorded restructuring costs of \$57.5 million classified as operating expenses in 2001.

The worldwide workforce reductions totaling approximately 660 employees across certain business functions, operating units and geographic regions commenced in the second quarter of 2001 and were substantially completed by December 31, 2001. Amounts related to the net lease expense due to the consolidation of facilities will be paid over the respective lease terms through December 2012. If facilities rental rates continue to decrease in their respective markets or if it takes longer than expected to sublease these facilities, the actual loss could increase the original total restructuring costs of \$57.5 million.

A summary of the restructuring costs during the six months ended June 30, 2002 is as follows (in thousands):

	Restructuring Accrual at December 31, 2001	Cash Payments	Restructuring Accrual at June 30, 2002
Workforce reduction	\$ 3,825	\$ (3,825)	\$ —
Consolidation of excess facilities and other charges	25,675	(11,946)	13,729
Total	\$ 29,500	\$ (15,771)	\$ 13,729

The restructuring accrual is included on the balance sheet in accrued expenses and other current liabilities. We expect the restructuring programs to result in savings of approximately \$65 million in operating expenses in 2002.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Interest income	\$ 16,465	\$ 24,551	\$ 34,798	\$ 50,579
Investment gains (losses)	4,906	3,032	3,013	(9,588)
Contract termination fees	—	—	2,504	9,000
Earnings in equity interests	5,500	714	9,800	1,328
Other	2,357	(1,807)	1,782	(1,553)
	<u>\$ 29,228</u>	<u>\$ 26,490</u>	<u>\$ 51,897</u>	<u>\$ 49,766</u>

Other income, net was \$29.2 million and \$26.5 million for the quarters ended June 30, 2002 and 2001. The increase from the second quarter of 2001 to the second quarter of 2002 of \$2.7 million is

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primarily the result of greater earnings in equity interests, the cessation of goodwill amortization related to our equity interests in accordance with SFAS 142, and greater foreign exchange gains and investment gains realized during the second quarter of 2002. These increases were offset by a decrease in interest income related to a smaller average investment balance in the second quarter of 2002 as well as a decline in interest rates.

Other income, net was \$51.9 million and \$49.8 million for the six months ended June 30, 2002 and 2001. The increase of \$2.1 million is primarily the result of greater investment gains, earnings in equity interests, and the cessation of goodwill amortization related to our equity interests in accordance with SFAS 142. These increases were offset by a decrease in interest income related to a smaller average investment balance in the first half of 2002, a decline in interest rates, and larger contract termination fees in 2001.

Other income, net in future periods may fluctuate as a result of changes in our average investment balances held, changes in market rates or the sale of investments, and investment impairments.

Minority Interests in Operations of Consolidated Subsidiaries. Minority interests in operations of consolidated subsidiaries represents the minority partners' percentage share of income or losses from such subsidiaries.

Minority interests in income from operations of consolidated subsidiaries was \$0.1 million and \$0.4 million for the three and six months ended June 30, 2002, compared to \$0.2 million and \$0.5 million for the corresponding year ago periods.

Income Taxes. The provision for income taxes for the three and six months ended June 30, 2002 differs from the amount computed by applying the statutory federal rate principally due to foreign losses for which no tax benefit is provided, the recognition of certain capital loss carryforward benefits, and nontaxable earnings from certain investments. For the three and six months ended June 30, 2001, the provision for income taxes differed from the amount computed by applying the statutory federal rate due to nondeductible amortization charges related to acquisitions, nondeductible stock compensation charges, and foreign losses for which no tax benefit is provided.

Business Segment Results

We conduct business globally and manage it geographically. Our segments for financial reporting purposes are the United States and International. Management relies on an internal management reporting process that provides segment EBITDA information for making financial decisions and allocating resources. Segment EBITDA information includes income from operations before certain unallocated operating costs and expenses, including stock compensation expense, amortization of intangibles, and depreciation. We believe that segment EBITDA is an appropriate measure of evaluating the operating performance of our segments. However, segment EBITDA should be considered only in addition to, not as a substitute for or superior to, operating income, cash flows or other measures of financial performance prepared in accordance with generally accepted accounting principles.

Revenue is attributed to individual countries according to the international online property that generated the revenue. No single foreign country accounted for more than 10% of net revenues during the three and six months ended June 30, 2002 and 2001.

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Summarized information by segment, as excerpted from the internal management reports, is as follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2002	(2)	2001	(2)	2002	(2)	2001	(2)
Net revenues:								
United States	187,465	83%	\$ 149,111	82%	354,077	85%	\$ 296,085	82%
International	38,327	17%	33,054	18%	64,380	15%	66,295	18%

Total net revenues	225,792	100%	\$	182,165	100%	418,457	100%	\$	362,380	100%
Segment EBITDA (1):		(3)		(3)		(3)				
United States	39,673	21%	\$	(27,733)	(19)%	72,123	20%	\$	(17,677)	(6)%
International	(3,560)	(9)%		(10,217)	(31)%	(11,609)	(18)%		(19,415)	(29)%
Total segment EBITDA	36,113	16%	\$	(37,950)	(21)%	60,514	14%	\$	(37,092)	(10)%

(1) Segment EBITDA includes income from operations before certain unallocated operating costs and expenses, including stock compensation expense, amortization of intangibles, and depreciation expense.

(2) Percent of Total Net revenues.

(3) Segment EBITDA Margin.

United States. United States revenues in the second quarter of 2002 increased \$38.4 million, or 26%, compared to the second quarter of 2001. United States revenues during the six months ended June 30, 2002 increased \$58.0 million, or 20%, compared to the corresponding year ago period. The increases are primarily a result of the acquisition of HotJobs during the first quarter of 2002, as well as the monetization of Yahoo! Personals and sponsored search services, partially offset by a decrease in other marketing services revenues. United States segment EBITDA in the second quarter of 2002 increased \$67.4 million, or 243%, compared to the second quarter of 2001. United States segment EBITDA during the six months ended June 30, 2002 increased \$89.8 million, or 508%, compared to the corresponding year ago period. The increases are primarily due to the nonrecurrence of the 2001 Restructuring and acquisition related costs, which resulted in a \$45.5 million charge during the second quarter of 2001, and cost savings obtained through a reduction in discretionary spending and as well as increased net revenues during the period.

International. International revenues in the second quarter of 2002 increased \$5.3 million, or 16%, compared to the second quarter of 2001, primarily due to an increase in marketing services sponsorships and Yahoo! Portal Solutions. International revenues during the six months ended June 30, 2002 decreased \$1.9 million, or 3%, compared to the corresponding year ago period, primarily due to a soft international advertising market in the first quarter of 2002. International segment EBITDA in the second quarter of 2002 increased \$6.6 million, or 65%, compared to the second quarter of 2001. International segment EBITDA during the six months ended June 30, 2002 increased \$7.8 million, or 40%, compared to the corresponding year ago period. The increases are primarily due to the nonrecurrence of the 2001 Restructuring programs and a reduction in discretionary spending.

Acquisition

In February 2002, we completed the acquisition of HotJobs.com, Ltd. ("HotJobs"), a recruiting solutions company, which became a part of our listings properties and generates revenue primarily through listings and subscription fees for access to HotJobs' database.

The total purchase price of \$439.1 million consisted of \$191.8 million in Yahoo! Common Stock, representing approximately 12 million shares, \$206.6 million in cash consideration, \$33.7 million of stock options exchanged and direct transaction costs of \$7.0 million. The value of the common stock and stock options was determined based on the average market price of our common stock over the 5-day period surrounding the date the terms of the exchange offer were finalized in February 2002.

The preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on the fair value of HotJobs was as follows (in millions):

Cash acquired	\$	53.3
Other tangible assets acquired		47.1
Amortizable intangible assets		98.6
Goodwill		325.6
Liabilities		(50.0)
Deferred income taxes		(39.4)
Deferred compensation		3.9
Total	\$	439.1

Amortizable intangible assets acquired have estimated useful lives as follows: Tradename, trademark and domain name—seven years; Customer contracts—five to seven years; Developed technology—three to five years. Goodwill of \$325.6 million 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. In accordance with SFAS 142, goodwill is not amortized and will be tested for impairment at least annually.

Related Party Transactions

SOFTBANK, including its consolidated affiliates ("SOFTBANK"), was approximately a 14.1% stockholder of the Company at June 30, 2002. We are party to certain joint ventures with SOFTBANK in France, Germany, Japan, Korea and the United Kingdom. A Managing Partner of a SOFTBANK affiliate is also a member of our Board of Directors. As a result, SOFTBANK is able to significantly influence all matters requiring Yahoo! stockholder approval. Revenues from SOFTBANK accounted for less than 1% of net revenues during the three and six months ended June 30, 2002 and 2001. We believe contracted prices are comparable to those given to unrelated customers.

Recent Accounting Pronouncements

Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 142 requires, among other things, the discontinuance of amortization related to goodwill and indefinite lived intangible assets. These assets will then be subject to an impairment test at least annually. In addition, the statement includes provisions upon adoption for the reclassification of certain existing recognized intangibles as goodwill, the identification of reporting units for the purpose of assessing potential future impairments of goodwill, the reassessment of the useful lives of existing recognized intangibles and reclassification of certain intangibles out of previously reported goodwill.

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Upon the adoption of SFAS 142, the Company recognized a transitional goodwill impairment loss of \$64.1 million as of January 1, 2002, which was recorded as the cumulative effect of a change in accounting principal in the Company's consolidated Statements of Operations. See also Note—3 Goodwill. Any further impairment losses recorded in the future could have a material adverse impact on our financial conditions and results of operations.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment of long-lived assets. The adoption of this statement did not have a significant impact on the Company's results of operations or financial position.

Liquidity and Capital Resources

	Six Months Ended June 30,	
	2002	2001
Cash provided by operating activities	\$ 150,825	\$ 65,449
Cash used in investing activities	\$ (257,361)	\$ (203,353)
Cash provided by financing activities	\$ 35,699	\$ 53,947

Yahoo! invests excess cash predominantly in debt instruments that are highly liquid, of high-quality investment grade, and predominantly have maturities of less than two years with the intent to make such funds readily available for operating purposes. We had cash and cash equivalents and investments in marketable debt securities totaling approximately \$1.5 billion at June 30, 2002.

Cash provided by operating activities primarily consists of net loss adjusted for certain non-cash items including depreciation, amortization, tax benefits from stock options, net investment gains and losses, the cumulative effect of an accounting change, other non-cash items, changes in long term deferred revenue, and the effect of changes in working capital and other activities. For the six months ended June 30, 2002, cash provided by operating activities of \$150.8 million consisted primarily of a net loss of \$32.3 million adjusted for non-cash items of \$128.9 million and \$54.2 million provided by working capital and other activities. For the six months ended June 30, 2001, cash provided by operating activities of \$65.4 million consisted primarily of a net loss of \$60.1 million adjusted for non-cash items of \$95.1 million and \$30.4 million provided by working capital and other activities.

Cash used in investing activities was \$257.4 million for the six months ended June 30, 2002. This was primarily attributable to cash used in acquisitions and purchases of other investments, net of \$188.5 million, purchases (net of proceeds) of investments in marketable securities during the period of \$47.3 million, and capital expenditures totaling \$21.6 million. For the six months ended June 30, 2001, cash used in investing activities of \$203.4 million was primarily attributable to proceeds from sales and maturities (net of purchases) of investments in marketable securities during the period of \$58.6 million, offset by an increase in restricted investments of \$193.1 million, capital expenditures totaling \$55.1 million, and cash used in acquisitions and purchases of other investments, net of \$13.8 million.

For the six months ended June 30, 2002 and 2001 cash provided by financing activities of \$35.7 million and \$53.9 million, was primarily from the issuance of Common Stock pursuant to the exercise of stock options.

Operating Leases

During 1999, we entered into agreements for the development of an office complex in Sunnyvale, California to serve as our headquarters. Construction was completed in the third quarter of 2001. Upon substantial completion of the construction, we funded the lease facility with deposited funds drawn on

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the facility by the lessors. The total amount funded was approximately \$258.7 million. Approximately \$222.4 million of this amount represents an investment in the lease facility resulting from our role as a participant in the master lease facility. The remaining \$36.3 million represents collateral for funds provided by the facility's other participants. These amounts are classified as restricted long-term investments at June 30, 2002. Rent obligations for the complex bear a direct relationship to the lessor's carrying costs of \$258.4 million. The lease provides us with the option at the end of the lease term in 2006 to (i) acquire the complex for an amount equal to the lessor's carrying costs; (ii) re-market the complex; or (iii) renew the lease for a second, five-year term, upon written consent of the participating parties. In addition, we have the right to acquire the complex pursuant to a purchase option in the master lease agreement. We have guaranteed the residual value associated with the buildings under the lease to the lessor of approximately 86% of the lessor's carrying costs. Subsequent to June 30, 2002, we exercised our right to acquire the complex pursuant to the master lease agreement for approximately \$259 million, which was funded by restricted long-term investments. As a result, we increased our property and equipment by approximately \$259 million and eliminated our restricted long-term investments.

We have entered into various non-cancelable operating lease agreements for our other offices throughout the U.S. and our international subsidiaries with original lease periods ranging from 6 months to 13 years and expiring between 2002 and 2012.

In addition, we have entered into various sublease arrangements associated with our excess facilities under the 2001 Restructuring programs. Such subleases have terms extending through 2006 and amounts estimated to be received have been included in determining the restructuring accrual.

Net lease commitments as of June 30, 2002, excluding future payments for our Sunnyvale headquarters as the lease was terminated subsequent to period end, can be summarized as follows (in millions):

	Gross lease commitments	Sublease income	Net lease commitments
Six months ended December 31, 2002	\$ 10.7	\$ (3.8)	\$ 6.9
Year ended December 31,			
2003	20.5	(7.9)	12.6
2004	16.7	(6.1)	10.6
2005	12.5	(4.0)	8.5
2006	10.9	(3.2)	7.7
2007	7.3	—	7.3
Thereafter	12.8	—	12.8

We also have an agreement committing to lease two additional buildings adjacent to our headquarters in Sunnyvale, California. Construction began in the fourth quarter of 2001 and the buildings are expected to be ready for occupancy in the third quarter of 2003. Upon completion of the building construction, we have committed to a 15 year lease obligation, with annual lease payments under the lease of approximately \$5.1 million in year one, approximately \$6.7 million in year two, and with incremental increases of 3.5% in each of the following years. After year one of the lease, we have the right to (i) purchase the buildings for approximately \$68.9 million, plus fees, (ii) restructure the lease through an alternate financing arrangement, or (iii) continue leasing the buildings under the original agreement for the remaining fourteen years. These amounts are not included in the table above.

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Other Commitments

In the ordinary course of business we enter into various arrangements with vendors and other business partners principally for marketing, bandwidth and content arrangements. There are no material commitments for these arrangements extending beyond 2002.

During 2001, we announced that the Board of Directors had authorized a repurchase of up to \$500 million of our outstanding shares of Common Stock from time to time over the next two years, depending on market conditions, share price and other factors. We may utilize equity instrument contracts to facilitate the repurchase of Common Stock. Pursuant to this repurchase program, we have repurchased a total of 5.4 million shares for approximately \$60.0 million through June 30, 2002 and may continue to repurchase shares in future periods. We did not repurchase any shares of Common Stock during the first and second quarters of 2002.

We have experienced a substantial increase in capital expenditures and operating lease arrangements since our inception, which is consistent with our increased staffing and operational expansion, and we anticipate that this will continue in the future as business conditions merit. Additionally, we will continue to evaluate possible acquisitions of, or investments in businesses, products, and technologies that are complementary to our business, which may require the use of cash. Management believes existing cash and investments will be sufficient to meet operating requirements for at least the next twelve months; however, we may sell additional equity or debt securities or obtain credit facilities to further enhance our liquidity position. The sale of additional securities could result in additional dilution to our stockholders.

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RISK FACTORS

We are in a highly competitive industry and some of our competitors may be more successful in attracting and retaining customers.

The market for Internet products and services is highly competitive, and we expect that competition will continue to intensify. Negative competitive developments could have a material adverse effect on our business and the trading price of our stock.

We compete with many other providers of online navigation, information, entertainment, business, community, electronic commerce and broadcast services. As we expand the scope of our Internet offerings, we will compete directly with a greater number of Internet sites, media companies, and companies providing business services across a wide range of different online services, including:

- companies offering communications, information and entertainment services either on a stand alone basis or integrated into other products and media properties;
- vertical markets where competitors may have advantages in expertise, brand recognition, and other factors;
- manufacturers of personal computers or software who may develop their own Internet portals to which they would direct their customers;
- online employment recruiting companies;
- online merchant hosting services; and
- online broadcasting of business events.

In particular, we face significant competition from AOL Time Warner and Microsoft (MSN). The combination of America Online and Time Warner provides America Online with content from Time Warner's movie and television, music, books and periodicals, news, sports and other media holdings; access to a network of cable and other broadband delivery technologies; and considerable resources for future growth and expansion. The America Online/Time Warner combination also provides America Online with access to a broad potential customer base consisting of Time Warner's current customers and subscribers of its various media

properties. To a less significant extent, we also face competition from other companies that have combined a variety of services under one brand in a manner similar to Yahoo!. In certain of these cases, most notably AOL Time Warner and MSN, our competition has a direct billing relationship with the user, which we generally lack, except with respect to users of certain of our premium services. This relationship permits our competitors to have several potential advantages including the potential to be more effective than us in targeting services and advertisements to the specific taste of their users. We also face competition from Websites focused on vertical markets where expertise in a particular segment of the market may provide a competitive advantage. On an international level, we compete directly with local providers; they may have several advantages, including greater knowledge about the particular country or local market and access to significant financial or strategic resources in such local markets. We must continue to obtain more knowledge about our users and their preferences, deepen our relationships with our users as well as increase our branding and other marketing activities in order to remain competitive and strengthen our market position.

A large number of these Websites and online services as well as high-traffic e-commerce merchants such as Amazon.com, also offer or are expected to offer informational and community features that may be competitive with the services that we offer. In order to compete effectively, we may need to expend significant internal engineering resources or acquire other technologies and companies to

provide or enhance such capabilities. Any of these efforts could have a material adverse effect on our business, operating results and financial condition and be dilutive to our stockholders.

Our intellectual property rights are costly and difficult to protect.

We regard our copyrights, patents, trademarks, trade dress, trade secrets, and similar intellectual property, including our rights to certain domain names, as critical to Yahoo!'s success. We rely upon trademark, patent and copyright law, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our proprietary rights. For example, we have obtained the registration for certain of our trademarks, including "Yahoo!" and "Yahooligans!." Effective trademark, patent, copyright, and trade secret protection may not be available in every country in which our products and media properties are distributed or made available through the Internet, and while we attempt to ensure that the quality of our brand is maintained by our licensees, our licensees may take actions that could materially and adversely affect the value of our proprietary rights or the reputation of our products and media properties. We are aware that third parties have, from time to time, copied significant portions of Yahoo! directory listings for use in competitive Internet navigational tools and services. Protection of the distinctive elements of Yahoo! may not be available under copyright law. We cannot guarantee that the steps we have taken to protect our proprietary rights will be adequate.

We may be subject to intellectual property infringement claims, which are costly to defend and could limit our ability to use certain technologies in the future.

Many parties are actively developing search, indexing, e-commerce and other Web-related technologies, as well as a variety of online business models and methods. We believe that these parties will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection. As a result, disputes regarding the ownership of these technologies and rights associated with online business are likely to arise in the future. In addition to existing patents and intellectual property rights, we anticipate that additional third-party patents related to our services will be issued in the future. From time to time, parties assert patent infringement claims against us in the form of letters, lawsuits and other forms of communications. Currently, we are engaged in one lawsuit regarding patent issues and have been notified of a number of other potential disputes.

In addition to patent claims, third parties have asserted and most likely will continue to assert claims against us alleging infringement of copyrights, trademark rights, trade secret rights or other proprietary rights, or alleging unfair competition or violations of privacy rights. In the event that we determine that licensing patents or other proprietary rights is appropriate, we cannot guarantee that we will be able to license such proprietary rights on reasonable terms or at all. We may incur substantial expenses in defending against third-party infringement claims regardless of the merit of such 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 or be prevented from using the rights, which could require us to change our business practices in the future.

We are aware of lawsuits filed against two of our competitors regarding the presentment of advertisements in response to search requests on "keywords" that may be trademarks of third parties. We understand that one of these lawsuits was settled and the other was decided in favor of our competitor.

Financial results for any particular period will not predict results for future periods.

Because of the uncertain nature of the rapidly changing market we serve, period-to-period comparisons of operating results are not likely to be meaningful. In addition, you should not rely on

the results for any period as an indication of future performance. There can be no assurance that the purchasing pattern of customers advertising on the Yahoo! network will not continue to fluctuate, that advertisers will not make smaller and shorter-term purchases, or that market prices for online advertising will not decrease due to competitive or other factors. In addition, Yahoo! currently expects that its operating expenses will continue to increase as we expand our sales and marketing operations in areas of expected growth, continue to develop and extend the Yahoo! brand, fund greater levels of product development, develop and commercialize additional media properties, and acquire complementary businesses and technologies. Additionally, we are required under generally accepted accounting principles to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. We have experienced a decline in our stock price and market capitalization and our industry is experiencing a slower growth rate than historically realized. If such factors continue, we may be required to record a significant charge to earnings in our financial statements in the period any impairment of our goodwill or amortizable intangible assets is determined. At June 30, 2002, our goodwill and other intangible assets were \$566.5 million. In the first quarter of 2002, we recorded a transitional impairment charge of \$64.1 million as a cumulative effect of an accounting change, resulting from the adoption of SFAS 142. For more information on this transitional impairment charge, see Note 2—Recent Accounting Pronouncements in the notes to condensed consolidated financial statements and Amortization of Intangibles as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Further, we are subject to employer payroll taxes when our employees exercise their non-qualified stock options. The employer payroll taxes are assessed on each employee's gain, which is the difference between the price of our common stock on the date of exercise and the exercise price. During a particular period, these payroll taxes could be material. Depending on the number of shares of our common stock for which options are exercised and the fair market value of shares of our common stock during such period, these employer payroll taxes would be recorded as a charge to operations in the period such options are exercised based on actual gains realized by employees. In addition to the net proceeds we would receive upon the exercise of stock options, we would receive tax deductions for gains realized by employees on the exercise of non-qualified stock options for which the benefit is recorded as additional paid-in capital. However, because we are unable to predict our future stock price and the number of optionees who may exercise during any particular period, we cannot predict what, if any, expense will be recorded in a future period and the impact on our future financial results.

We rely heavily on revenues derived from Internet advertising, which are subject to uncertain demand from our current and potential clients and are difficult to forecast accurately.

Currently, the majority of our revenues come from advertisements displayed on our online properties. Our ability to continue to achieve substantial advertising revenue depends upon:

- growth of our user base;
- our user base being attractive to advertisers;
- our ability to derive better demographic and other information from our users;
- acceptance by advertisers of the Web as an advertising medium; and
- our ability to transition and expand into other forms of advertising.

In addition, we are experiencing a shift in the source of our advertising revenues from Internet companies to companies in more traditional lines of business. These advertisers often have substantially different requirements and expectations than Internet companies with respect to advertising programs. If we are unsuccessful in adapting to the needs of our changing mix of advertisers, it could have a material adverse effect on our business, operating results and financial condition. In addition,

companies in more traditional lines of business are not spending money on advertising as quickly as we anticipated. These conditions could have a material adverse effect on our business, operating results and financial condition.

Most of our revenues are currently derived from advertising or sponsorship arrangements. Our agreements with advertisers and sponsors generally have terms of three years or less and, in many cases, the terms are much shorter. In cases where the advertiser is providing services, the agreements often have payments contingent on usage levels. Many of our advertisers are Internet companies which, in certain cases, may lack financial resources to fulfill their commitments. Accordingly, it is difficult to forecast these revenues accurately. However, our expense levels are based in part on expectations of future revenues and are fixed over the short-term with respect to certain categories. We may be unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall. Accordingly, the cancellation or deferral of advertising or sponsorship contracts could have a material adverse effect on our financial results.

We also generate revenue from our search and directory capabilities through an advertiser's purchase of an enhanced placement in our results. Yahoo! Sponsor Matches, offered through keyword search-driven inquiries, is currently provided through an alliance with a third party. If we are unable to continue to secure an arrangement with a third party provider on terms which are acceptable to us, or we are unable to develop our own ability to provide this service, our revenue could be adversely affected.

General economic downturns could harm our ability to generate advertising revenue.

Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. The overall market for advertising, including Internet advertising, has been generally characterized in recent quarters by softness of demand and the reduction of marketing and advertising budgets or the delay in spending of budgeted resources. As a result, advertising spending across traditional media, as well as the Internet, has decreased.

In addition, the September 11, 2001 terrorist attacks and the United States' military response, may contribute to continued general economic weakness and, accordingly, further reductions in advertising spending. Acts of war and terrorism against the United States, and the United States' response to such acts, may also exacerbate or prolong a general slowdown in the U.S. advertising market and the economy, which could cause our advertising or other revenues to decrease or fail to grow.

In addition, if economic conditions do improve, marketing budgets and advertising spending may not increase from current levels.

The rate structure of some of our sponsorship arrangements subjects us to financial risk.

A key element of our strategy is to generate advertising revenues through sponsored services and placements by third parties in our online media properties in addition to banner advertising. We typically receive sponsorship fees or a portion of transaction revenues in return for minimum levels of user impressions to be provided by us. These arrangements expose us to potentially significant financial risks in the event our usage levels decrease, including the following:

- the fees we are entitled to receive may be adjusted downwards;
- we may be required to "make good" on our obligations by providing alternative services;
- the sponsors may not renew the agreements or may renew at lower rates; and

- the arrangements may not generate anticipated levels of shared transaction revenues, or sponsors may default on the payment commitments in such agreements as has occurred in the past.

Accordingly, any leveling off or decrease of our user base or the failure to generate anticipated levels of shared transaction revenues could result in a significant decrease in our revenue levels.

We have spent considerable amounts of money and resources to provide a variety of communications services, but such services may not prove to be successful in generating significant revenue for us.

Currently, a substantial portion of the traffic on our online properties is directed at our communications services, such as email, instant messaging, calendaring and chat rooms, and we expect this trend to continue for the foreseeable future. We provide these and other basic communications services free of charge to users, as is the case with most of our competitors, and have not yet determined an effective means of generating revenues directly from providing such services. Alternative revenue models for our communications and electronic commerce services, such as subscription fees and commissions, are relatively unproven and may not generate sufficient revenues to be meaningful to us. Currently, we are dependent upon the use of other Yahoo! services to generate revenues from our communications services, and there is a risk that this relationship will not be sustained. As communications services become an increasingly important part of our total offering, we must continue to provide new communications applications that are compelling to users and utilize more sophisticated communications technologies to provide such applications to many types of access devices in addition to the personal computer, while continuing to develop an effective method for generating revenues for such services. In addition, the development of these technologies requires long development cycles and a more significant investment by us. If we were unable to develop such applications or use such technologies, the size and rate of growth in our user base would be adversely affected. If we cannot develop a direct or indirect means by which we generate revenues from our communications services that are greater than the cost of providing such services, our business, operating results and financial condition would be materially adversely affected.

We may not be successful in expanding the number of users of our electronic commerce services and our ability to effectively provide these services is limited because to date, we have not had a direct billing relationship with our users.

We have focused, and intend to continue to focus, significant resources on the development and enhancement of our electronic commerce properties. These properties, such as Yahoo! Shopping, link users with a network of retailers with whom we have relationships. We do not establish a direct billing relationship with our users as a result of any purchases they may make with the retailers. In addition, a large number of our users currently utilize Yahoo!'s online shopping services simply to gather information for future offline purchases. We will need to effectively induce information gatherers to make purchases in order for our electronic commerce properties to be successful. Finally, the success of our electronic commerce properties will also depend on, among other things, our ability to attract and retain well-known brands among our network of retailers. The revenue that we derive from our electronic commerce services is typically in the form of a commission paid by the retailer from whom our user purchased a product. Users who had a favorable buying experience with a particular retailer may contact that retailer directly for future purchases rather than through our service. If our users bypass our electronic commerce properties, such as Yahoo! Shopping, and contact retailers directly, we will not receive any revenue for purchases made through such direct contact. Competing providers of online shopping, including merchants with whom we have relationships, may provide a more convenient and comprehensive online shopping experience due to their singular focus on electronic commerce. As a result, we may have difficulty competing with those merchants for users of electronic commerce services. The inability of our electronic commerce properties to generate significant revenues could have a material adverse effect on our business.

Our business and enterprise services, while costly to develop, may fail to gain market acceptance.

We have invested a significant amount of money and resources in the creation of our Yahoo! Enterprise Solutions offerings, which is composed of our Portals, Broadcast and Small Business Groups. Many of these services are unproven and may fail to gain market acceptance. Because the market for these business and enterprise services is new and evolving, it is difficult to predict the size of this market and its rate of growth, if any. In addition, it is uncertain whether businesses and other organizations will utilize the Internet to any significant degree as a means of broadcasting business conferences and other events. Potential business services customers must accept audio and video broadcast services over the Internet as a viable alternative to face-to-face meetings, television or audio, audio teleconferences and video conferencing. We cannot assure you that the market for business and enterprise services will continue to develop or be sustainable. If the market fails to develop, develops more slowly than expected or becomes more competitive than is currently expected, our operating results could be adversely affected.

We will continue to operate in international markets in which we have limited experience, are faced with relatively higher costs and are exposed to greater risks.

A key part of our strategy is to develop Yahoo!-branded online properties in international markets. We have developed, through joint ventures, subsidiaries and branch offices, Yahoo! properties localized for over 20 other countries. To date, we have only limited experience in developing localized versions of our products and marketing and operating our products and services internationally, and we rely on the efforts and abilities of our foreign business partners in such activities.

We believe that in light of substantial anticipated competition, we need to expand our operations in international markets quickly in order to obtain market share effectively. However, in a number of international markets, especially those in Europe, we face substantial competition from Internet Service Providers (ISPs) that offer or may offer their own navigational services. Many of these ISPs have a dominant market share in their territories. Further, foreign providers of competing online services may have a substantial advantage over us in attracting users in their country due to more established branding in that country, greater knowledge with respect to the tastes and preferences of users residing in that country and/or their focus on a single market. We have experienced and expect to continue to experience higher costs as a percentage of revenues in connection with the development and maintenance of international online properties. We have selected international markets that may not develop at a rate that supports our level of investment. In particular, international markets typically have been slower than domestic markets in adopting the Internet as an advertising and commerce medium.

In addition to uncertainty about our ability to continue to generate revenues from our foreign operations and expand our international presence, there are certain risks inherent in doing business on an international level, including:

- trade barriers and unexpected changes in regulatory requirements;
- difficulties in developing, staffing and simultaneously managing a large number of unique foreign operations as a result of distance, language and cultural differences;
- higher costs of doing business in foreign countries;
- longer payment cycles;
- currency exchange rate fluctuations;
- political and economic instability and export restrictions;
- seasonal reductions in business activity;

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- risks related to government regulation including those more fully described below; and
 - potentially adverse tax consequences.

One or more of these factors could have a material adverse effect on our future international operations and, consequently, on our business, operating results, and financial condition.

We depend on key personnel who may not continue to work for us.

We are substantially dependent on the continued services of our key personnel, including our two founders, our chief executive officer, chief operating officer, chief financial officer, chief technical officer, executive and senior vice presidents, and vice presidents. These individuals have acquired specialized knowledge and skills with respect to Yahoo! and its operations or, in the cases of our newly appointed chief operating officer, Dan Rosensweig, and certain new senior vice presidents, only recently joined us. If any of these individuals were to leave Yahoo! unexpectedly, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any such successor obtains the necessary training and experience. In addition, Yahoo!'s president and chief operating officer, Jeff Mallett, departed in April 2002. We may experience similar departures from our domestic or international business units in the future. Many of our management personnel have reached or will soon reach the four-year anniversary of their Yahoo! hiring date and, as a result, have become or will shortly become fully vested in their initial stock option grants. While management personnel are typically granted additional stock options, which will usually vest over a period of four years subsequent to their hire date to provide additional incentive to remain at Yahoo!, the initial option grant is typically the largest, and an employee may be more likely to leave Yahoo!'s employ upon completion of the vesting period for the initial option grant.

We expect that we will need to hire additional personnel in designated growth areas. The competition for qualified personnel is intense, particularly in the San Francisco Bay Area, where our corporate headquarters are located. At times, we have experienced difficulties in hiring personnel with the right training or experience, particularly in technical areas. If we do not succeed in attracting new personnel, or retaining and motivating existing personnel, our business will be adversely affected.

We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances.

Yahoo! is one of the most highly trafficked Websites on the Internet and is regularly serving numbers of users and delivering daily page views which are beyond previous standards for Internet usage. In addition, the services offered by Yahoo! and popular with users have changed significantly in the past and are expected to change rapidly in the future. Much of the architecture that we employ was not originally designed to accommodate levels or types of use that we currently experience on our online properties, and it is unclear whether current or future anticipated levels of traffic or use of services will result in delays or interruptions in our service. In particular, the architecture utilized for our email and certain other communication services was not primarily designed for this purpose. The architecture is highly complex and may not provide satisfactory service in the future, especially as email and certain other communications services become an increasingly important service offering. In the future, we may be required to make significant changes to our architecture, including moving to a completely new architecture. If we are required to switch architectures, we may incur substantial costs and experience delays or interruptions in our service. If we experience delays or interruptions in our service due to inadequacies in our current architecture or as a result of a change in architectures, users may become dissatisfied with our service and move to competing providers of online services. Further, to the extent that demand for our broadcast services content and other rich media offerings increases, 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. If we fail to successfully scale our broadcasts to large audiences of simultaneous users, such failure could adversely affect that portion of our business. Also, 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. An unanticipated loss of traffic, increased costs, inefficiencies or failures to adapt to new technologies and the associated adjustments to our architecture may have a material adverse effect on our business, operating results and financial condition.

Our competitors often provide Internet access or computer hardware to our users, and our competitors could make it difficult for our users to access our services.

Our users must access our services through an Internet service provider, or ISP, with which the user establishes a direct billing relationship using a personal computer or other access device. To the extent that an access provider, such as AOL Time Warner or MSN, or a computer or computing device manufacturer offers online services or properties that are competitive with those of Yahoo!, the user may find it more convenient to use the services or properties of that access provider or manufacturer. In addition, the access provider or manufacturer may make it difficult to access our services by not listing them in the access provider's or manufacturer's own directory. Also, because an access provider gathers information from the user in connection with the establishment of the billing relationship, an access provider may be more effective than us in tailoring services and advertisements to the specific tastes of the user. To the extent that a user opts to use the services offered by his or her access provider or those offered by computer or computing device manufacturers rather than the services provided by us, our business, operating results and financial condition will be materially adversely affected.

More individuals are utilizing non-PC devices to access the Internet, and we may not be successful in developing a version of our service that will gain widespread adoption by users of such devices.

In the coming years, the number of individuals who access the Internet through devices other than a personal computer, such as personal digital assistants, cellular telephones and television set-top devices, is expected to increase dramatically. Our services are designed for rich, graphical environments such as those available on personal and laptop computers. The lower resolution, functionality and memory associated with alternative devices may make the use of our services through such devices difficult, and we may be unsuccessful in our efforts to modify our online properties to provide a compelling service for users of alternative devices. As we have limited experience to date in operating versions of our service developed or optimized for users of alternative devices, it is difficult to predict the problems we may encounter in doing so, and we may need to devote significant resources to the creation, support and maintenance of such versions. If we are unable to attract and retain a substantial number of alternative device users to our online services, we will fail to capture a sufficient share of an increasingly important portion of the market for online services.

As the majority of our revenues are derived through the sale of banner and other advertising optimized for a personal computer screen, we may not be successful at developing a viable strategy for deriving substantial revenues from online properties that are directed at the users of alternative devices. Any failure to develop revenue-generating online properties that are adopted by a significant number of alternative device users could have a material adverse effect on our business, operating results and financial condition.

We rely on the value of the Yahoo! brand, and the costs of maintaining and enhancing our brand awareness are increasing.

We believe that maintaining and expanding the Yahoo! brand is an important aspect of our efforts to attract and expand our user and advertiser base. We also believe that the importance of brand recognition will increase due to the growing number of Internet sites and the relatively low barriers to entry. We have spent considerable money and resources to date on the establishment and maintenance of the Yahoo! brand. We will spend increasing amounts of money on, and devote greater resources to, advertising, marketing and other brand-building efforts to preserve and enhance consumer awareness of the Yahoo! brand during 2002 and beyond. We may not be able to successfully maintain or enhance consumer awareness of the Yahoo! brand and, even if we are successful in our branding efforts, such efforts may not be cost-effective. If we are unable to maintain or enhance consumer awareness of the Yahoo! brand in a cost-effective manner, our business, operating results and financial condition would be materially and adversely affected.

The successful operation of our business depends upon the supply of critical elements from other companies.

We depend upon third parties, to a substantial extent, for several critical elements of our business, including various technology, infrastructure, content development, software and distribution components.

Technology and Infrastructure. We rely on private third-party providers, including Exodus, a Cable & Wireless Service and its affiliates and Level 3 Communications, for our principal Internet connections, co-location of a significant portion of our data servers and network access. We also rely on Network Appliance for key components of our email service. Any disruption in the Internet or network access or co-location services provided by these third-party providers or any failure of these third-party providers to handle current or higher volumes of use could have a material adverse effect on our business, operating results, and financial condition. For example, Exodus was acquired out of bankruptcy proceedings by Cable & Wireless. Any continued financial difficulties for Exodus may have negative effects on our business, the nature and extent of which we cannot predict. We license technology and related databases from third parties for certain elements of our properties, including, among others, technology underlying the delivery of news, stock quotes and current financial information, chat services, street mapping and telephone listings, streaming capabilities and similar services. We have experienced and expect to continue to experience interruptions and delays in service and availability for such elements. Furthermore, we depend on hardware suppliers for prompt delivery, installation and service of servers and other equipment to deliver our products and services. Any errors, failures, interruptions, or delays experienced in connection with these third-party technologies and information services could negatively impact our relationship with users and adversely affect our brand and our business and could expose us to liabilities to third parties.

Distribution Relationships. To increase traffic for our online properties and services and make them more available and attractive to advertisers and consumers, we have certain distribution agreements and informal relationships with leading Web browser providers, operators of online networks and leading Websites, software developers and computer manufacturers, and telecommunications companies. These distribution arrangements typically are not exclusive and do not extend over a significant amount of time. Further, some of our distributors are competitors or potential competitors who may not renew their distribution contracts with us. Potential distributors may not offer distribution of our properties and services on reasonable terms, or at all. In addition, as new methods for accessing the Web become available, including through alternative devices, we may need to enter into additional distribution relationships. Any failure to obtain distribution or to obtain distribution on terms that are reasonable, could have a material adverse effect on our business, results of operations, and financial condition.

Streaming Media Software. We rely on the two leading providers of streaming media products, RealNetworks and Microsoft, to license the software necessary to broadcast streaming audio and video content to our users. There can be no assurance that these providers will continue to license these products to us on reasonable terms, or at all. Our users are currently able to electronically download copies of the software to play streaming media free of charge, but providers of streaming media products may begin charging users for copies of their player software or otherwise change their business model in a manner that slows the

widespread acceptance of these products. In order for our broadcast services to be successful, there must be a large base of users of these streaming media products. We have limited or no control over the availability or acceptance of streaming media software, and to the extent that any of these circumstances occur, the broadcast services portion of our business will be materially adversely affected.

Our dependence on third party content and service providers subjects us to risks.

Our future success depends upon our ability to aggregate compelling content and deliver that content through our online properties. We license much of the content that attracts users to our online properties, such as news items, stock quotes, weather reports, maps and audio and video content from third parties such as Reuters. We also obtain important elements of our search service from our relationship with Google. In particular, Yahoo! Broadcast and our music and entertainment properties rely on major sports organizations, radio and television stations, record labels, cable networks, businesses, colleges and universities, film producers and distributors, and other organizations for a large portion of the content available on our properties. Our ability to maintain and build relationships with third-party content providers will be critical to our success. We may be unable to enter into or preserve relationships with the third parties whose content we seek to obtain. Many of our current licenses for third-party content extend for a period of less than two years and there can be no guarantee that they will be renewed upon their expiration. In addition, as competition for compelling content increases both locally and abroad, our content providers may increase the prices at which they offer their content to us and potential content providers may not offer their content on terms agreeable to us. An increase in the prices charged to us by third-party content providers could have a material adverse effect on our business, operating results and financial condition. Further, many of our content licenses with third parties are non-exclusive. Accordingly, other webcasters may be able to offer similar or identical content. Likewise, most sports and entertainment content available on our online properties are also available on other media like radio or television. These media are currently, and for the foreseeable future will be, much more widely adopted for listening or viewing such content than the Web. These factors also increase 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, if other companies broadcast content that is similar to or the same as that provided by Yahoo!, or if we do not develop compelling editorial content or personalization services, the number of users on our online properties may not grow at all or at a slower rate than anticipated, which would decrease our advertising revenue.

As we provide more audio and video content, particularly music, we may be required to spend significant amounts of money on content acquisition and content broadcasts.

Until recently, the majority of the content that we provided to our users was in print, picture or graphical format and was either created internally or licensed to us by third parties for little or no charge. However, we have been providing recently and intend to continue to provide increasing amounts of audio and video content to our users, such as the broadcast of music, film content, speeches, news footage, concerts and other special events, through our broadcast services and other media and entertainment properties. We believe that users of Internet services such as the Yahoo! online properties will increasingly demand high-quality audio and video content. Such content may require us to make substantial payments to third parties from whom we license or acquire such content.

For example, in order to broadcast music through our online properties, we are currently required to pay royalties both on the copyright in the musical compositions and the copyright in the actual sound recordings of the music to be broadcast. The revenue we receive as a result of our audio and video broadcasts may not justify the costs of providing such broadcasts. Our inability to cost-effectively provide high-quality audio and/or video content to our users could have a material adverse effect on our business, operating results and financial condition.

We must manage our growth and consolidation successfully, including the integration of recently-acquired companies, in order to achieve our desired results.

We have experienced dramatic growth in personnel in recent years and expect to continue to hire additional personnel in selected areas. We also reduced our workforce in 2001 to decrease our costs and create greater operational efficiency. This growth and consolidation requires significant time and resource commitments from us and our senior management. Further, as a result of recent acquisitions and international expansion, more than one-half of our employees are based outside of our Sunnyvale, California headquarters. If we are unable to effectively manage a large and geographically dispersed group of employees, anticipate our future growth or manage our operational consolidations effectively, our business will be adversely affected.

As part of our business strategy, we have completed several acquisitions (including the acquisition of HotJobs.com in February 2002) and expect to enter into additional business combinations and acquisitions. Acquisition transactions are accompanied by a number of risks, including:

- the difficulty of assimilating the operations and personnel of the acquired companies which may be geographically dispersed;
- the potential disruption of our ongoing business and distraction of management;
- the difficulty of incorporating acquired technology or content and rights into our products and media properties and unanticipated expenses related to such integration;
- the negative impact on reported earnings if any of our previously completed transactions that are expected to continue to qualify for pooling of interest accounting treatment for financial reporting purposes fail to continue to so qualify;
- the correct assessment of the relative percentages of in-process research and development expense that can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset;
- the failure to successfully develop acquired technology resulting in the impairment of amounts currently capitalized as intangible assets;
- the impairment of relationships with employees and customers of either an acquired company or our own business as a result of any integration of new management personnel; and
- the potential unknown liabilities associated with acquired businesses.

We may not be successful in addressing these risks or any other problems encountered in connection with such acquisitions and the failure to do so could have a material adverse effect on our business, operating results and financial condition.

We are subject to U.S. and foreign government regulation of the Internet, the impact of which is difficult to predict.

There are currently few laws or regulations directly applicable to the Internet. The application of existing laws and regulations to Yahoo! relating to issues such as user privacy, defamation, pricing,

advertising, taxation, gambling, sweepstakes, promotions, financial market regulation, consumer protection, content regulation, quality of products and services, and intellectual property ownership and infringement can be unclear. In addition, we will also be subject to new laws and regulations directly applicable to our activities. Any existing or new legislation applicable to us could expose us to substantial liability, including significant expenses necessary to comply with such laws and regulations, and dampen the growth in use of the Web.

Several federal laws could have an impact on our business. The Digital Millennium Copyright Act is intended to reduce the liability of online service providers for listing or linking to third-party Websites that include materials that infringe copyrights or other rights of others. The Children's Online Protection Act and the Children's Online Privacy Protection Act are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Such legislation may impose significant additional costs on our business or subject us to additional liabilities.

We post our privacy policy and practices concerning the use and disclosure of user data. In addition, GeoCities, a company we acquired in 1999, is required to comply with a consent order between it and the Federal Trade Commission (the "FTC"), which imposes certain obligations and restrictions with respect to information collected from users. Any failure by us to comply with our posted privacy policy, the consent order, FTC requirements or other privacy-related laws and regulations could result in proceedings by the FTC or others which could potentially have an adverse effect on our business, results of operations and financial condition. In this regard, there are a large number of legislative proposals before the United States Congress and various state legislative bodies regarding privacy issues related to our business. It is not possible to predict whether or when such legislation may be adopted, and certain proposals, if adopted, could materially and adversely affect our business through a decrease in user registrations and revenues. This could be caused by, among other possible provisions, the required use of disclaimers or other requirements before users can utilize our services.

Due to the global nature of the Web, it is possible that the governments of other states and foreign countries might attempt to regulate Web transmissions or prosecute us for violations of their laws. We might unintentionally violate such laws, such laws may be modified and new laws may be enacted in the future. Any such developments (or developments stemming from enactment or modification of other laws) could have a material adverse effect on our business, operating results and financial condition.

We may be subject to legal liability for online services.

We host a wide variety of services that enable individuals to exchange information, generate content, conduct business and engage in various online activities on an international basis, including public message posting and services relating to online auctions and homesteading. The law relating to the liability of providers of these online services for activities of their users is currently unsettled both within the United States and abroad. Claims have been threatened and have been brought against us for defamation, negligence, copyright or trademark infringement, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we provide links to or that may be posted online or generated by our users or with respect to auctioned materials. Currently, our subsidiary Launch Media, Inc. ("Launch") is engaged in a lawsuit regarding copyright issues which commenced prior to our entering into an agreement to acquire Launch. In addition, Yahoo! was recently the subject of a claim brought by certain entities in a French court regarding, among other things, the availability of certain content within our services which was alleged to violate French law. Due to the unsettled nature of the law in this area, we may be subject to similar

actions in domestic or other international jurisdictions in the future. Our defense of any such actions could be costly and involve significant distraction of our management and other resources. In addition, we are aware that governmental agencies are currently investigating the conduct of online auctions.

We also periodically enter into arrangements to offer third-party products, services, or content under the Yahoo! brand or via distribution on various Yahoo! properties, including stock quotes and trading information. We may be subject to claims concerning these products, services or content by virtue of our involvement in marketing, branding, broadcasting or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services or content. While our agreements with these parties often provide that we will be indemnified against such liabilities, such indemnification may not be adequate.

It is also possible that, if any information provided directly by us contains errors or is otherwise negligently provided to users, third parties could make claims against us. For example, we offer Web-based email services, which expose us to potential risks, such as liabilities or claims resulting from unsolicited email, lost or misdirected messages, illegal or fraudulent use of email, or interruptions or delays in email service. Investigating and defending any of these types of claims is expensive, even to the extent that the claims do not ultimately result in liability.

Our stock price has been volatile historically, which may make it more difficult for you to resell shares when you want at prices you find attractive.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During the first six months of 2002, the closing sale prices of our common stock on the Nasdaq ranged from \$20.50 to \$13.72 per share and the closing sale price of our common stock on July 26, 2002 was \$12.70 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our

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

Management and one large stockholder beneficially own approximately 32.7% of our stock; their interests could conflict with yours; significant sales of stock held by them could have a negative effect on our stock price.

Yahoo!'s directors and executive officers and SOFTBANK beneficially owned approximately 32.7% of Yahoo!'s outstanding common stock as of June 30, 2002. Eric Hippeau is a member of our board of directors and is also a Managing Partner of SOFTBANK Capital Partners, an affiliate of SOFTBANK. As a result of their ownership and positions, our directors and executive officers and SOFTBANK collectively are able to significantly influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. Such concentration of ownership may also have the effect of delaying or preventing a change in control of Yahoo!. In addition, sales of significant amounts of shares held by Yahoo!'s directors and executive officers and SOFTBANK, or the prospect of these sales, could adversely affect the market price of our common stock.

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Our operations could be significantly hindered by the occurrence of a natural disaster or other catastrophic event.

Our operations are susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. In addition, the majority of our network infrastructure is located in Northern California, an area susceptible to earthquakes. In the recent past, the western United States (and California in particular) has experienced repeated episodes of diminished electrical power supply. As a result of these episodes, certain of our operations or facilities may be subject to "rolling blackouts" or other unscheduled interruptions of electrical power. The prospect of such unscheduled interruptions may continue for the foreseeable future and we are unable to predict either their occurrence, duration or cessation. We do not have multiple site capacity for all of our services in the event of any such occurrence. Despite our implementation of network security measures, our servers are vulnerable to computer viruses, physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems. In addition, we are vulnerable to coordinated attempts to overload our systems with data, resulting in denial or reduction of service to some or all of our users for a period of time. We have experienced a coordinated denial of service attack in the past, and may experience such attempts in the future. We do not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any of these events. Any such event could have a material adverse effect on our business, operating results, and financial condition.

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

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

In addition, our board of directors has the authority to issue up to 10,000,000 shares of preferred stock (of which 2,000,000 shares have been designated as Series A Junior Participating Preferred Stock) and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change of control of Yahoo! without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock. Further, certain provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of Yahoo!, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested

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stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change of control or management.

Terrorist attacks have contributed to economic instability in the United States; continued terrorist attacks, war or other civil disturbances could lead to further economic instability and depress our stock price or adversely affect our business.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks have caused instability in the global financial markets, and have contributed to volatility in the stock prices of United States publicly traded companies, such as Yahoo!. These attacks have and may continue to lead to armed hostilities or may lead to further acts of terrorism and civil disturbances in the United States or elsewhere, which may further contribute to economic instability in the United States and could have a material adverse effect on our business, financial condition and operating results.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest Rate Risk. Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments to hedge our investment portfolio. We invest excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers and, by policy, limit the amount of credit exposure to any one issuer. We protect and preserve invested funds by limiting default, market and reinvestment risk.

Investments in both fixed rate and floating rate interest earning instruments carries a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities which have declined in market value due to changes in interest rates. As of June 30, 2002 investments in debt securities with maturities less than one year of \$526.4 million had a weighted-average yield of approximately 4.36%. Investments in debt securities with maturities between one and five years of \$636.7 million had a weighted-average yield of approximately 4.53%.

Foreign Currency Risk. International revenues from our foreign subsidiaries accounted for approximately 17% and 15% of total revenues during the three and six months ended June 30, 2002. International sales are made mostly from our foreign sales subsidiaries in their respective countries and are typically denominated in the local currency of each country. These subsidiaries also incur most of their expenses in the local currency. Accordingly, all foreign subsidiaries use the local currency as their functional currency.

Our international business is subject to risks, including, but not limited to differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility when compared to the United States. Accordingly, our future results could be materially adversely impacted by changes in these or other factors.

Our exposure to foreign exchange rate fluctuations arises in part from intercompany accounts in which costs incurred in the United States are charged to our foreign sales subsidiaries. These intercompany accounts are typically denominated in the functional currency of the foreign subsidiary. We are also exposed to foreign exchange rate fluctuations as the financial statements of foreign subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, this may adversely impact overall expected profitability. The effect of foreign exchange rate fluctuations for the six months ended June 30, 2002 was not material.

Investment Risk. We invest in equity instruments of privately-held companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method when ownership is less than 20% and we do not have the ability to exercise significant influence over operations. Since our initial investment, certain of these investments in privately-held companies have become marketable equity securities upon the investees completing initial public offerings. Such investments, most of which are in the Internet industry, are subject to significant fluctuations in fair market value due to the volatility of the stock market, and are recorded as long-term investments. For these investments in public and privately-held companies, our policy is to monitor these investments for impairment by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and reductions in carrying value when necessary.

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The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents, short-term and long-term investments in a variety of securities, including both government and corporate obligations and money market funds. As of June 30, 2002, the net unrealized gains of \$6.7 million on these investments have been recorded net of deferred taxes of \$2.7 million as a separate component of stockholders' equity.

We are exposed to market risk as it relates to changes in the market value of our investments. We invest in equity instruments of public companies, certain of which may be classified as derivatives, for business and strategic purposes and have classified these securities as available-for-sale. These available-for-sale equity investments, primarily in Internet and technology companies, are subject to significant fluctuations in fair value due to the volatility of the stock market and the industries in which these companies participate. We have realized gains and losses from both the sale of investments, as well as mergers and acquisitions of companies in which we have invested. As of June 30, 2002, we had available-for-sale equity investments with a fair value of \$6.4 million and a cost basis of \$4.8 million. The net unrealized gains of \$1.6 million have been recorded net of deferred taxes of \$0.6 million as a separate component of stockholders' equity. Our objective in managing exposure to stock market fluctuations is to minimize the impact of stock market declines to earnings and cash flows. However, continued market volatility, as well as mergers and acquisitions, have the potential to have a material non-cash impact on our operating results in future periods.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of trademarks, copyrights and other intellectual property rights, and a variety of claims arising in connection with our email, message boards, auction sites, shopping services, and other communications and community features, such as claims alleging defamation or invasion of privacy. Currently, our subsidiary Launch Media, Inc. ("Launch") is engaged in a lawsuit regarding copyright issues which commenced prior to our entering into an agreement to acquire Launch. In addition, from time to time, third parties assert patent infringement claims against Yahoo! in the form of letters, lawsuits and other forms of communication. Currently, we are engaged in one lawsuit regarding patent issues and have been notified of a number of other potential patent disputes.

We are not currently aware of any legal proceedings or claims that we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. However, we may incur substantial expenses in defending against third party claims. In the event of a determination adverse to Yahoo!,

we may incur substantial monetary liability, and be required to change our business practices. Either of these could have a material adverse effect on our financial position, results of operations or cash flows.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

On April 26, 2002, the Company held its Annual Meeting of Stockholders. At the meeting, the stockholders elected as directors Terry Semel (with 496,671,887 affirmative votes and 12,877,016 votes withheld), Jerry Yang (with 474,062,799 affirmative votes and 35,486,104 votes withheld), Eric Hippeau (with 472,672,012 affirmative votes and 36,876,891 votes withheld), Arthur H. Kern (with 473,571,123 affirmative votes and 35,977,780 votes withheld), Michael Moritz (with 472,127,379 affirmative votes and 37,421,524 votes withheld), Edward R. Kozel (with 473,986,879 affirmative votes and 35,562,024 votes withheld), Timothy Koogle (with 474,091,711 affirmative votes and 35,457,192 votes withheld), Ronald Burkle (with 505,772,664 affirmative votes and 3,776,239 votes withheld), and Gary Wilson (with 505,777,846 affirmative votes and 3,771,057 votes withheld).

The stockholders also approved an amendment to the Company's 1995 Stock Plan to increase the number of shares available for issuance under the plan by an aggregate of 35,000,000 shares to 287,000,000 shares (with 276,886,312 shares voting for, 103,448,797 against, and 2,845,214 abstaining).

The stockholders also approved an amendment to the Company's 1996 Directors' Stock Option Plan to increase the size of the annual grant of the shares to non-employee Directors from 20,000 shares to 50,000 shares and to increase the number of shares available for issuance under the plan by an aggregate of 2,000,000 shares to 4,400,000 shares (with 278,443,404 shares voting for, 101,864,764 against, and 2,872,154 abstaining).

The stockholders also ratified the appointment of PricewaterhouseCoopers LLP as the independent accountants for the Company for the fiscal year ending December 31, 2002 (with 499,395,533 shares voting for, 8,237,986 against, and 1,915,383 abstaining).

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit 3.1 to the June 30, 2000 10-Q and incorporated herein by reference).
3.2	Amended Bylaws of Registrant (Filed as Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 filed on March 5, 2002 and incorporated herein by reference).
4.1	Form of Senior Indenture (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-3, Registration No. 333-46458, filed September 22, 2000 [the September 22, 2000 Form S-3] and incorporated herein by reference).
4.2	Form of Subordinated Indenture (Filed as Exhibit 4.2 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.3**	Form of Senior Note.
4.4**	Form of Subordinated Note.
4.5**	Form of Certificate of Designation for preferred stock (together with preferred stock certificate).
4.6	Form of Deposit Agreement (together with Depository Receipt) (Filed as Exhibit 4.6 to the September 22, 2000 Form S-3 and incorporated herein by reference).
4.7**	Form of Warrant Agreement (together with form of Warrant Certificate).

4.8 Rights Agreement, dated as of March 15, 2001, between the Registrant and Equiserve Trust Company, N.A., as Rights Agent, including the form of Rights Certificate as Exhibit B and the summary of Rights to Purchase Preferred Stock as Exhibit C (Filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed March 19, 2001 and incorporated herein by reference).

10.41* Employment agreement between the Registrant and Daniel Rosensweig dated April 23, 2002.

10.42* Recourse Promissory Note executed by Daniel Rosensweig for the benefit of the Registrant.

10.43* Yahoo! Inc. Key Executive New Hire Retention Plan.

10.44* Key Executive New Hire Retention Agreement between the Registrant and Daniel Rosensweig.

* Filed herewith.

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

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b. Reports on Form 8-K:

On April 17, 2002, the Company filed a report on Form 8-K which announced Yahoo!'s financial results for the quarter ended March 31, 2002 and certain other information. A copy of Yahoo!'s press release announcing the results and certain other information was attached and incorporated by reference therein.

On June 11, 2002, the Company filed a report on Form 8-K announcing the adoption of a Rule 10b5-1 Trading Program policy that permits certain individuals to establish "blind trusts" or prearranged trading plans to govern the sale of a specified number or dollar amount of shares of Company stock over a predetermined period of time. A copy of the press release was attached and incorporated by reference therein.

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Signatures

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

YAHOO! INC.

Dated: July 30, 2002

By: /s/ Susan L. Decker

Susan L. Decker
*Executive Vice President, Finance and Administration, and Chief
Financial Officer (Principal Financial Officer)*

Dated: July 30, 2002

By: /s/ William E. Losch

William E. Losch
Vice President, Finance (Principal Accounting Officer)

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YAHOO! INC.

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Title	Exhibit No.
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April 21, 2002

Daniel Rosensweig

Dear Dan:

On behalf of Yahoo! Inc. ("Yahoo!"), I am pleased to offer you employment with Yahoo! as Chief Operating Officer, reporting to the Chief Executive Officer. The terms of your employment are set forth as follows:

1. Base Salary and Performance Bonus.

Your Base Salary for calendar years 2002 and 2003 will be \$41,666.67 per month (\$500,000 annually). Your Base Salary for calendar year 2004 will be at least \$45,833 per month (\$550,000 annually). Your Base Salary for calendar year 2005 will be at least \$50,000 per month (\$600,000 annually). In each case, your Base Salary will be paid semi-monthly. For each of the remaining portion of calendar year 2002 and the full calendar year 2003, you will be eligible for a bonus plan that pays an additional amount of at least \$250,000, and up to \$500,000 if performance meets specified criteria. These criteria will be specified in writing shortly after your start date and may relate to both your personal performance and that of Yahoo!. These bonus payments are only to be paid if you remain employed continuously through the end of the subject calendar year, except as expressly set forth in Section 9(a)(ii) below. After calendar year 2003, you will be eligible for a bonus plan commensurate with that provided to other executives at your level.

2. Retention Bonus.

We will also recommend that the Compensation Committee of the Board of Directors grant you a retention bonus pursuant to the Yahoo! Inc. Key Executive New Hire Retention Plan. Under this plan, you would receive a bonus if you remain continuously employed with Yahoo! for one year. Thereafter, if you remain continuously employed with Yahoo!, you would be entitled on your second, third, and fourth anniversaries of employment with Yahoo! to additional retention bonuses pursuant to the Yahoo! Inc. Key Executive New Hire Retention Plan. The amounts and conditions of those retention bonuses will be set forth by separate agreement. For purposes of this

Agreement, your "anniversary of employment with Yahoo!" shall fall on the same month and day as your first date on the Yahoo! payroll.

3. Duties and Responsibilities.

As Chief Operating Officer, you will be responsible for Yahoo! operations in both North America and internationally. In this role you will drive Yahoo!'s operations and business unit organization to achieve Yahoo!'s strategic and P&L objectives.

4. Obligations.

During the period of your employment under this Agreement, 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 as long as you specifically advise Yahoo! of those activities, Yahoo! agrees to them, and the activities do not materially interfere or conflict with your responsibilities to, or your ability to perform your duties of employment by, Yahoo! under this Agreement.

5. Stock Options.

As part of your compensation, effective immediately upon effectiveness of your employment with Yahoo!, we will recommend that the Compensation Committee of the Board of Directors grant you stock options to purchase 1,250,000 shares ("Initial Grant") of Yahoo!'s Common Stock under Yahoo!'s 1995 Stock Option Plan, as amended, (the "Plan") pursuant to the terms of a stock option agreement for such options ("Stock Option Agreement"). 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 Board of Directors. The Stock Option Agreement will specify that all options described above will vest as to 1/4 of the shares after one year of employment, and in equal monthly installments over the 36 subsequent months, and will provide that such options (to the extent vested and exercisable) may be exercised for a period of one (1) year after the date of termination of your employment, but in no event later than the 10-year expiration dates of such options. In addition to the initial grant of options described above, you will be eligible for annual grants to purchase Yahoo! Common Stock as determined by the Compensation Committee of the Board of Directors.

6. Benefits.

Additionally, you will be eligible to participate in the regular Yahoo! health insurance benefits, vacation, and other employee benefit plans, programs and policies established by Yahoo! generally for its employees or senior management.

7. Relocation Expenses.

You will use all reasonable efforts to establish your principal residence in the San Francisco Bay Area within 3 months after you have accepted this offer, but in no event will you establish such principal residence later than December 31, 2002. You will be eligible to receive relocation assistance according to the enclosed Domestic Relocation

Program Overview with the modifications described in clause (g) below. Once you have returned this signed agreement to Yahoo!, you will be contacted by a representative of Paragon Decision Resources to initiate your temporary living arrangements and eventually your move. In addition to this standard relocation program, you will be eligible for the relocation benefits specified below. If you voluntarily choose to leave Yahoo! for any reason other than for Good Reason during the first year of your employment with Yahoo!, a prorated portion of the monies given to you for relocation expenses will become due and payable to Yahoo! on your last day of employment (based on 1/12th for each month your termination precedes 12 months of Yahoo! service), and by your signature below you agree that such amount shall be deducted from any compensation payable to you at that time.

(a) Home Sale Assistance will be provided through Paragon Decision Resources to help market and sell your home. All reasonable non-recurring closing costs as well as sales commission of up to 6% of the sales price will be reimbursed. This program is structured to take advantage of tax rulings so as to provide a tax-free benefit. Therefore, you must speak with your consultant from Paragon Decision Resources prior to listing your property to be eligible for this benefit.

(b) Home Purchase Benefits will be offered to help you secure a home in the new location. Yahoo! will reimburse reasonable, non-recurring closing costs (including a Loan Origination Fee) and mortgage services will be provided by Paragon Decision Resources and will allow a direct bill of the closing costs to Yahoo!. This benefit is taxable and will be grossed-up to offset your tax liability.

(c) To assist you with temporary living expenses and the possibility of maintaining two residences, temporary living accommodations will be provided in the San Francisco Bay Area for up to six months. If you purchase a home in the Bay Area and complete your relocation before you are able to sell your New York home, Yahoo! will reimburse you for reasonable expenses associated with the maintenance of your home in New York (including mortgage and property tax payments) on a monthly basis until this house is sold, up to a period of six months following your relocation.

(d) Reasonable travel expenses will be reimbursed for regular trips between the San Francisco Bay Area and New York prior to the relocation of your principal residence.

(e) To help you maintain your standard of living in the Bay Area, Yahoo! will make you a secured interest-free loan in the amount of \$1,000,000 ("Loan") for purpose of partially financing the purchase price of your new home. As consideration for the Loan, you shall execute and deliver a full-recourse promissory note in substantially the form set forth as Exhibit A hereto, together with a deed of trust customary for the State of California, which shall be subordinate to any institutionally issued mortgage. Because the Loan will be interest-free: (i) the Loan shall be non-transferable, (ii) the Loan proceeds must be used to fund a portion of the purchase price of your primary residence, and (iii) you must certify to the Company that you will itemize your deductions on your federal income taxes during the term of the Loan. The Loan will be funded on the

closing date of the purchase of your primary residence. The note will become due and payable on your fourth anniversary of employment with Yahoo!, or immediately upon the cessation of your employment, regardless of the reason for that cessation.

(f) Yahoo! will provide you with a mortgage subsidy of no less than 3/2/1 to help offset any increase in mortgage payments in the first three (3) years of your mortgage following your move, as long as you remain employed with Yahoo!. This program pays 3 percentage points in interest in the first year of your mortgage, 2 percentage points of interest in the second year of your mortgage, and 1 percentage point of interest in the third year of your mortgage.

(g) You will receive the following benefits which modify those described in Domestic Relocation Program Overview (i) no weight limitation on the amount of household goods to be included, (ii) Yahoo! will provide tax gross-up for benefits received and not repaid to Yahoo! which are described in paragraphs (a)-(d) and (f)-(g) of this Section 7 regardless of whether you have been terminated prior to such gross-up payment with or without Cause or you have terminated your employment with or without Good Reason, and (iii) you need not return to Yahoo! the monies given to you under this Section 7 except as expressly provided in this Section 7.

8. Business Expenses.

You are authorized to incur reasonable business expenses carrying out your duties and responsibilities in connection with your employment. Yahoo! will promptly reimburse you for such expenses upon presentation of appropriate vouchers or receipts, in accordance with its expense reimbursement policies.

9. Termination.

(a) Should your employment with Yahoo! be terminated on or prior to your second anniversary date of employment by Yahoo! without Cause or by you for Good Reason you will be entitled, on your last day of employment (the "Termination Date"), to a lump sum payment (in addition to payment of all Base Salary through the Termination Date, vacation and other legally required payments) in an amount equal to:

- (i) 24 months of Base Salary at the rate in effect on the Termination Date; and
- (ii) a pro rata portion of the minimum annual bonus (\$250,000) provided in Section 1 in proportion to the number of full months of your employment at Yahoo! during such calendar year divided by twelve.

The lump sum payment will be made to you within 30 days after the Termination Date.

(b) For the purposes of this Agreement, "Cause" shall mean (i) your conviction of, or pleading guilty or nolo contendere to, a felony involving moral turpitude, or (ii) your failure, as reasonably determined by Yahoo!, to carry out in any material respect the duties and responsibilities of your employment due to willful gross neglect or willful gross misconduct which cannot be cured or which, if curable, is not

cured within 30 days after receipt of written notice to you from Yahoo! specifying with reasonable particularity such failure.

(c) For purposes of this Agreement, “Good Reason” shall exist only if Yahoo! fails to correct, after 30 days written notice from you to Yahoo!, one of the following: (i) the material reduction by the Chief Executive Officer or Board of Directors of your title, Base Salary, duties, authority or responsibilities which is not agreed to by you, or (ii) a change in the reporting structure such that you will no longer report directly to the Chief Executive Officer, (iii) failure to obtain all necessary approvals within 30 days from the date hereof (including that of the Compensation Committee of the Board of Directors) for (x) the retention bonus described in Section 2 on the terms set forth in the New Hire Retention Agreement which has been previously delivered to you, or (y) the stock options described in Section 5. Your written notice to Yahoo! must specify with reasonable particularity the reasons you believe that the herein-described events supporting Good Reason have occurred. Good Reason will not exist if the events which would otherwise constitute Good Reason are prompted by the occurrence of any event specified in Section 9(b).

10. Taxes.

(a) Yahoo! does not make any representations regarding the tax implications of the compensation package provided for in this Agreement. Yahoo! advises you to consult with a tax professional and/or your attorney. By accepting this offer, you acknowledge and agree that (i) you shall be liable for all taxes assessed by any federal, state, or local authorities with respect to the compensation package provided herein and (ii) that Yahoo! is authorized to withhold for such taxes as it deems appropriate.

(b) If any payments or benefits that you may receive, whether pursuant to this letter agreement or otherwise, would result in the imposition of an excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986 (the “Code”) or any corresponding provisions of state income tax law, you will receive whichever of (i) or (ii) results in the larger dollar amount of payments or benefits (calculating such dollar amounts in accordance with the principles of Section 280G of the Code), after taking into account these excise taxes: (i) that portion of the payments or benefits to be received by you under this letter agreement which, when aggregated with any other payments treated as contingent on a change in the ownership or effective control of Yahoo! or the ownership of a substantial portion of the assets of Yahoo! under Section 280G(b)(2) of the Code does not exceed 2.99 times your “Base Amount” as defined in Section 280G of the Code, or (ii) 100% of the payments or benefits to which you are entitled under this letter agreement, in which case you will be responsible for paying all of such excise taxes imposed with respect to such payments or benefits. If clause (i) produces the larger payment, then each payment or benefit to which you would otherwise be entitled under this letter agreement will be reduced (in the proportion that you elect) to comply with the limitation of that subsection. All determinations required to be made under this Subsection 10 (b) shall be made by PricewaterhouseCoopers, LLP or any other nationally recognized accounting firm which is Yahoo!’s outside auditor at the time of such determination, which firm must be reasonably acceptable to you (the “Accounting

Firm”). Yahoo! shall cause the Accounting Firm to provide detailed supporting calculations of its determinations to Yahoo! and you. All fees and expenses of the Accounting Firm shall be borne solely by Yahoo!. The Accounting Firm’s determinations must be made with substantial authority (within the meaning of Section 6662 of the Internal Revenue Code).

11. No Conflict with Prior Agreements; Due Authorization.

You represent and warrant to Yahoo! that your execution and delivery of this Agreement between you and Yahoo! and the performance of your duties hereunder will not constitute a breach of, or otherwise contravene, the terms of any employment or other agreement or policy to which you are a party or are otherwise bound. Nothing contained in the Proprietary Information and Assignment of Inventions Agreement, the Domestic Relocation Program Overview, the Employee Reimbursement Agreement, or the Stock Option Agreement will modify the provisions hereof and in the case of any conflict, the provisions of this Agreement shall prevail.

12. Confidential Information; Nondisclosure.

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. To protect the interests of both Yahoo! and its clients, all employees are required to read and sign a Proprietary Information and Assignment of Inventions Agreement (“Proprietary Rights Agreement”) prior to beginning employment. A copy of this Agreement is enclosed. Please sign it and return it along with your signed copy of this letter. Similarly, you may have confidential or proprietary information from a prior employer that should not be used or disclosed to anyone at Yahoo!. Therefore, Yahoo! requests that you read, complete, and bring with you on your first day of employment, the enclosed Proprietary Information Obligations Checklist to this effect. Yahoo! requests that you comply with any existing and/or continuing contractual obligations that you may have with your former employers.

13. Noncompetition.

You agree that, as long as you are employed by Yahoo! pursuant to this Agreement, 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), 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.

14. At Will Employment.

Please understand that this Agreement is for employment of an unspecified period of time and creates an “employment at will” relationship that may be terminated without notice at any time by you or Yahoo!, with or without Cause. Your signature at the end of this Agreement confirms that no promises or agreements that are contrary to our at-will relationship have been committed to you during any of your pre-employment discussions with Yahoo!, and that this

Agreement contains our complete agreement regarding the terms and conditions of your employment. This “at-will” relationship may not be altered except as agreed by you and the Company in writing. You agree that Section 9 shall provide your sole and exclusive remedy if you are “terminated by Yahoo! without Cause” or you resign for “Good Reason” as those phrases are defined herein, in addition to those rights set forth in the Key Executive New Hire Retention Agreement.

15. Arbitration.

Our signatures on this letter also confirm our mutual agreement to binding arbitration by a retired judge of the Superior Court of the State of California pursuant to the Employment Arbitration Rules and Procedures of the Judicial Arbitration and Mediation Service (“JAMS”), with full discovery, should there be any dispute related to this Agreement, the termination thereof, or any other aspect of your employment relationship with Yahoo!. Nothing in this Agreement shall prejudice either party’s ability to pursue provisional remedies under California Code of Civil Procedure §1281.8.

16. Miscellaneous.

(a) Personal. This Agreement is personal to you and therefore, you may not assign any of your rights and responsibilities hereunder.

(b) Successors. This Agreement shall inure to the benefit of and be binding upon Yahoo! and its subsidiaries, successors and assigns and any such successor or assignee shall be deemed substituted for Yahoo! under the terms of this Agreement for all purposes. As used herein, “successor” and “assignee” includes any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires Yahoo! or substantially all of its assets.

(c) Waiver. No delay or omission by you or Yahoo! in exercising any right under this Agreement shall operate as a waiver of that or any other rights. A waiver or consent given by you or Yahoo! on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion. No waiver shall be binding unless in writing, designated as a waiver, and signed by the party waiving the breach.

(d) Modification. This Agreement may not be amended or modified other than by a written agreement designated as an amendment and executed by you and Yahoo!.

(e) Savings Clause. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this

Agreement that can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

(f) Complete Agreement. This Agreement, the Indemnification Agreement for Officers and Directors, the Stock Option Agreement, the Key Executive New Hire Retention Agreement, the Proprietary Rights Agreement, the Domestic Relocation Program Overview, Employee Reimbursement Agreement, and the attached Promissory Note, (together referred to as the “Agreements”) constitute and contain the entire agreement and understanding concerning your employment with Yahoo! and the other subject matters addressed in the Agreements, and supersede and replace all prior negotiations and all agreements proposed or otherwise, whether written or oral, concerning the subject matters of the Agreements. Any representations, promises or agreements not specifically included in the Agreements shall not be binding or enforceable against either you or Yahoo!. This is an integrated document. As a condition of commencing your employment, you are required to execute the Agreements (other than the Indemnification Agreement for Officers and Directors, the Stock Option Agreement and the Domestic Relocation Program Overview), as well as a Yahoo! employment application, Proprietary Information Obligations Checklist, I-9 and other standard employment paperwork.

(g) Withholding. Yahoo! may withhold from any amounts payable to you under this Agreement such federal, state and local income, employment or other taxes that may be required to be withheld pursuant to any applicable law or regulation.

(h) Governing Law. This Agreement and the rights and obligations of you and Yahoo! under this Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflict of laws.

(i) Survivorship. The respective rights and obligations under Sections 4, 9, 10, 12, 14, 15 and 16 of you and Yahoo! shall survive any termination of your employment with Yahoo! to the extent necessary to the intended preservation of such rights and obligations.

(j) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

To accept this offer, please sign this Agreement in the space provided below and return it together with a signed Proprietary Rights Agreement, to me no later than 5:00 p.m. Pacific Time on April 25, 2002. (A second copy of each document has been provided for you to keep for your records.) This offer expires at 5:00 p.m. Pacific Time on April 25, 2002. In addition, in order for Yahoo! to comply with the Immigration and Reform Control Act, we ask that you provide appropriate verification of authorization to work in the United States on or before your first day of employment with Yahoo!.

We look forward to your joining us and hope that you find your employment with Yahoo! enjoyable and professionally rewarding.

Very truly yours,

/s/ Terry Semel

Terry Semel
Chairman and Chief Executive Officer

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

/s/ Daniel Rosensweig
Signature

4/23/02
Date

Planned Start Date:
(Contingent upon completion of a satisfactory background investigation.)

RECOURSE PROMISSORY NOTE

_____, New York

May 13, 2002

1. **MAKER'S PROMISE TO PAY. FOR VALUE RECEIVED, DANIEL ROSENSWEIG ("Maker")**, promises to pay to the order of **YAHOO! INC.**, a Delaware corporation ("**Holder**"), at 701 First Avenue, Sunnyvale, CA 94089 or at such other place as Holder may from time to time designate in writing to Maker, the sum of One Million Dollars (\$1,000,000) (the "**Principal Balance**"). The Principal Balance shall be due and payable on April 30, 2006 (the "**Maturity Date**").
2. **PAYMENT.** Any payments received by Holder pursuant to the terms hereof shall be applied to the Principal Balance due Holder pursuant to the terms hereof.
3. **ACCELERATION.** The cessation for any reason of Maker's employment by Holder shall be deemed to be an "**Event of Acceleration**" under this Note.
4. **SECURITY.** The Principal Balance shall be secured by a deed of trust or mortgage encumbering Maker's primary residence which shall be subordinate to any institutionally issued mortgage. This note, however, is full-recourse and any assets of the Maker may be used and shall be available to satisfy the Principal Balance.
5. **REMEDIES.** Upon the occurrence of an Event of Acceleration hereunder, Holder may, in its sole and absolute discretion and without demand or notice to Maker, (a) declare the entire Principal Balance immediately due and payable within 30 days, and (b) exercise any and all rights and powers and pursue any and all remedies now or hereafter available under applicable law. No delay or omission on the part of Holder in exercising any right or remedy under this Note shall operate as a waiver of such right or remedy.
6. **WAIVERS.** Maker hereby waives diligence, presentment, protest and demand, notice of protest, demand, dishonor and nonpayment of this Note, and notice of intention to accelerate the maturity of this Note, and expressly agrees that, without in any way affecting the liability of Maker hereunder, Holder may extend any date or time for payment hereunder, accept security or release any party liable hereunder and release any security now or hereafter securing this Note. Maker further waives, to the fullest extent permitted by law, the right to plead any and all statutes of limitations as a defense to demand on this Note, or on any deed of trust, security agreement, lease assignment, guaranty or other agreement now or hereafter securing this Note. Maker hereby waives all rights of setoff and counterclaim with respect to this Note, including rights of setoff and counterclaim with respect to this Note, which may arise from claims heretofore unknown to Maker.
7. **EMPLOYMENT.** This Note is issued pursuant to the employment contract between Maker and Holder as of April 23, 2002. Maker understands and agrees that this Note is not an employment contract, and nothing in this Note creates any right to Maker's continuous employment by Holder, or to Maker's employment for any particular term. Nothing in this Note

shall affect in any manner whatsoever the right or power of Holder under such employment agreement.
8. **NOTICES.** Any notice, request, demand, instruction or other communication to be given to any party hereunder shall be in writing and shall be deemed to have been duly given if personally delivered or sent by registered or certified mail, return receipt requested, as follows:

If to Maker:	_____

If to Holder:	Yahoo! Inc.
	701 First Avenue
	Sunnyvale, California 94089
	Attention: Chief Financial Officer
- The addressees for the purpose of this Note may be changed by giving written notice of such change in the manner provided for giving such notice. However, unless and until such written notice of change is actually received, the last address and addressees as stated by written notice, or provided herein if no notice of change has been received, shall be deemed to continue in effect for all purposes hereunder.
9. **ATTORNEYS' FEES.** If Holder seeks legal advice following a default by Maker hereunder or refers this Note to collection or to reclaim, protect, preserve or enforce this Note, then Maker shall pay all fees, expenses and any other costs associated with such default (including, without limitation, all attorneys' fees, expenses and costs).
10. **SEVERABILITY.** Every provision of this Note is intended to be severable. In the event any term or provision hereof is declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the balance of the terms and provisions, which shall remain binding and enforceable.
11. **NUMBER AND GENDER.** In this Note the singular shall include the plural and the masculine shall include the feminine and vice versa, if the context so requires.
12. **ASSIGNMENT.** This Note may be assigned, transferred, hypothecated or otherwise conveyed, in whole or in part, by Holder without the prior written consent of Maker. Maker may not assign, transfer, hypothecate or otherwise convey his or her rights, duties or obligations under this Note.

13. **CHOICE OF LAW.** This Note shall be governed and construed in accordance with the laws of the State of California.

MAKER

By: /s/ Daniel Rosensweig

Yahoo! Inc. Key Executive New Hire Retention Plan**Purpose**

The Yahoo! Inc. Key Executive New Hire Retention Plan (the “Plan”) is designed to encourage designated Plan Participants to remain employed with Yahoo!.

Eligible Employees

The Plan covers all employees of Yahoo! Inc. (“Yahoo!”) who are approved by the Company’s Chief Executive Officer to be Plan Participants. Plan Participants must have a written agreement with Yahoo! specifying the bonus amounts and Qualification Dates, as defined below.

Bonus Payments

Plan Participants will be eligible for retention bonuses upon completion of continuous service through dates specified in their individual agreements (“Qualification Dates”), normally anniversaries of their hire date. Bonus amounts shall be designated in the Plan Participants’ individual agreements.

Deferral

Plan Participants may be authorized in their individual agreements to defer any retention bonus payment upon written request. The maximum length of deferral, if any, shall be specified in the Plan Participant’s individual agreement; provided that the deferral shall be for a fixed period of years. Deferral of each bonus payment must be requested separately and specifically by written notice to the Yahoo! Senior Vice-President of Human Resources no later than 30 days after the employee signs the written agreement specifying bonus amounts and Qualification Dates. If the Plan Participant remains an Employee through the Qualification Date with respect to any deferred bonus payment, such deferred bonus payment shall be paid immediately upon the earlier of the end of the deferral period or the Plan Participant’s cessation of employment for any reason. If a Plan Participant elects deferral, Yahoo! will add to the retention bonus an interest payment commencing on the Qualification Date at the interest rate equal to the short-term Applicable Federal Rate with annual compounding as determined under section 1274(d) of the Internal Revenue Code of 1986, as amended (“AFR”) in place on the Qualification Date.

No Employment Guarantees

Approval to participate in the Plan is not an assurance of continued employment and does not undermine the at-will nature of any Plan Participant’s employment.

Daniel Rosensweig Key Executive New Hire Retention Agreement

Pursuant to the Yahoo! Inc. Key Executive New Hire Retention Plan, it is hereby agreed that:

1. If Daniel Rosensweig ("Rosensweig") remains continuously employed with Yahoo! for one year, he will be entitled to a retention bonus of in the amount of \$675,000, pursuant to the Yahoo! Inc. Key Executive New Hire Retention Program.
2. If Rosensweig remains continuously employed with Yahoo!, he will be entitled, on his second anniversary of employment with Yahoo!, to an additional retention bonus in the amount of \$525,000, also pursuant to the Yahoo! Inc. Key Executive New Hire Retention Program.
3. If Rosensweig remains continuously employed with Yahoo!, he will be entitled, on each of his third and fourth anniversaries of employment with Yahoo!, to an additional retention bonus on each of those anniversaries in the amount of \$150,000, also pursuant to the Yahoo! Inc. Key Executive New Hire Retention Program.
4. By written request to the Yahoo! Senior Vice-President of Human Resources no later than 30 days after Rosensweig signs this Agreement, Rosensweig may defer receipt of any particular retention bonus payment until his fourth anniversary of employment with Yahoo! or the cessation of his employment with Yahoo!, whichever comes first. If Rosensweig defers payment, Yahoo! will add to Rosensweig's retention bonus an interest payment at an interest rate equal to the short-term Applicable Federal Rate with annual compounding as determined under section 1274(d) of the Internal Revenue Code of 1986, as amended, ("AFR") at the time of the deferral election.
5. If, before his fourth anniversary of employment with Yahoo!, Yahoo! terminates Rosensweig without Cause or Rosensweig terminates his employment for Good Reason, as those terms are defined in Rosensweig's employment offer letter dated April 21, 2002, Rosensweig will be entitled, on Rosensweig's final date of employment, to the remaining retention bonus which would have been available to Rosensweig under this Agreement if Rosensweig had remained employed through his fourth anniversary of employment with Yahoo!.

SO AGREED.

DANIEL ROSENSWEIG

/s/ Daniel Rosensweig

YAHOO! INC.

/s/ Libby Sartain

By: Libby Sartain

Its: Senior Vice President, Human Resources