YAHOO INC
Form 10-Q
November 12, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number 000-28018

Yahoo! Inc.

(Exact name of Registrant as specified in its charter)

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

701 First Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

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

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

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

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

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

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

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

Class	**Outstanding at October 31, 2013**
Common Stock, $0.001 par value	1,014,442,318

Table of Contents

YAHOO! INC.

Table of Contents

Table of Contents

PART I FINANCIAL INFORMATION

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

YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2012	September 30, 2013
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,667,778	$ 842,428
Short-term marketable securities	1,516,175	987,870
Accounts receivable, net	1,008,448	844,118
Prepaid expenses and other current assets	460,312	891,807
Total current assets	5,652,713	3,566,223
Long-term marketable securities	1,838,425	1,384,638
Alibaba Group Preference Shares	816,261	
Property and equipment, net	1,685,845	1,536,362
Goodwill	3,826,749	4,704,859
Intangible assets, net	153,973	427,351
Other long-term assets	289,130	165,866
Investments in equity interests	2,840,157	3,120,450
Total assets	$ 17,103,253	$ 14,905,749
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 184,831	$ 123,042
Accrued expenses and other current liabilities	808,475	776,466
Deferred revenue	296,926	293,615
Total current liabilities	1,290,232	1,193,123
Long-term deferred revenue	407,560	295,970
Capital lease and other long-term liabilities	124,587	121,169
Deferred and other long-term tax liabilities, net	675,271	749,168
Total liabilities	2,497,650	2,359,430
Commitments and contingencies (Note 11)		
Yahoo! Inc. stockholders equity:		
Common stock, $0.001 par value; 5,000,000 shares authorized; 1,189,816 shares issued and 1,115,233 shares outstanding as of December 31, 2012 and 1,210,154 shares issued and 1,013,059 shares outstanding as of September 30, 2013	1,187	1,205
Additional paid-in capital	9,563,348	9,902,748
Treasury stock at cost, 74,583 shares as of December 31, 2012 and 197,095 shares as of September 30, 2013	(1,368,043)	(4,481,162)
Retained earnings	5,792,459	6,810,550
Accumulated other comprehensive income	571,249	260,770
Total Yahoo! Inc. stockholders equity	14,560,200	12,494,111

Noncontrolling interests	45,403	52,208
Total equity	14,605,603	12,546,319
Total liabilities and equity	$ 17,103,253	$ 14,905,749

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

Table of Contents

YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013
	(Unaudited, in thousands except per share amounts)			
Revenue	$ 1,201,732	$ 1,138,973	$ 3,640,759	$ 3,414,585
Operating expenses:				
Cost of revenue traffic acquisition costs	112,829	58,464	393,945	188,848
Cost of revenue other	282,081	271,763	814,513	821,032
Sales and marketing	269,272	282,562	827,450	819,319
Product development	217,301	267,444	645,407	723,272
General and administrative	135,249	151,304	395,637	419,764
Amortization of intangibles	8,084	15,253	27,893	30,702
Restructuring charges (reversals), net	24,727	(576)	159,536	(4,060)
Total operating expenses	1,049,543	1,046,214	3,264,381	2,998,877
Income from operations	152,189	92,759	376,378	415,708
Other income, net	4,607,656	5,370	4,630,109	46,048
Income before income taxes and earnings in equity interests	4,759,845	98,129	5,006,487	461,756
Provision for income taxes	(1,774,094)	(31,891)	(1,857,036)	(111,894)
Earnings in equity interests	175,265	232,756	527,499	675,034
Net income	3,161,016	298,994	3,676,950	1,024,896
Net income attributable to noncontrolling interests	(778)	(2,338)	(3,738)	(6,805)
Net income attributable to Yahoo! Inc.	$ 3,160,238	$ 296,656	$ 3,673,212	$ 1,018,091
Net income attributable to Yahoo! Inc. common stockholders per share basic	$ 2.66	$ 0.29	$ 3.05	$ 0.96
Net income attributable to Yahoo! Inc. common stockholders per share diluted	$ 2.64	$ 0.28	$ 3.02	$ 0.93
Shares used in per share calculation basic	1,186,046	1,024,289	1,205,050	1,065,949
Shares used in per share calculation diluted	1,195,085	1,041,698	1,214,430	1,081,495
Stock-based compensation expense by function:				
Cost of revenue other	$ 2,363	$ 2,608	$ 7,871	$ 9,215
Sales and marketing	$ 19,876	$ 29,175	$ 59,954	$ 68,995
Product development	$ 17,050	$ 28,702	$ 54,329	$ 57,502
General and administrative	$ 22,077	$ 20,241	$ 44,749	$ 57,755
Restructuring expense reversals	$	$	$ (3,429)	$

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

Table of Contents

YAHOO! INC.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013
	(Unaudited, in thousands)			
Net income	$ 3,161,016	$ 298,994	$ 3,676,950	$ 1,024,896
Available-for-sale securities:				
Unrealized gains (losses) on available-for-sale securities, net of taxes of $(246) and $(2,390) for the three months ended September 30, 2012 and 2013, respectively, and $(41) and $598 for the nine months ended September 30, 2012 and 2013, respectively	463	(2,072)	6,143	2,046
Reclassification adjustment for realized (gains) losses on available-for-sale securities included in net income, net of taxes of $57 and $187 for the three months ended September 30, 2012 and 2013, respectively, and $(5,298) and $390 for the nine months ended September 30, 2012 and 2013, respectively	(98)	(312)	9,260	(651)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	365	(2,384)	15,403	1,395
Foreign currency translation adjustments (CTA):				
Foreign CTA gains (losses), net of tax	28,009	(41,838)	(193,128)	(567,197)
Net investment hedge CTA gains (losses), net of tax		(15,165)		254,572
Net foreign CTA gains (losses), net of tax	28,009	(57,003)	(193,128)	(312,625)
Cash flow hedges:				
Unrealized gains (losses) on cash flow hedges, net of taxes of nil and $249 for the three months ended September 30, 2012 and 2013, respectively, and nil and $(114) for the nine months ended September 30, 2012 and 2013, respectively		856		867
Reclassification adjustment for realized (gains) losses on cash flow hedges, net of taxes of nil and $(65) for the three months ended September 30, 2012 and 2013, respectively, and nil and $69 for the nine months ended September 30, 2012 and 2013, respectively		(106)		(83)
Net change in unrealized gains (losses) on cash flow hedges, net of tax		750		784
Other comprehensive income (loss)	28,374	(58,637)	(177,725)	(310,446)
Comprehensive income	3,189,390	240,357	3,499,225	714,450
Less: comprehensive income attributable to noncontrolling interests	(778)	(2,338)	(3,738)	(6,805)
Comprehensive income attributable to Yahoo! Inc.	$ 3,188,612	$ 238,019	$ 3,495,487	$ 707,645

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

5

Table of Contents

YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,676,950	$ 1,024,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	401,022	412,646
Amortization of intangible assets	84,087	68,365
Stock-based compensation expense, net	163,474	193,467
Non-cash restructuring charges	40,462	547
Dividend income related to Alibaba Group Preference Shares		(35,726)
Dividends received from equity investees	83,648	135,058
Tax benefits (detriments) from stock-based awards	(9,471)	33,894
Excess tax benefits from stock-based awards	(30,751)	(47,193)
Deferred income taxes	(891,288)	(74,981)
Earnings in equity interests	(527,499)	(675,034)
Gain from sale of Alibaba Group Shares	(4,603,322)	
(Gain) loss from sales of investments, assets, and other, net	(18,308)	19,994
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	86,942	161,459
Prepaid expenses and other	41,059	(17,738)
Accounts payable	(22,457)	(54,343)
Accrued expenses and other liabilities	2,628,962	(183,706)
Deferred revenue	514,811	(114,085)
Net cash provided by operating activities	1,618,321	847,520
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(355,787)	(229,310)
Purchases of marketable securities	(1,838,860)	(2,247,302)
Proceeds from sales of marketable securities	684,979	2,642,548
Proceeds from maturities of marketable securities	250,653	557,565
Proceeds related to sale of Alibaba Group Shares, net	6,247,728	
Proceeds related to the redemption of Alibaba Group Preference Shares		800,000
Proceeds from the sale of investments	26,132	
Acquisitions, net of cash acquired		(1,187,229)
Purchases of intangible assets	(3,088)	(2,290)
Other investing activities, net	(9,421)	(11,045)
Net cash provided by investing activities	5,002,336	322,937
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	116,420	203,417
Repurchases of common stock	(716,379)	(3,113,118)
Excess tax benefits from stock-based awards	30,751	47,193
Tax withholdings related to net share settlements of restricted stock units	(48,097)	(106,177)
Proceeds from credit facility borrowings		150,000
Repayment of credit facility borrowings		(150,150)
Other financing activities	(3,519)	(5,713)

Net cash used in financing activities	(620,824)	(2,974,548)
Effect of exchange rate changes on cash and cash equivalents	(1,823)	(21,259)
Net change in cash and cash equivalents	5,998,010	(1,825,350)
Cash and cash equivalents at beginning of period	1,562,390	2,667,778
Cash and cash equivalents at end of period	$ 7,560,400	$ 842,428

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

Table of Contents

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries (Yahoo or the Company), is focused on making the world s daily habits inspiring and entertaining. By creating highly personalized experiences for its users, the Company keeps people connected to what matters most to them, across devices and around the world. The Company creates value for advertisers by connecting them with the audiences that build their businesses. Advertisers can build their businesses through advertising to targeted audiences on the Company s online properties and services (Yahoo Properties), or through a distribution network of third-party entities (Affiliates) who integrate the Company s advertising offerings into their Websites or other offerings (those Websites and other offerings, Affiliate sites).

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

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

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) in the United States (U.S.) requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, the useful lives of long-lived assets including property and equipment and intangible assets, investment fair values, stock-based compensation, goodwill, income taxes, contingencies, and restructuring charges. The Company bases its estimates of the carrying value of certain assets and liabilities on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, when these carrying values are not readily available from other sources. Actual results may differ from these estimates.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The condensed consolidated balance sheet as of December 31, 2012 was derived from the Company s audited financial statements for the year ended December 31, 2012, but does not include all disclosures required by U.S. GAAP. However, the Company believes the disclosures are adequate to make the information presented not misleading.

Note 2 INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

	December 31, 2012			
	Gross Amortized Costs	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Government and agency securities	$ 1,312,876	$ 985	$ (45)	$ 1,313,816
Corporate debt securities, commercial paper, and bank certificates of deposit	2,039,809	1,597	(622)	2,040,784
Corporate equity securities	230		(33)	197
Alibaba Group Preference Shares	816,261			816,261
Total investments in available-for-sale securities	$ 4,169,176	$ 2,582	$ (700)	$ 4,171,058

Table of Contents

	September 30, 2013			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$ 294,644	$ 110	$ (180)	$ 294,574
Corporate debt securities, commercial paper, and bank certificates of deposit	2,078,519	1,339	(1,924)	2,077,934
Corporate equity and other marketable securities	230	141		371
Total investments in available-for-sale securities	$ 2,373,393	$ 1,590	$ (2,104)	$ 2,372,879

	December 31, 2012	September 30, 2013
Reported as:		
Short-term marketable securities	$ 1,516,175	$ 987,870
Long-term marketable securities	1,838,425	1,384,638
Alibaba Group Preference Shares	816,261	
Other assets	197	371
Total	$ 4,171,058	$ 2,372,879

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were not material as of December 31, 2012 and September 30, 2013 as the carrying value approximates fair value because of the short maturity of those instruments. Realized gains and losses from sales of marketable securities were not material for the three and nine months ended September 30, 2012 and 2013.

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

	December 31, 2012	September 30, 2013
Due within one year	$ 1,516,175	$ 987,870
Due after one year through five years	1,838,425	1,384,638
Total available-for-sale marketable securities	$ 3,354,600	$ 2,372,508

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

	December 31, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$ 165,025	$ (45)	$	$	$ 165,025	$ (45)
Corporate debt securities, commercial paper, and bank certificates of deposit	729,046	(622)			729,046	(622)
Corporate equity securities	197	(33)			197	(33)
Total investments in available-for-sale securities	$ 894,268	$ (700)	$	$	$ 894,268	$ (700)

	September 30, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government and agency securities	$ 110,362	$ (180)	$	$	$ 110,362	$ (180)
Corporate debt securities, commercial paper, and bank certificates of deposit	948,913	(1,924)			948,913	(1,924)
Total investments in available-for-sale securities	$ 1,059,275	$ (2,104)	$	$	$ 1,059,275	$ (2,104)

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

The Company s investment in the Alibaba Group Preference Shares was presented as an asset carried at estimated fair value on the Company s condensed consolidated balance sheet as of December 31, 2012. As of December 31, 2012, the carrying value of the Alibaba Group Preference Shares approximated the fair value. As of December 31, 2012, the total fair value of the Alibaba Group Preferences Shares was $822 million, which included $6 million of accrued dividend income recorded within prepaid expenses and other current assets and $16 million of accrued dividend income recorded as part of the carrying value of the Alibaba Group Preference Shares. On May 16, 2013, Alibaba Group Holding Limited (Alibaba Group) exercised its right to redeem the Alibaba Group Preference Shares for $846 million in cash. The cash received represented the redemption value, which included the stated value of $800 million plus accrued dividends of $46 million.

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of December 31, 2012 (in thousands):

	Fair Value Measurements at Reporting Date Using			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds[1]	$ 685,707	$	$	$ 685,707
Available-for-sale securities:				
Government and agency securities[1]		2,464,227		2,464,227
Commercial paper and bank certificates of deposit[1]		892,769		892,769
Corporate debt securities[1]		1,298,123		1,298,123
Time deposits		84,555		84,555
Alibaba Group Preference Shares			816,261	816,261
Corporate equity securities[2]	197			197
Foreign currency derivative contracts[3]		5,007		5,007
Financial assets at fair value	$ 685,904	$ 4,744,681	$ 816,261	$ 6,246,846
Liabilities				
Foreign currency derivative contracts[3]		(6,662)		(6,662)
Total financial assets and liabilities at fair value	$ 685,904	$ 4,738,019	$ 816,261	$ 6,240,184

The following table sets forth the financial assets and liabilities, measured at fair value, by level within the fair value hierarchy as of September 30, 2013 (in thousands):

	Fair Value Measurements at Reporting Date Using		
Assets	**Level 1**	**Level 2**	**Total**
Money market funds[1]	$ 76,782	$	$ 76,782
Available-for-sale securities:			
Government and agency securities[1]		322,377	322,377
Commercial paper and bank certificates of deposit[1]		291,886	291,886
Corporate debt securities[1]		1,786,048	1,786,048
Time deposits		80,261	80,261
Corporate equity and other marketable securities[2]	371		371
Foreign currency derivative contracts[3]		418,044	418,044
Financial assets at fair value	$ 77,153	$ 2,898,616	$ 2,975,769
Liabilities			

Foreign currency derivative contracts[3]		(10,865)	(10,865)
Total financial assets and liabilities at fair value	$ 77,153	$ 2,887,751	$ 2,964,904

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

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

(3) Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the condensed consolidated balance sheets. The notional amounts of the foreign currency derivative contracts were $3.4 billion, including contracts designated as net investment hedges of $3 billion, as of December 31, 2012, and $2.9 billion, including contracts designated as net investment hedges of $2.5 billion, as of September 30, 2013.

Table of Contents

The amount of cash and cash equivalents as of December 31, 2012 and September 30, 2013 included $597 million and $658 million, respectively, of cash deposits.

The fair values of the Company s Level 1 financial assets and liabilities are based on quoted market prices of the identical underlying security. The fair values of the Company s Level 2 financial assets and liabilities are obtained using quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices, e.g., interest rates and yield curves. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of the investment portfolio. The Company classified its investment in the Alibaba Group Preference Shares within Level 3 because it was valued using significant unobservable inputs. To estimate the fair value as of December 31, 2012, the Company performed benchmarking by comparing the terms and conditions of the Alibaba Group Preference Shares to dividend rates, subordination terms, and credit ratings of those of similar type instruments. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

Activity between Levels of the Fair Value Hierarchy. During the year ended December 31, 2012, the Company did not make any transfers between Level 1, Level 2, or Level 3 assets or liabilities. During the nine months ended September 30, 2013, the Company did not make any transfers between Level 1 and Level 2 assets or liabilities.

Note 3 CONSOLIDATED FINANCIAL STATEMENT DETAILS

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows (in thousands):

	December 31, 2012	September 30, 2013
Unrealized gains on available-for-sale securities, net of tax	$ 9,121	$ 11,267
Foreign currency translation, net of tax	562,128	249,503
Accumulated other comprehensive income	$ 571,249	$ 260,770

Noncontrolling Interests

Noncontrolling interests were as follows (in thousands):

	December 31, 2012	September 30, 2013
Beginning noncontrolling interests	$ 40,280	$ 45,403
Net income attributable to noncontrolling interests	5,123	6,805
Ending noncontrolling interests	$ 45,403	$ 52,208

Other Income, Net

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Interest, dividend, and investment income	$ 6,402	$ 5,362	$ 15,682	$ 53,214

Gain related to sale of Alibaba Group Shares	4,603,322		4,603,322	
Other	(2,068)	8	11,105	(7,166)
Total other income, net	$ 4,607,656	$ 5,370	$ 4,630,109	$ 46,048

Interest, dividend and investment income consists of income earned from cash in bank accounts, investments made in marketable securities and money market funds, and dividend income on the Alibaba Group Preference Shares.

The Company recorded a pre-tax gain of approximately $4.6 billion in the three and nine months ended September 30, 2012 related to the sale of Alibaba Group ordinary shares. See Note 8 Investments in Equity Interests for additional information.

10

Table of Contents

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

Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications out of accumulated other comprehensive income for the three months ended September 30, 2013 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized gains on cash flow hedges, net of tax	$ (106)	Revenue
Realized gains on available-for-sale securities, net of tax	(312)	Other income, net
Total reclassifications for the period	$ (418)	

Reclassifications out of accumulated other comprehensive income for the nine months ended September 30, 2013 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized gains on cash flow hedges, net of tax	$ (83)	Revenue
Realized gains on available-for-sale securities, net of tax	(651)	Other income, net
Total reclassifications for the period	$ (734)	

Note 4 ACQUISITIONS

Transactions completed in 2013

Tumblr. On June 19, 2013, the Company completed the acquisition of Tumblr, Inc. (Tumblr), a blog-hosting website that allows users to post their own content as well as follow or re-blog posts made by other users. The acquisition of Tumblr brings a community of new users to the Yahoo network.

The purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired from Tumblr and, as a result, the Company recorded goodwill in connection with this transaction. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding vested options) in Tumblr. Tumblr stockholders and vested optionholders were paid in cash, outstanding Tumblr unvested options and restricted stock units were assumed and converted into equivalent awards covering Yahoo common stock and a portion of the Tumblr shares held by its founder were exchanged for Yahoo common stock.

The total purchase price of approximately $990 million consisted mainly of cash consideration. The preliminary allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

Cash and marketable securities acquired	$ 16,587
Other tangible assets acquired	73,780
Amortizable intangible assets:	
Developed technology	23,700
Customer contracts and related relationships	182,400
Trade name	56,500
Goodwill	751,114
Total assets acquired	1,104,081
Liabilities assumed	(113,870)
Total	$ 990,211

In connection with the acquisition, the Company is recognizing stock-based compensation expense of $70 million over a period of up to 4 years. This amount is comprised of assumed unvested stock options and restricted stock units (which had an aggregate fair value of $29 million at the acquisition date), and Yahoo common stock issued to Tumblr s founder (which had a fair value of $41 million at the acquisition date). The Yahoo common stock issued to Tumblr s founder is subject to holdback and will be released over four years provided he remains an employee of the Company. In addition, the transaction resulted in contingent cash consideration of $40 million to be paid to Tumblr s founder over 4 years also provided that Tumblr s founder remains an employee of the Company. Such cash payments are being recognized as compensation expense over the 4-year service period.

The amortizable intangible assets have useful lives not exceeding 6 years and a weighted average useful life of 6 years. No amounts have been allocated to in-process research and development and $751 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. This acquisition brings a community of new users to the Yahoo network by deploying Yahoo s personalization technology and search infrastructure to deliver relevant content to the Tumblr user base. Operating results from the date of acquisition were not significant to the Company s consolidated results of operations for the three and nine months ended September 30, 2013.

Other Acquisitions Business Combinations. During the nine months ended September 30, 2013, the Company acquired seventeen other companies, which were accounted for as business combinations. The total aggregate purchase price for these other acquisitions was $218 million. The total cash consideration of $218 million less cash acquired of $2 million resulted in a net cash outlay of $216 million. The preliminary allocation of the purchase price of the assets and liabilities assumed based on their estimated fair values was $77 million to amortizable intangible assets, $2 million to cash acquired, $23 million to other tangible assets, $32 million to assumed liabilities, and the remainder of $148 million to goodwill.

The Company s business combinations completed during the nine months ended September 30, 2013 did not have a material impact on the Company s condensed consolidated financial statements, and therefore pro forma disclosures have not been presented.

Transactions completed in 2012

The Company did not make any acquisitions during the nine months ended September 30, 2012.

Note 5 GOODWILL

The Company s goodwill balance was $3.8 billion as of December 31, 2012, of which $2.9 billion was recorded in the Americas segment, $0.6 billion in the EMEA (Europe, Middle East and Africa) segment, and $0.3 billion in the Asia Pacific segment. As of September 30, 2013, the Company s goodwill balance was $4.7 billion, of which $3.8 billion was recorded in the Americas segment, $0.6 billion in the EMEA segment, and $0.3 billion in the Asia Pacific segment. Goodwill related to the Tumblr acquisition, which was completed during June 2013, is included as part of the Americas segment. The increase in the carrying amount of goodwill of $878 million reflected on the Company s condensed consolidated balance sheets during the nine months ended September 30, 2013 was primarily due to additions to goodwill of $899 million related to acquisitions made during the nine months ended September 30, 2013 offset by net foreign currency translation losses of $21 million.

Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2012	September 30, 2013		
	Net	Gross Carrying Amount	Accumulated Amortization(*)	Net
Customer, affiliate, and advertiser related relationships	$ 62,393	$ 298,212	$ (80,605)	$ 217,607
Developed technology and patents	71,634	269,920	(133,593)	136,327
Trade names, trademarks, and domain names	19,946	107,382	(33,965)	73,417
Total intangible assets, net	$ 153,973	$ 675,514	$ (248,163)	$ 427,351

(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities increased total intangible assets by approximately $18 million as of September 30, 2013.

For the three months ended September 30, 2012 and 2013, the Company recognized amortization expense for intangible assets of $24 million and $31 million, respectively, including $16 million in cost of revenue other for both the three months ended September 30, 2012 and 2013. For the nine months ended September 30, 2012 and 2013, the Company recognized amortization expense for intangible assets of $84 million and $68 million, respectively, including $56 million and $38 million in cost of revenue other for the nine months ended September 30, 2012 and 2013, respectively. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for the remainder of 2013 and each of the succeeding years is as follows: three months ending December 31, 2013: $27 million; 2014: $101 million; 2015: $80 million; 2016: $55 million; and thereafter $148 million.

Table of Contents

Note 7 BASIC AND DILUTED NET INCOME ATTRIBUTABLE TO YAHOO! INC. COMMON STOCKHOLDERS PER SHARE

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

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

Potentially dilutive securities representing approximately 37 million and 44 million shares of common stock for the three and nine months ended September 30, 2012, respectively, and 4 million and 12 million shares of common stock for the three and nine months ended September 30, 2013, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Basic:				
Numerator:				
Net income attributable to Yahoo! Inc.	$ 3,160,238	$ 296,656	$ 3,673,212	$ 1,018,091
Less: Net income allocated to participating securities	(35)	(6)	(47)	(24)
Net income attributable to Yahoo! Inc. common stockholders basic	$ 3,160,203	$ 296,650	$ 3,673,165	$ 1,018,067
Denominator:				
Weighted average common shares	1,186,046	1,024,289	1,205,050	1,065,949
Net income attributable to Yahoo! Inc. common stockholders per share basic	$ 2.66	$ 0.29	$ 3.05	$ 0.96
Diluted:				
Numerator:				
Net income attributable to Yahoo! Inc.	$ 3,160,238	$ 296,656	$ 3,673,212	$ 1,018,091
Less: Net income allocated to participating securities	(34)	(6)	(46)	(24)
Less: Effect of dilutive securities issued by equity investees	(1,334)	(5,040)	(3,846)	(10,778)
Net income attributable to Yahoo! Inc. common stockholders diluted	$ 3,158,870	$ 291,610	$ 3,669,320	$ 1,007,289
Denominator:				
Denominator for basic calculation	1,186,046	1,024,289	1,205,050	1,065,949
Weighted average effect of Yahoo! Inc. dilutive securities:				
Restricted stock and restricted stock units	7,587	12,689	7,776	12,085
Stock options and employee stock purchase plan	1,452	4,720	1,604	3,461
Denominator for diluted calculation	1,195,085	1,041,698	1,214,430	1,081,495
	$ 2.64	$ 0.28	$ 3.02	$ 0.93

Net income attributable to Yahoo! Inc. common stockholders per share diluted

Table of Contents

Note 8 INVESTMENTS IN EQUITY INTERESTS

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

	December 31, 2012	Percent Ownership	September 30, 2013	Percent Ownership
Alibaba Group	$ 276,389	24%	$ 807,736	24%
Yahoo Japan	2,555,717	35%	2,300,854	35%
Other	8,051	24%	11,860	20%
Total	$ 2,840,157		$ 3,120,450	

Equity Investment in Alibaba Group. The investment in Alibaba Group is being accounted for using the equity method, and the total investment, including net tangible assets, identifiable intangible assets, and goodwill, is classified as part of the investments in equity interests balance on the Company s condensed consolidated balance sheets. The Company s accounting policy is to record its share of the results of Alibaba Group, and any related amortization expense and related tax impact, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income. As of September 30, 2013, the excess of carrying value of the Company s investment in Alibaba Group and the Company s proportionate share of the net assets of Alibaba Group is largely attributable to goodwill.

Initial Repurchase by Alibaba Group. On September 18, 2012 (the Repurchase Closing Date), Alibaba Group repurchased 523 million of the 1,047 million ordinary shares of Alibaba Group (the Shares) owned by the Company (the Initial Repurchase). The Initial Repurchase was made pursuant to the terms of the Share Repurchase and Preference Share Sale Agreement entered into by Yahoo! Inc., Alibaba Group and Yahoo! Hong Kong Holdings Limited, a Hong Kong corporation and wholly-owned subsidiary of Yahoo! Inc. (YHK), on May 20, 2012 (as amended on September 11, 2012 and October 14, 2013, the Repurchase Agreement). Yahoo received $13.54 per Share, or approximately $7.1 billion in total consideration, for 523 million Shares sold to Alibaba Group. Approximately $6.3 billion of the consideration was received in cash and $800 million was received in Alibaba Group Preference Shares, which Alibaba Group redeemed on May 16, 2013. The Initial Repurchase resulted in a pre-tax gain of approximately $4.6 billion for the year ended December 31, 2012.

The Alibaba Group Preference Shares yielded semi-annual dividends at a rate per annum of up to 10 percent, with at least 3 percent payable in cash and the remainder accruing and increasing the liquidation preference. The Alibaba Group Preference Shares were callable by Alibaba Group at the redemption value (including accrued dividends). On May 16, 2013, the Company received $846 million in cash from Alibaba Group to redeem the Alibaba Group Preference Shares. The cash received represented the redemption value, which included the stated value of $800 million plus accrued dividends of $46 million.

The Repurchase Agreement provided that at the time Alibaba Group completes an initial public offering meeting certain specified criteria (a Qualified IPO), Yahoo and YHK would sell, at Alibaba Group s election (either directly to Alibaba Group or in the Qualified IPO), up to 261.5 million of their remaining Shares. This amount was subsequently reduced to 208.0 million by an amendment to the Repurchase Agreement dated as of October 14, 2013. If Shares are sold back to Alibaba Group in the Qualified IPO, the purchase price per Share will be equal to the per share price in the Qualified IPO less specified fees and underwriter discounts. See Note 17 Subsequent Events for additional information.

On the Repurchase Closing Date, the Company and Alibaba Group entered into an amendment of their existing Technology and Intellectual Property License Agreement (the TIPLA) pursuant to which Alibaba Group made an initial payment to the Company of $550 million in satisfaction of certain future royalty payments under the existing TIPLA. The Company will recognize this revenue over the remaining four-year term of the TIPLA. For the three months ended September 30, 2012, the Company recognized approximately $5 million in revenue related to the initial payment. For the three and nine months ended September 30, 2013, the Company recognized approximately $34 million and $103 million, respectively, in revenue related to the initial payment. Alibaba Group will continue making royalty payments until the earlier of the fourth anniversary of the effective date of the amendment and a Qualified IPO. The Company recognized revenue relating to the continuing royalty payments under the TIPLA of approximately $19 million and $27 million for the three months ended September 30, 2012 and 2013, respectively, and approximately $51 million and $83 million for the nine months ended September 30, 2012 and 2013, respectively.

Table of Contents

The following table presents Alibaba Group s U.S. GAAP financial information, as derived from the Alibaba Group financial statements (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2013	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2013
Operating data:				
Revenue	$ 1,077,045	$ 1,737,180	$ 2,905,752	$ 4,959,274
Gross profit	$ 739,914	$ 1,287,807	$ 1,967,290	$ 3,653,739
Income from operations	$ 371,854	$ 855,791	$ 861,775	$ 2,317,273
Net income	$ 292,928	$ 716,991	$ 781,701	$ 2,046,505
Net income attributable to Alibaba Group	$ 273,043	$ 706,708	$ 730,438	$ 2,017,557

	September 30, 2012	June 30, 2013
Balance sheet data:		
Current assets	$ 4,062,823	$ 6,841,126
Long-term assets	$ 3,204,144	$ 5,284,556
Current liabilities	$ 2,624,656	$ 4,078,438
Long-term liabilities	$ 4,705,347	$ 5,269,175
Convertible preferred shares	$ 1,317,526	$ 1,695,269
Noncontrolling interests	$ 65,907	$ 87,613

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

The Company makes adjustments to the earnings in equity interests line in the condensed consolidated statements of income for any differences between U.S. GAAP and accounting principles generally accepted in Japan (Japanese GAAP), the standards by which Yahoo Japan s financial statements are prepared.

The fair value of the Company s ownership interest in the common stock of Yahoo Japan, based on the quoted stock price, was approximately $11.4 billion as of September 30, 2013.

During the nine months ended September 30, 2012 and 2013, the Company received cash dividends from Yahoo Japan in the amount of $84 million and $77 million, net of withholding taxes, respectively, which were recorded as reductions to the Company s investment in Yahoo Japan.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2013	Nine Months Ended June 30, 2012	Nine Months Ended June 30, 2013
		(in thousands)		
Operating data:				
Revenue	$ 1,036,650	$ 992,340	$ 3,175,951	$ 3,270,983
Gross profit	$ 877,116	$ 818,441	$ 2,693,956	$ 2,733,506

Income from operations	$ 512,994	$ 489,890	$ 1,640,935	$ 1,655,870
Net income	$ 315,949	$ 364,612	$ 966,646	$ 1,056,323
Net income attributable to Yahoo Japan	$ 314,726	$ 362,180	$ 962,818	$ 1,048,893

Table of Contents

	September 30, 2012	June 30, 2013
	(In thousands)	
Balance sheet data:		
Current assets	$ 5,752,826	$ 5,799,398
Long-term assets	$ 1,837,829	$ 1,729,000
Current liabilities	$ 1,167,772	$ 1,758,926
Long-term liabilities	$ 49,461	$ 57,251
Noncontrolling interests	$ 31,034	$ 58,247

Under technology and trademark license and other commercial arrangements with Yahoo Japan, the Company records revenue from Yahoo Japan based on a percentage of advertising revenue earned by Yahoo Japan. The Company recorded revenue from Yahoo Japan of approximately $75 million and $65 million for the three months ended September 30, 2012 and 2013, respectively, and approximately $211 million and $199 million for the nine months ended September 30, 2012 and 2013, respectively. As of December 31, 2012 and September 30, 2013, the Company had net receivable balances from Yahoo Japan of approximately $43 million and $42 million, respectively.

Note 9 DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, primarily forward contracts, to mitigate risk associated with adverse movements in foreign currency exchange rates.

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. The Company presents its derivative assets and liabilities at their gross fair values on the condensed consolidated balance sheets. The Company is not required to pledge, and is not entitled to receive, cash collateral related to these derivative transactions.

Net Investment Hedges. In December 2012, the Company began hedging, on an after-tax basis, its net investment in Yahoo Japan with forward contracts to reduce the risk that its investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. At inception, the forward contracts had maturities ranging from 9 to 15 months. The Company applies hedge accounting on its forward contracts for the net investment hedge of Yahoo Japan. The total balance of the after-tax net investment hedge was less than the Yahoo Japan investment balance as of both December 31, 2012 and September 30, 2013. As such, the net investment hedge was considered to be effective, and, as a result, the changes in the fair value were recorded within accumulated other comprehensive income on the Company s condensed consolidated balance sheets. The Company recognizes net investment derivative instruments as either an asset or a liability on the Company s condensed consolidated balance sheets at fair value. The notional amounts of the foreign currency forward contracts were $3 billion and $2.5 billion as of December 31, 2012 and September 30, 2013, respectively. See Note 17 Subsequent Events for additional information. The fair value of the foreign currency forward contract assets was $3 million as of December 31, 2012, and was included in prepaid expenses and other current assets on the Company s condensed consolidated balance sheets. The fair values of the foreign currency forward contracts were a $416 million asset and a $4 million liability as of September 30, 2013, and were included in prepaid expenses and other current assets and accrued expenses and other current liabilities, respectively, on the Company s condensed consolidated balance sheets. Pre-tax net gains of $3 million and $412 million were recorded as of December 31, 2012 and September 30, 2013, respectively, and were included in accumulated other comprehensive income on the Company s condensed consolidated balance sheets.

Cash Flow Hedges. In May 2013, the Company began hedging a portion of its forecasted revenue from Yahoo Japan with forward contracts to reduce the risk that its expected future cash flows from Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. The Company entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through January 31, 2014. For derivatives designated as cash flow hedges, the effective portion of the unrealized gains or losses on these forward contracts is recorded in accumulated other comprehensive income on the Company s condensed consolidated balance sheets and reclassified into revenue on the condensed consolidated statements of income when the underlying hedged revenue is recognized. If the cash flow hedges were to become ineffective, the ineffective portion would be immediately recorded in other income, net on the Company s condensed consolidated statements of income. The cash flow hedges were considered to be effective as of September 30, 2013. The total notional amount of the foreign currency forward contracts was $82 million as of September 30, 2013. The fair value of the foreign currency forward contracts was a less than $1 million net asset as of September 30, 2013; the contracts fair value was included in prepaid expenses and other current assets and accrued expenses and other current liabilities on the Company s condensed consolidated balance sheets. A pre-tax net gain of less than $1 million was recorded as of September 30, 2013, which was included in accumulated other comprehensive income on the Company s condensed consolidated balance sheets. For both the three and nine months ended September 30, 2013, the Company recorded gains of less than $1 million, net of tax, for cash flow hedges, which were recorded in revenue in the condensed consolidated statements of income. The Company expects all of the forward contracts designated as cash flow hedges to be reclassified to revenue within fiscal year 2013, as it expects to recognize the hedged anticipated revenue related to these contracts by December 31, 2013.

16

Table of Contents

Balance Sheet Hedges. The Company hedges its net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that its earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities, including intercompany transactions, which are denominated in foreign currencies. The Company recognizes balance sheet derivative instruments as either assets or liabilities on the Company s condensed consolidated balance sheets at fair value. Changes in the fair value of these derivatives are recorded in other income, net on the Company s condensed consolidated statements of income. The notional amounts of the foreign currency forward contracts were $356 million and $398 million as of December 31, 2012 and September 30, 2013, respectively. As of December 31, 2012, the fair value of the foreign currency forward contracts was a $5 million liability which was included in accrued expenses and other current liabilities on the Company s condensed consolidated balance sheet. As of September 30, 2013, the fair value of the foreign currency forward contracts was a $6 million net liability; the contracts fair value was included in prepaid expenses and other current assets and accrued expenses and other current liabilities on the Company s condensed consolidated balance sheets. Gains of $13 million and losses of $11 million were recorded for the three months ended September 30, 2012 and 2013, respectively, and were included in other income, net on the Company s condensed consolidated statements of income. Gains of $8 million and losses of $7 million were recorded for the nine months ended September 30, 2012 and 2013, respectively, and were included in other income, net on the Company s condensed consolidated statements of income. The Company paid $6 million in cash for settlement of certain foreign currency forward contracts during the nine months ended September 30, 2013.

Foreign currency forward contracts activity for the nine months ended September 30, 2013 was as follows (in millions):

	Beginning fair value	Settlement	Gain (loss) recorded in other income, net	Gain (loss) recorded in other comprehensive income	Gain (loss) recorded in revenue	Ending fair value
Derivatives designated as hedging instruments:						
Net investment hedges	$ 3		$	$ 409[1]	$	$ 412
Cash flow hedges				1[2]		1
Derivatives not designated as hedging instruments:						
Balance sheet hedges	(5)	6	(7)			(6)

(1) This amount does not reflect the tax impact of $154 million recorded during the nine months ended September 30, 2013. The $255 million after tax impact of the gain recorded under other comprehensive income was included in accumulated other comprehensive income on the Company s condensed consolidated balance sheets.

(2) This amount does not reflect the tax impact of less than $1 million recorded during the nine months ended September 30, 2013. The less than $1 million after tax impact of the gain was included in accumulated other comprehensive income on the Company s condensed consolidated balance sheets.

Note 10 CREDIT AGREEMENT

On October 19, 2012, the Company entered into a credit agreement (the Credit Agreement) with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time. The Credit Agreement provides for a $750 million unsecured revolving credit facility for a term maturing October 18, 2013 and subject to an extension for additional 364-day periods in accordance with the terms and conditions of the Credit Agreement. The Company may elect to increase the revolving credit facility by up to $250 million if existing or new lenders provide additional revolving commitments in accordance with the terms of the Credit Agreement. The proceeds from borrowings under the Credit Agreement, if any, are expected to be used for general corporate purposes. Borrowings under the Credit Agreement will bear interest at a rate equal to, at the Company s option, either (a) a customary London interbank offered rate (a Eurodollar Rate), or (b) a customary base rate (a Base Rate), in each case plus an applicable margin. During the three and nine months ended September 30, 2013, the applicable margin for borrowings under the Credit Agreement was based upon the leverage ratio of the Company and ranged from 1.25 percent to 1.50 percent with respect to Eurodollar Rate borrowings and 0.25 percent to 0.50 percent with respect to Base Rate borrowings. See Note 17 Subsequent Events for additional information.

During the three months ended September 30, 2013, the Company borrowed $150 million under the Credit Agreement and subsequently repaid the amount within the same period. As of September 30, 2013, the Company was in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding.

Note 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company leases office space and data centers under operating and capital lease agreements with original lease periods of up to 12 years which expire between 2013 and 2025.

Table of Contents

In May 2013, the Company entered into a 12 year operating lease agreement for four floors of the former New York Times building in New York City with a total expected minimum lease commitment of $125 million. The Company has the option to renew the lease for an additional five years. The lease requires monthly payments of approximately $1 million starting in July 2015 through June 2025.

A summary of gross and net lease commitments as of September 30, 2013 was as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Three months ending December 31, 2013	$ 39	$ (3)	$ 36
Years ending December 31,			
2014	132	(11)	121
2015	108	(7)	101
2016	72	(1)	71
2017	53		53
2018	36		36
Due after 5 years	108		108
Total gross and net lease commitments	$ 548	$ (22)	$ 526

	Capital Lease Commitment
Three months ending December 31, 2013	$ 4
Years ending December 31,	
2014	15
2015	12
2016	9
2017	9
2018	9
Due after 5 years	4
Gross lease commitment	$ 62
Less: interest	(16)
Net lease commitment included in capital lease and other long-term liabilities	$ 46

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs (TAC), to its Affiliates. As of September 30, 2013, these commitments totaled $33 million, of which $22 million will be payable in the remainder of 2013, $9 million will be payable in 2014, $1 million will be payable in 2015, and $1 million will be payable in 2016.

Intellectual Property Rights. The Company is committed to make certain payments under various intellectual property arrangements of up to $29 million through 2023.

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

As of September 30, 2013, the Company did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Accordingly, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

Table of Contents

See Note 16 Search Agreement with Microsoft Corporation for a description of the Company s Search and Advertising Services and Sales Agreement (the Search Agreement) and License Agreement with Microsoft Corporation (Microsoft).

Legal Contingencies

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

Stockholder and Securities Matters. On June 14, 2007, a stockholder derivative action was filed in the United States District Court for the Central District of California by Jill Watkins against members of the board of directors (Board) and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in a former class action relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a stockholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment. On October 23, 2013, the California Court of Appeal affirmed the Superior Court s judgment in favor of all defendants following dismissal of plaintiff s third amended complaint without leave to amend.

Since May 31, 2011, several related stockholder derivative suits were filed in the Santa Clara County Superior Court (California Derivative Litigation) and the United States District Court for the Northern District of California (Federal Derivative Litigation) purportedly on behalf of the Company against certain officers and directors of the Company and third parties. The California Derivative Litigation was filed by plaintiffs Cinotto, Lassoff, Zucker, and Koo, and consolidated under the caption *In re Yahoo! Inc. Derivative Shareholder Litigation* on June 24, 2011 and September 12, 2011. The Federal Derivative Litigation was filed by plaintiffs Salzman, Tawila, and Iron Workers Mid-South Pension Fund and consolidated under the caption *In re Yahoo! Inc. Shareholder Derivative Litigation* on October 3, 2011. The plaintiffs allege breaches of fiduciary duties, corporate waste, mismanagement, abuse of control, unjust enrichment, misappropriation of corporate assets, or contribution and seek damages, equitable relief, disgorgement and corporate governance changes in connection with Alibaba Group s restructuring of its subsidiary Alipay.com Co., Ltd. (Alipay) and related disclosures. On June 7, 2012, the courts approved stipulations staying the California Derivative Litigation pending resolution of the Federal Derivative Litigation, and deferring the Federal Derivative Litigation pending a ruling on the motion to dismiss filed by the defendants in the related stockholder class actions, which are discussed below. On September 13, 2013, the Company filed a motion to extend that stay pending resolution of the appeal filed by the plaintiffs in the related stockholder class actions.

Since June 6, 2011, two purported stockholder class actions were filed in the United States District Court for the Northern District of California against the Company and certain officers and directors of the Company by plaintiffs Bonato and the Twin Cities Pipe Trades Pension Trust. In October 2011, the District Court consolidated the two actions under the caption *In re Yahoo! Inc. Securities Litigation* and appointed the Pension Trust Fund for Operating Engineers as lead plaintiff. In a consolidated amended complaint filed December 15, 2011, the lead plaintiff purports to represent a class of investors who purchased the Company s common stock between April 19, 2011 and July 29, 2011, and alleges that during that class period, defendants issued statements that were materially false or misleading because they did not disclose information relating to Alibaba Group s restructuring of Alipay. The complaint purports to assert claims for relief for violation of Section 10(b) and 20(a) of the Exchange Act and for violation of Rule 10b-5 thereunder, and seeks unspecified damages, injunctive and equitable relief, fees, and costs. On August 10, 2012, the court granted defendants motion to dismiss the consolidated amended complaint. Plaintiffs have appealed.

On July 30, 2013, a stockholder derivative action captioned *Zucker v. Loeb, et al.* was filed in the Supreme Court of New York for the County of New York against current and former members of the Board, Third Point LLC, and entities related to Third Point LLC. The complaint filed by the plaintiff asserts claims for alleged breach of fiduciary duty, waste, and unjust enrichment in connection with the Company s repurchase of 40 million shares of Company stock beneficially owned by Third Point LLC. The complaint seeks a judgment declaring that the defendants breached their fiduciary duties, an award of restitution, and corporate governance changes.

Mexico Matter. On November 16, 2011, plaintiffs Worldwide Directories, S.A. de C.V. (WWD), and Ideas Interactivas, S.A. de C.V. (Ideas) filed an action in the 49th Civil Court of Mexico against the Company, Yahoo! de Mexico, S.A. de C.V. (Yahoo!

19

Table of Contents

Mexico), Yahoo International Subsidiary Holdings, Inc., and Yahoo Hispanic Americas LLC. The complaint alleged claims of breach of contract, breach of promise, and lost profits in connection with various commercial contracts entered into among the parties between 2002 and 2004, relating to a business listings service, and alleged total damages of approximately $2.75 billion. On December 7, 2011, Yahoo! Mexico filed a counterclaim against WWD for payments of approximately $2.6 million owed to Yahoo! Mexico for services rendered. On April 10, 2012, plaintiffs withdrew their claim filed against Yahoo International Subsidiary Holdings, Inc. and Yahoo Hispanic Americas LLC.

On November 28, 2012, the 49th Civil Court of Mexico entered a non-final judgment against the Company and Yahoo! Mexico in the amount of USD $2.75 billion and a non-final judgment in favor of Yahoo! Mexico on its counterclaim against WWD in the amount of $2.6 million. The judgment against the Company and Yahoo! Mexico purported to leave open for determination in future proceedings certain other alleged damages that were not quantified in the judgment. The judgment was issued by a law clerk to the trial court judge who presided over the entire case during the trial court proceedings but stepped down from his position shortly before the judgment was entered.

On December 12, 2012 and December 13, 2012, respectively, Yahoo! Mexico and the Company appealed the judgment to a three-magistrate panel of the Superior Court of Justice for the Federal District (the Superior Court). On May 15, 2013, the Superior Court reversed the judgment, overturned all monetary awards against the Company and reduced the monetary award against Yahoo! Mexico to $172,500. The Superior Court affirmed the award of $2.6 million in favor of Yahoo! Mexico on its counterclaim.

Plaintiffs have appealed the Superior Court s decision to the Mexican Federal Civil Collegiate Court for the First Circuit (Civil Collegiate Court). The Company has appealed the Superior Court s decision not to award it statutory costs in the underlying proceeding. Yahoo! Mexico has appealed the Superior Court s award of $172,500, the Superior Court s decision not to award it additional moneys beyond the $2.6 million award on its counterclaims, and the Superior Court s decision not to award it statutory costs. These appeals are all pending before the Civil Collegiate Court, where review is limited to whether the Superior Court s decision is unconstitutional, unlawful, or both.

The Company believes the plaintiffs claims are without legal or factual merit. First, the plaintiffs claims are based on agreements that were either terminated by agreement with releases or had expired or terminated in accordance with their terms, a non-binding letter of intent pursuant to which no definitive agreements were ever entered into by the parties, and correspondence that did not constitute agreements. Second, the loss of profits of the type claimed by plaintiffs are not awardable under Mexico law because they were not a direct and immediate consequence of a breach of contract. Of the $2.75 billion in total damages alleged by plaintiffs, more than $2.4 billion were for loss of profits. Third, the plaintiffs alleged damages and loss of profits were further precluded by the agreements at issue through, among other things, contractual and legal limitations of liability. Fourth, the plaintiffs pleadings in the complaint, as well as documentary evidence filed by the plaintiffs in support of their allegations, were generally deficient to support or establish plaintiffs claims. Fifth, the decision failed to consider substantially all of the defenses asserted by the Company and Yahoo! Mexico. Finally, the Company believes that the law clerk who entered the judgment lacked the requisite authority to issue the judgment.

The Company has not recorded an accrual for the judgment, which was reversed, as explained above. The Company cannot assure the ultimate outcome of the pending or further appeals.

The Company has determined, based on current knowledge, that the amount or range of reasonably possible losses, including reasonably possible losses in excess of amounts already accrued, is not reasonably estimable with respect to certain matters described above. The Company has also determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to the Company s legal proceedings, including the matters described above other than the Mexico matter, would not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. Amounts accrued as of December 31, 2012 and September 30, 2013 were not material. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties, and cannot be predicted with certainty. In the event of a determination adverse to Yahoo, its subsidiaries, directors, or officers in these matters, the Company may incur substantial monetary liability, and be required to change its business practices. Either of these events could have a material adverse effect on the Company s financial position, results of operations, or cash flows. The Company may also incur substantial legal fees, which are expensed as incurred, in defending against these claims.

Note 12 STOCKHOLDERS EQUITY AND EMPLOYEE BENEFITS

Employee Stock Purchase Plan. As of September 30, 2013, there was $5 million of unamortized stock-based compensation expense related to the Company s Employee Stock Purchase Plan, which will be recognized over a weighted average period of 0.6 years.

Table of Contents

Stock Options. The Company s 1995 Stock Plan, the Directors Plan, stock-based awards assumed through acquisitions, and the Tumblr equity holdback are collectively referred to as the Plans. Stock option activity under the Company s Plans for the nine months ended September 30, 2013 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2012	38,092	$ 21.42
Options granted	42	$ 26.93
Options assumed	1,121	$ 7.39
Options exercised	(8,169)	$ 17.66
Options expired	(3,250)	$ 29.73
Options cancelled/forfeited	(1,013)	$ 15.20
Outstanding at September 30, 2013	26,823	$ 21.24

As of September 30, 2013, there was $22 million of unamortized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.5 years.

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

	Stock Options Three Months Ended		Purchase Plan (1) Three Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate(2)	0.6%	0.8%	0.8%	0.1%
Expected volatility	31.2%	34.8%	31.2%	32.0%
Expected life (in years)(2)	4.00	3.17	1.86	0.25

	Stock Options Nine Months Ended		Purchase Plan (1) Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate(2)	0.7%	0.6%	1.1%	0.1%
Expected volatility	31.9%	32.4%	33.1%	30.3%
Expected life (in years)(2)	4.03	3.47	1.46	0.25

(1) Assumptions for the Employee Stock Purchase Plan relate to the annual average of the enrollment periods. During the year ended December 31, 2012, enrollment was permitted in May and November of each year. Beginning in 2013, enrollment is permitted in February, May, August, and November of each year.

(2) Beginning in November 2012, the Employee Stock Purchase Plan was modified to consist of three-month offering periods.

Restricted Stock and Restricted Stock Units. Restricted stock and restricted stock unit activity under the Plans for the nine months ended September 30, 2013 is summarized as follows (in thousands, except per share amounts):

	Shares	Weighted Average Grant Date Fair Value Per Share

Awarded and unvested at December 31, 2012(*)	33,801	$	17.63
Granted(*)	28,140	$	23.34
Assumed	2,364	$	26.24
Vested	(11,759)	$	15.05
Forfeited	(5,805)	$	17.33
Awarded and unvested at September 30, 2013(*)	46,741	$	22.19

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

As of September 30, 2013, there was $542 million of unamortized stock-based compensation expense related to unvested restricted stock and restricted stock units, which is expected to be recognized over a weighted average period of 2.4 years.

During the nine months ended September 30, 2012 and 2013, 8.8 million shares and 11.8 million shares, respectively, that were subject to previously granted restricted stock units vested. These vested restricted stock units were net share settled. During the nine months ended September 30, 2012 and 2013, the Company withheld 3.2 million shares and 4.3 million shares, respectively, based upon the Company s closing stock price on the vesting date to settle the employees minimum statutory obligation for the applicable income and other employment taxes. The Company then remitted cash to the appropriate taxing authorities.

Total payments for the employees tax obligations to the relevant taxing authorities were $48 million and $106 million, respectively, for the nine months ended September 30, 2012 and 2013 and are reflected as a financing activity within the condensed consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

Performance-Based Executive Incentive Equity Awards. The financial performance stock options awarded by the Company in November 2012 include multiple performance periods. In January 2013, the Compensation and Leadership Development Committee of the Board (the Compensation Committee) established performance goals under these stock options for the first performance period (the six months ended June 30, 2013) and the second performance period (the full year ending December 31, 2013). These options are held by Ms. Mayer, Mr. de Castro and Mr. Goldman (the first performance period for Mr. Goldman is the full year ending December 31, 2013). The number of stock options that ultimately vest for each performance period will range from 0 percent to 100 percent of the target amount for such period stated in each executive s award agreement based on the Company s performance. The financial performance metrics (and their weightings) under the performance options are revenue ex-TAC (50 percent), operating income (30 percent) and free cash flow (20 percent). The financial performance goals for each metric are established at the beginning of each performance period and, accordingly, the portion (or tranche) of the award related to each performance period is treated as a separate grant for accounting purposes. The grant date fair values of the first and second tranches of the November 2012 financial performance stock options were $12 million and $14 million, respectively, and are being recognized over six and twelve month service periods, respectively. The Company began recording stock-based compensation expense for these tranches in January 2013, when the financial performance goals were established and approved.

In February 2013, the Compensation Committee approved additional long-term performance-based incentive equity awards to Ms. Mayer and other senior officers. These restricted stock units generally will be eligible to vest in equal annual tranches over four years (three years for Ms. Mayer) based on the Company s attainment of annual financial performance goals as well as the executive s continued employment through the vesting date. The number of restricted stock units that ultimately vest each year will range from 0 percent to 200 percent of the annual target amount stated in each executive s award agreement based on the Company s performance. The annual financial performance metrics and goals are established at the beginning of each fiscal year and, accordingly, the tranche of the award related to each annual performance period goal is treated as a separate annual grant for accounting purposes. In February 2013, financial performance metrics and goals were established for the first performance period (the fiscal year ending December 31, 2013). The financial performance metrics (and their weightings) for fiscal year 2013 are revenue ex-TAC (60 percent), operating income (20 percent) and free cash flow (20 percent). The grant date fair value of the first tranche of the February 2013 annual financial performance restricted stock unit grants was $9 million and is being recognized over a one-year service period.

Stock Repurchases. In May 2012, the Board authorized a stock repurchase program allowing the Company to repurchase up to $5 billion of its outstanding shares of common stock from time to time. The May 2012 repurchase program, according to its terms, will expire in June 2015 unless revoked earlier by the Board. The aggregate amount remaining available under the May 2012 repurchase program was approximately $324 million at September 30, 2013. Repurchases under the repurchase program may take place in the open market or in privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions, and may be made under a Rule 10b5-1 plan. During the nine months ended September 30, 2013, the Company repurchased approximately 123 million shares of its common stock under this stock repurchase program at an average price of $25.41 per share for a total of $3.1 billion. These repurchases included the Company s repurchase of 40 million shares of its common stock beneficially owned by Third Point LLC on July 25, 2013. These shares were repurchased pursuant to a Purchase Agreement entered into on July 22, 2013, prior to the market opening for trading in Yahoo stock, at $29.11 per share, which was the closing price of the Company s common stock on July 19, 2013. The total purchase price for these shares was $1.164 billion. The repurchase transaction was funded primarily with cash as well as borrowings of $150 million under the Company s unsecured revolving credit facility.

Table of Contents

Note 13 RESTRUCTURING CHARGES (REVERSALS), NET

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

	Three Months Ended September 30, 2012				Nine Months Ended September 30, 2012			
	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total
Employee severance pay and related costs	$ (44)	$ 11,511	$	$ 11,467	$ 3,617	$ 102,577	$	$ 106,194
Non-cancelable lease, contract terminations, and other charges	2,104	9,332		11,436	6,360	9,949		16,309
Other non-cash charges		1,824		1,824		40,462		40,462
Sub-total before reversal of stock-based compensation expense	2,060	22,667		24,727	9,977	152,988		162,965
Reversal of stock-based compensation expense for forfeitures						(3,429)		(3,429)
Restructuring charges, net	$ 2,060	$ 22,667	$	$ 24,727	$ 9,977	$ 149,559	$	$ 159,536

	Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total
Employee severance pay and related costs	$ (20)	$ (2,807)	$	$ (2,827)	$ (459)	$ (15,784)	$ (103)	$ (16,346)
Non-cancelable lease, contract terminations, and other charges	2,217	33	1	2,251	11,652	131	(44)	11,739
Other non-cash charges							547	547
Restructuring charges (reversals), net	$ 2,197	$ (2,774)	$ 1	$ (576)	$ 11,193	$ (15,653)	$ 400	$ (4,060)

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

Restructuring Plans Prior to 2012. Prior to 2012, the Company implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers to reduce its cost structure, align resources with its product strategy, and improve efficiency. During the three and nine months ended September 30, 2012, the Company recorded total pre-tax cash charges of $2 million and $10 million, respectively, in severance, facility, and other related costs under these restructuring plans, the majority of which related to the Americas segment.

During the three and nine months ended September 30, 2013, the Company incurred total pre-tax cash charges of $2 million and $11 million, respectively, in severance, facility, and other related costs under these restructuring plans. The $2 million recorded for the three months ended September 30, 2013 was primarily related to the Americas segment. Of the $11 million recorded for the nine months ended September 30, 2013, $7 million related to the Americas segment and $4 million related to the EMEA segment.

Q2 12 Restructuring Plan. During the second quarter of 2012, the Company began implementing the Q2 12 Restructuring Plan to reduce its worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities. During the three months ended September 30, 2012, the Company recorded total pre-tax cash charges of $35 million in severance- and facility-related costs and $2 million in non-cash facility and other asset impairment charges. Those total pre-tax charges were offset by a reversal of $14 million for adjustments to original estimates in severance-related costs, primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $23 million in restructuring charges, net recorded in the three months ended September 30, 2012, $11 million related to the Americas segment and $12 million related to the EMEA

Table of Contents

segment. During the nine months ended September 30, 2012, the Company recorded total pre-tax cash charges of $127 million in severance- and facility-related costs and $40 million in non-cash facility and other asset impairment charges under this restructuring plan. The total pre-tax charges during the nine months ended September 30, 2012 were offset by a reversal of $17 million for adjustments to original estimates. Of the $150 million in restructuring charges, net, recorded in the nine months ended September 30, 2012, $97 million related to the Americas segment, $47 million related to the EMEA segment, and $6 million related to the Asia Pacific segment.

During the three months ended September 30, 2013, the Company recorded a net reversal of $3 million for severance-related cost reversals due to changes to original estimates and redeployments and voluntary resignations of employees prior to their planned severance dates. During the nine months ended September 30, 2013, the Company recorded $6 million in severance- and facility-related costs which were offset by a credit of $22 million for severance-related reversals due to adjustments to original estimates as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $3 million credit in restructuring charges, net, recorded in the three months ended September 30, 2013, $2 million related to the EMEA segment and $1 million related to the Asia Pacific segment. Of the $16 million credit in restructuring charges, net, recorded in the nine months ended September 30, 2013, $8 million related to the Americas segment, $7 million related to the EMEA segment, and $1 million related to the Asia Pacific segment.

Q4 12 Korea Business Closure. During the fourth quarter of 2012, the Company decided to close its Korea business by the end of 2012 to streamline its operations and focus its resources. During both the three and nine months ended September 30, 2013, the Company recorded net pre-tax charges of less than $1 million in severance, facility and contract termination costs related to the Asia Pacific segment.

Restructuring Accruals. The $30 million restructuring liability as of September 30, 2013 consisted of $2 million for employee severance pay expenses, which the Company expects to pay out by the end of the fourth quarter of 2013, and $28 million relating to non-cancelable lease and contract termination costs, which the Company expects to pay over the terms of the related obligations which extend to the fourth quarter of 2021.

The Company s restructuring accrual activity for the nine months ended September 30, 2013 is summarized as follows (in thousands):

	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total
Balance as of January 1, 2013	$ 27,716	$ 35,049	$ 10,102	$ 72,867
Employee severance pay and related costs	28	6,271	443	6,742
Non-cancelable lease, contract termination, and other charges	12,127	131	1,227	13,485
Other non-cash charges			547	547
Changes in estimates and reversals of previous charges	(962)	(22,055)	(1,817)	(24,834)
Restructuring charges (reversals), net for the nine months ended September 30, 2013	$ 11,193	$ (15,653)	$ 400	$ (4,060)
Cash paid	(13,424)	(15,358)	(9,045)	(37,827)
Other non-cash charges			(547)	(547)
Foreign currency	142	(250)	(171)	(279)
Balance as of September 30, 2013	$ 25,627	$ 3,788	$ 739	$ 30,154

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

	December 31, 2012	September 30, 2013
Americas	$ 42,689	$ 20,190
EMEA	18,144	8,851
Asia Pacific	12,034	1,113

Total restructuring accruals	$ 72,867	$ 30,154

Note 14 INCOME TAXES

The Company s effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, the Company s provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended September 30, 2013 was 32 percent compared to 37 percent for the same period in 2012. The effective tax rate reported for the nine months ended September 30, 2013 was 24 percent compared to 37 percent for the same period in 2012. The effective tax rates for the three and nine months ended September 30, 2012 were higher than for the corresponding periods in 2013, because they included the tax expense associated with the Company s taxable gain from the sale of Alibaba Group Shares in September 2012. The lower effective tax rates for the three and nine months ended September 30, 2013 were also related to a reduction of tax reserves that were recorded as tax audits were favorably settled and a tax benefit from the resolution of certain tax matters associated with a one-time foreign earnings distribution made in 2012 as described below.

The conclusion of the 2005 and 2006 IRS tax audit and certain foreign tax audits had the effect of increasing the foreign tax credits available to offset the tax from the distribution of foreign earnings made during the three months ended September 30, 2012 as described below. The increased foreign tax credits and the tax benefit relating to the resolution of certain tax matters associated with a one-time foreign earnings distribution made during the quarter ended September 30, 2012 mentioned above, resulted in a tax benefit during the nine months ended September 30, 2013 of approximately $31 million.

The federal research and development credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Under this act, the federal research and development credit was retroactively extended for amounts paid or incurred after December 31, 2011 and before January 1, 2014. This change resulted in a 2012 tax benefit of approximately $11 million, which was recognized over the nine months ended September 30, 2013.

The U.S. Department of the Treasury issued final regulations on the deduction and capitalization of expenditures related to tangible property for income tax purposes. These regulations apply to the Company s tax year beginning on January 1, 2014. The Company is currently assessing the financial statement impact of these regulations.

In connection with a review of the Company s cash position and anticipated cash needs for investment in the Company s core business, including potential acquisitions, capital expenditures and stock repurchases, the Company made a one-time repatriation of cash from certain of its consolidated foreign subsidiaries in 2012. The remaining undistributed foreign earnings of approximately $2 billion plus all subsequent earnings will continue to be indefinitely reinvested going forward. As of September 30, 2013, those earnings are approximately $2.5 billion in total and are principally related to Yahoo Japan.

During the nine months ended September 30, 2013, the Company settled the income tax examination for the 2005 and 2006 returns with the IRS Appeals Division. That settlement resulted in a reduction of tax reserves. The income tax examination for the 2007 and 2008 returns is currently under protest with the IRS Appeals Division relating to certain proposed adjustments to the Company s intercompany transfer pricing methodology. The Company s 2009 and 2010 returns are currently under IRS examination.

As of September 30, 2013, the Company s 2005 through 2008 tax returns are also under various stages of audit by the California Franchise Tax Board. While the California Franchise Tax Board has not reached any conclusions on the 2007 and 2008 returns, the Company has protested the proposed California Franchise Tax Board s adjustments to the 2005 and 2006 returns. The Company is also in various stages of examination and appeal in connection with its taxes in foreign jurisdictions, which generally span tax years 2005 through 2011.

The Company s gross amount of unrecognized tax benefits as of September 30, 2013 was $703 million, of which $621 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2013 decreased by $24 million from the recorded balance as of December 31, 2012. It is difficult to determine when the examinations will be settled or their final outcomes; however, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that the unrecognized tax benefits could be reduced by up to approximately $24 million in the next twelve months. The Company believes that it has adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material adverse effect on the Company s consolidated financial position, results of operations, or cash flows.

The Company may have additional tax liabilities in China related to the sale to Alibaba Group of 523 million Alibaba Group Shares that took place during the year ended December 31, 2012. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S.

During the year ended December 31, 2012, tax authorities from the Brazilian State of Sao Paulo assessed certain indirect taxes against the Company s Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment totaling approximately $85 million is for calendar years 2008 and 2009. The Company currently believes the assessment is without merit. The Company does not believe that it is probable the assessment will be sustained upon appeal and, accordingly, has not recorded an accrual for the assessment.

Note 15 SEGMENTS

The Company continues to manage its business geographically. The primary areas of measurement and decision-making are currently Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Management relies on an internal reporting process that

25

Table of Contents

provides revenue ex-TAC, which is defined as revenue less TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, the Company s segments. Tumblr, which the Company acquired during June 2013, is included as part of the Americas for segment reporting purposes.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Revenue by segment:				
Americas	$ 843,731	$ 850,935	$ 2,501,515	$ 2,521,667
EMEA	96,473	89,156	358,534	281,367
Asia Pacific	261,528	198,882	780,710	611,551
Total Revenue	$ 1,201,732	$ 1,138,973	$ 3,640,759	$ 3,414,585
TAC by segment:				
Americas	$ 41,289	$ 36,435	$ 130,154	$ 111,077
EMEA	17,399	9,929	97,248	32,837
Asia Pacific	54,141	12,100	166,543	44,934
Total TAC	$ 112,829	$ 58,464	$ 393,945	$ 188,848
Revenue ex-TAC by segment:				
Americas	$ 802,442	$ 814,500	$ 2,371,361	$ 2,410,590
EMEA	79,074	79,227	261,286	248,530
Asia Pacific	207,387	186,782	614,167	566,617
Total Revenue ex-TAC	$ 1,088,903	$ 1,080,509	$ 3,246,814	$ 3,225,737
Direct costs by segment(1):				
Americas	189,345	171,285	550,080	513,677
EMEA	39,167	39,922	120,665	119,766
Asia Pacific	56,329	47,583	164,068	152,264
Global operating costs(2)(3)	396,269	490,594	1,228,686	1,354,118
Depreciation and amortization	169,511	158,216	480,498	480,797
Stock-based compensation expense	61,366	80,726	166,903	193,467
Restructuring charges (reversals), net	24,727	(576)	159,536	(4,060)
Income from operations	$ 152,189	$ 92,759	$ 376,378	$ 415,708

(1) Direct costs for each segment include cost of revenue other as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses.

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

(3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

	Three Months Ended	Nine Months Ended

	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Capital expenditures, net:				
Americas	$ 122,812	$ 70,044	$ 302,139	$ 210,521
EMEA	9,238	2,817	22,599	8,481
Asia Pacific	7,815	4,792	31,049	10,308
Total capital expenditures, net	$ 139,865	$ 77,653	$ 355,787	$ 229,310

Table of Contents

	December 31, 2012	September 30, 2013
Property and equipment, net:		
Americas:		
U.S	$ 1,483,225	$ 1,383,769
Other	1,869	1,428
Total Americas	$ 1,485,094	$ 1,385,197
EMEA	59,416	48,183
Asia Pacific	141,335	102,982
Total property and equipment, net	$ 1,685,845	$ 1,536,362

See Note 13 Restructuring Charges (Reversals), Net for additional information regarding segments.

Enterprise Wide Disclosures:

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Display	$ 506,002	$ 469,932	$ 1,552,191	$ 1,396,745
Search	472,537	435,192	1,403,903	1,278,081
Other	223,193	233,849	684,665	739,759
Total revenue	$ 1,201,732	$ 1,138,973	$ 3,640,759	$ 3,414,585

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Revenue:				
U.S.	$ 800,984	$ 812,048	$ 2,379,955	$ 2,401,527
International	400,748	326,925	1,260,804	1,013,058
Total revenue	$ 1,201,732	$ 1,138,973	$ 3,640,759	$ 3,414,585

Revenue is attributed to individual countries according to the online property that generated the revenue. No single foreign country was material to revenue for the three or nine months ended September 30, 2012 and 2013.

Note 16 SEARCH AGREEMENT WITH MICROSOFT CORPORATION

On December 4, 2009, the Company entered into the Search Agreement with Microsoft, which provides for Microsoft to be the exclusive algorithmic and paid search services provider on Yahoo Properties and non-exclusive provider of such services on Affiliate sites. The Company also entered into a License Agreement with Microsoft. Under the License Agreement, Microsoft acquired an exclusive 10-year license to the Company s core search technology and has the ability to integrate this technology into its existing Web search platforms. On February 18, 2010, the Company received regulatory clearance from both the U.S. Department of Justice and the European Commission and on February 23, 2010 the Company commenced implementation of the Search Agreement on a market-by-market basis. Under the Search Agreement, the Company is the exclusive worldwide relationship sales force for both companies premium search advertisers, which include advertisers meeting certain spending or other criteria, advertising agencies that specialize in or offer search engine marketing services and their clients, and resellers and their clients seeking assistance with their paid search accounts. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement. Approximately 27 percent and 24 percent of the Company s revenue for the three and nine months ended September 30, 2012, respectively, was attributable to the Search Agreement, and approximately 31 percent and 30 percent of the Company s revenue for the three and nine months ended September 30, 2013, respectively, was attributable to the Search Agreement.

During the first five years of the term of the Search Agreement, in the transitioned markets, the Company is entitled to receive 88 percent of the revenue generated from Microsoft s services on Yahoo Properties (the Revenue Share Rate) and the Company is also entitled to receive 88 percent of the revenue generated from Microsoft s services on Affiliate sites after the Affiliate s share of revenue. For new Affiliates during the term of the Search Agreement, and for all Affiliates after the first five years of such term, the Company will receive 88 percent of the revenue generated from Microsoft s services on Affiliate sites after the Affiliate s share of revenue and certain Microsoft costs are deducted. On February 23, 2015 (the fifth anniversary of the date that implementation of the

Table of Contents

Search Agreement commenced), Microsoft will have the option to terminate the Company s sales exclusivity for premium search advertisers. If Microsoft exercises this option, the Revenue Share Rate will increase to 93 percent for the remainder of the term of the Search Agreement, unless the Company exercises its option to retain the Company s sales exclusivity, in which case the Revenue Share Rate would be reduced to 83 percent for the remainder of the term. If Microsoft does not exercise such option, the Revenue Share Rate will be 90 percent for the remainder of the term of the Search Agreement. In the transitioned markets, the Company reports as revenue the 88 percent revenue share as the Company is not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft. As of December 31, 2012 and September 30, 2013, the Company had collected total amounts of nil and $24 million, respectively, on behalf of Microsoft and Affiliates, which was included in cash and cash equivalents with a corresponding liability in accrued expenses and other current liabilities. The Company s 88 percent share in connection with the Search Agreement, which is included in accounts receivable, net, was $258 million and $251 million as of December 31, 2012 and September 30, 2013, respectively.

Under the Search Agreement, for each market, Microsoft generally guarantees Yahoo s revenue per search (RPS Guarantee) on Yahoo Properties only for 18 months after the transition of paid search services to Microsoft s platform in that market based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. The Company records the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013, and in the second quarter of 2013, Microsoft extended the RPS Guarantee in the U.S. through March 2014. In June 2013, Microsoft and Yahoo agreed upon the RPS Guarantee payment amounts to be paid to the Company for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013. The Company also agreed to fixed quarterly payments in lieu of the RPS Guarantee in the U.S. for the quarters ending September 30, 2013, December 31, 2013 and March 31, 2014. In addition, the Company agreed to waive its right to receive any future RPS Guarantee payments in all other markets except Taiwan and Hong Kong.

The Company completed the transition of its algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, the Company completed the transition of algorithmic search in all other markets and the transition of paid search in India. In 2012, the Company completed the transition of paid search in most of the EMEA markets as well as six markets in Latin America. In the second quarter of 2013, the Company completed the transition of paid search in Brazil. In the third quarter of 2013, the Company completed the transition of paid search in six markets in Southeast Asia. The market-by-market transition of the Company s paid search platform to Microsoft s platform and the migration of paid search advertisers and publishers to Microsoft s platform are expected to continue through 2013 and possibly into 2014.

In September 2013, the Company advised Microsoft that we were delaying the transition of paid search in Taiwan and Hong Kong. Microsoft disagreed with the delay and initiated an emergency arbitration under the Search Agreement. The arbitrator enjoined the Company from continuing the delay and directed the Company to complete the transition of Taiwan and Hong Kong in October and November, respectively. The Company sought to vacate the arbitrator s award in the United States District Court for the Southern District of New York, but the District Court issued an order denying the Company s petition to vacate. The Company then filed a notice of appeal to the United States Court of Appeals for the Second Circuit, together with a motion to stay enforcement of the District Court s order pending the appeal. The Second Circuit granted a temporary stay of enforcement of the District Court s order, but on November 7, 2013, denied the continuation of the stay pending appeal. The Company is working with Microsoft on a transition schedule.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft is required under the Search Agreement to reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company s results reflect search operating cost reimbursements from Microsoft under the Search Agreement of $17 million and $51 million for the three and nine months ended September 30, 2012, respectively, and $11 million and $42 million for the three and nine months ended September 30, 2013, respectively. Search operating cost reimbursements began during the quarter ended March 31, 2010 and will, subject to specified exclusions and limitations, continue until the Company has fully transitioned to Microsoft s platform.

Reimbursement receivables are recorded as the reimbursable costs are incurred and are applied against the operating expense categories in which the costs were incurred. Of the total amounts incurred during the year ended December 31, 2012 and the nine months ended September 30, 2013, the total reimbursements not yet received from Microsoft of $5 million and $8 million, respectively, were classified as part of prepaid expenses and other current assets on the Company s condensed consolidated balance sheets as of December 31, 2012 and September 30, 2013, respectively.

Table of Contents

Note 17 SUBSEQUENT EVENTS

Stock Repurchase Transactions. From October 1, 2013 through November 12, 2013, the Company repurchased approximately 1.2 million shares of its common stock at an average price of $33.37 per share, for a total of $41 million.

Net Investment Hedge. In October 2013, the Company received $158 million in cash for the settlement of certain foreign exchange forward contracts designated as net investment hedges reducing the outstanding notional amount to $2.3 billion.

Amendment to Share Repurchase and Preference Share Sale Agreement with Alibaba Group. The Company, Yahoo! Hong Kong Holdings Limited (YHK) and Alibaba Group entered into a Second Amendment to the Share Repurchase and Preference Share Sale Agreement, dated as of October 14, 2013. The amendment reduced the maximum number of Shares of Alibaba Group that Yahoo is required to sell in connection with a Qualified IPO of Alibaba Group from 261.5 million Shares to 208.0 million Shares.

Amendment No. 1 to Credit Agreement. On October 10, 2013, the Company entered into Amendment No. 1 to its Credit Agreement. Amendment No. 1 extends the termination date of the Credit Agreement from October 18, 2013 to October 9, 2014. The Credit Agreement, as amended, continues to provide for a $750 million unsecured revolving credit facility, subject to increase by up to $250 million in accordance with its terms. There are no borrowings currently outstanding under the Credit Agreement.

Patent Sale Agreement. Subsequent to September 30, 2013, the Company entered into a patent sale agreement pursuant to which the Company sold certain patents for an aggregate consideration of $70 million.

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***
Forward-Looking Statements

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

expectations about revenue, including display, search, and other revenue;

expectations about growth in users;

expectations about changes in our earnings in equity interests;

expectations about operating expenses;

anticipated capital expenditures;

expectations about our share repurchase activity;

expectations about the implementation and the financial and operational impacts of our Search Agreement with Microsoft;

impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, intangible assets, and technologies;

projections and estimates with respect to our restructuring activities and changes to our organizational structure;

expectations about the amount of unrecognized tax benefits, the outcome of tax assessment appeals, the adequacy of our existing tax reserves, and future tax expenditures, and tax rates;

expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements; and

expectations regarding the outcome of legal proceedings in which we are involved, including the outcome of our efforts to sustain the reversal of the judgment entered against us and one of our subsidiaries in a proceeding in Mexico.

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

Overview

Yahoo! Inc., together with its consolidated subsidiaries (Yahoo, the Company, we, or us), is focused on making the world s daily habits inspiri and entertaining. By creating highly personalized experiences for our users, we keep people connected to what matters most to them, across devices and around the world. In turn, we create value for advertisers by connecting them with the audiences that build their businesses. Advertisers can build their businesses through advertising to targeted audiences on our online properties and services (Yahoo Properties), or through our distribution network of third-party entities (Affiliates) who integrate our advertising offerings into their Websites or other offerings (those Websites and other offerings, Affiliate sites).

Our offerings to users on Yahoo Properties currently fall into four categories: Yahoo.com; Communications; User-Generated Content; and Mobile & Emerging Products. We manage and measure our business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific.

In the following Management s Discussion and Analysis, we provide information regarding the following areas:

- Key Financial Metrics;
- Non-GAAP Financial Measures;
- Significant Transactions;
- Results of Operations;
- Liquidity and Capital Resources; and
- Critical Accounting Policies and Estimates.

Table of Contents

Key Financial Metrics

The key financial metrics we use are as follows: revenue; revenue less traffic acquisition costs (TAC), or revenue ex-TAC; income from operations; adjusted EBITDA; net income attributable to Yahoo! Inc.; net cash provided by operating activities; and free cash flow. Revenue ex-TAC, adjusted EBITDA, and free cash flow are financial measures that are not defined in accordance with U.S. generally accepted accounting principles (GAAP). We use these non-GAAP financial measures for internal managerial purposes and to facilitate period-to-period comparisons. See Non-GAAP Financial Measures below for a description of each of these non-GAAP financial measures.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013
	(dollars in thousands)			
Revenue	$ 1,201,732	$ 1,138,973	$ 3,640,759	$ 3,414,585
Revenue ex-TAC	$ 1,088,903	$ 1,080,509	$ 3,246,814	$ 3,225,737
Income from operations(*)	$ 152,189	$ 92,759	$ 376,378	$ 415,708
Adjusted EBITDA	$ 407,793	$ 331,125	$ 1,189,815	$ 1,085,912
Net income attributable to Yahoo! Inc.	$ 3,160,238	$ 296,656	$ 3,673,212	$ 1,018,091
Net cash provided by operating activities	$ 1,046,308	$ 298,010	$ 1,618,321	$ 847,520
Free cash flow	$ 920,424	$ 249,037	$ 1,209,637	$ 530,345

(*) Includes:

Stock-based compensation expense	$ 61,366	$ 80,726	$ 166,903	$ 193,467
Restructuring charges (reversals), net	$ 24,727	$ (576)	$ 159,536	$ (4,060)

Revenue ex-TAC (a Non-GAAP Financial Measure)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Percent Change	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Percent Change
	(dollars in thousands)					
Revenue	$ 1,201,732	$ 1,138,973	(5)%	$ 3,640,759	$ 3,414,585	(6)%
Less: TAC	112,829	58,464	(48)%	393,945	188,848	(52)%
Revenue ex-TAC	$ 1,088,903	$ 1,080,509	(1)%	$ 3,246,814	$ 3,225,737	(1)%

For the three and nine months ended September 30, 2013, revenue ex-TAC decreased 1 percent compared to the same periods of 2012, due to a decline in display revenue ex-TAC partially offset by an increase in search and other revenue ex-TAC.

Adjusted EBITDA (a Non-GAAP Financial Measure)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Percent Change	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Percent Change
	(dollars in thousands)					
Net income attributable to Yahoo! Inc.	$ 3,160,238	$ 296,656	(91)%	$ 3,673,212	$ 1,018,091	(72)%
Depreciation and amortization	169,511	158,216	(7)%	480,498	480,797	
Stock-based compensation expense	61,366	80,726	32 %	166,903	193,467	16 %
Restructuring charges (reversals), net	24,727	(576)	(102)%	159,536	(4,060)	(103)%
Other income, net	(4,607,656)	(5,370)	(100)%	(4,630,109)	(46,048)	(99)%
Provision for income taxes	1,774,094	31,891	(98)%	1,857,036	111,894	(94)%
Earnings in equity interests	(175,265)	(232,756)	33 %	(527,499)	(675,034)	28 %

Net income attributable to noncontrolling interests	778	2,338	201 %	3,738	6,805	82 %
Deal costs related to the sale of Alibaba Group shares				6,500		(100)%
Adjusted EBITDA	$ 407,793	$ 331,125	(19)%	$ 1,189,815	$ 1,085,912	(9)%
Percentage of revenue ex-TAC[(1)(2)]	37%	31%		37%	34%	

(1) Revenue ex-TAC is calculated as GAAP revenue less TAC.

Table of Contents

(2) Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 26 percent and 30 percent, respectively. Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue for the three and nine months ended September 30, 2012 was 263 percent and 101 percent, respectively.

For the three and nine months ended September 30, 2013, adjusted EBITDA decreased 19 percent and 9 percent, respectively, compared to the same periods of 2012, mainly due to a decline in revenue ex-TAC and an increase in global operating costs, which was partially offset by a decline in direct costs in the Americas and Asia Pacific regions.

Free Cash Flow (a Non-GAAP Financial Measure)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
	(dollars in thousands)			
Net cash provided by operating activities	$ 1,046,308	$ 298,010	$ 1,618,321	$ 847,520
Acquisition of property and equipment, net	(139,865)	(77,653)	(355,787)	(229,310)
Dividends received from equity investees			(83,648)	(135,058)
Excess tax benefits from stock-based awards	13,981	28,680	30,751	47,193
Free cash flow	$ 920,424	$ 249,037	$ 1,209,637	$ 530,345

For the three and nine months ended September 30, 2013, free cash flow decreased $671 million, or 73 percent, and $679 million, or 56 percent, respectively, compared to the same periods of 2012. The decrease for both periods was primarily attributable to a decline in cash provided by operating activities due to a payment of $550 million from Alibaba Group Holding Limited (Alibaba Group) related to a technology and intellectual property license, which was included in 2012, for which no similar transactions occurred in 2013. This was partially offset by a decline in capital expenditures in both the three and nine months ended September 30, 2013, as compared to the same periods of 2012.

Non-GAAP Financial Measures

Revenue ex-TAC

Revenue ex-TAC is a non-GAAP financial measure defined as GAAP revenue less TAC. TAC consists of payments made to Affiliates that have integrated our advertising offerings into their sites and payments made to companies that direct consumer and business traffic to Yahoo Properties. Based on the terms of the Search Agreement with Microsoft described under Significant Transactions below, Microsoft retains a revenue share of 12 percent of the net (after TAC) search revenue generated on Yahoo Properties and Affiliate sites in transitioned markets. We report the net revenue we receive under the Search Agreement as revenue and no longer present the associated TAC. Accordingly, for transitioned markets we report GAAP revenue associated with the Search Agreement on a net (after TAC) basis rather than a gross basis. For markets that have not yet transitioned, revenue continues to be recorded on a gross (before TAC) basis, and TAC is recorded as a part of operating expenses.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure defined as net income attributable to Yahoo! Inc. before taxes, depreciation, amortization of intangible assets, stock-based compensation expense, other income, net (which includes interest), earnings in equity interests, net income attributable to noncontrolling interests, and certain gains, losses, and expenses that we do not believe are indicative of our ongoing results.

Free Cash Flow

Free cash flow is a non-GAAP financial measure defined as net cash provided by operating activities (adjusted to include excess tax benefits from stock-based awards), less (i) acquisition of property and equipment, net, and (ii) dividends received from equity investees.

For additional information about these non-GAAP financial measures, see Non-GAAP Financial Measures included in our Annual Report on Form 10-K for the year ended December 31, 2012 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations.

Significant Transactions

Acquisition of Tumblr

On June 19, 2013, we completed the acquisition of Tumblr, Inc. (Tumblr), a blog-hosting website that allows users to post their own content as well as follow or re-blog posts made by other users. The acquisition of Tumblr brings a community of new users to the Yahoo network. The total purchase price of approximately $990 million consisted mainly of cash consideration. See Note 4 Acquisitions in the Notes to our condensed consolidated financial statements for additional information.

Initial Repurchase of Alibaba Group Holding Limited Ordinary Shares

See Note 8 Investments in Equity Interests in the Notes to our condensed consolidated financial statements for information regarding the repurchase by Alibaba Group of 523 million of the 1,047 million ordinary shares of Alibaba Group (the Shares) owned by us (the Initial Repurchase) pursuant to the terms of a Share Repurchase and Preference Share Sale Agreement (as amended on September 11, 2012 and October 14, 2013, the Repurchase Agreement).

In September 2012, we received net cash proceeds after the payment of taxes and fees from the Initial Repurchase and the $550 million TIPLA payment of approximately $4.3 billion. We committed to return $3.65 billion of these after-tax proceeds to shareholders and have now completed this commitment.

In connection with the Initial Repurchase, we also received $800 million in Alibaba Group Preference Shares. On May 16, 2013, we received $846 million in cash from Alibaba Group to redeem the Alibaba Group Preference Shares. The cash received represented the redemption value, which included the stated value of $800 million plus accrued dividends of $46 million.

The Company, Yahoo! Hong Kong Holdings Limited (YHK) and Alibaba Group entered into a Second Amendment to the Share Repurchase and Preference Share Sale Agreement, dated as of October 14, 2013. The amendment reduced the maximum number of Shares of Alibaba Group that we are required to sell in connection with a Qualified IPO of Alibaba Group from 261.5 million Shares to 208.0 million Shares.

Search Agreement with Microsoft Corporation

On December 4, 2009, we entered into a Search and Advertising Services and Sales Agreement (the Search Agreement) with Microsoft Corporation (Microsoft), which provides for Microsoft to be the exclusive algorithmic and paid search services provider on Yahoo Properties and non-exclusive provider of such services on Affiliate sites. We also entered into a License Agreement with Microsoft pursuant to which Microsoft acquired an exclusive 10-year license to our core search technology that it will be able to integrate into its existing Web search platforms. The global transition of our algorithmic and paid search platforms to Microsoft s platform and the migration of paid search advertisers and publishers to Microsoft s platform are being done on a market-by-market basis.

During the first five years of the Search Agreement, in transitioned markets, we are entitled to receive 88 percent of the revenue generated from Microsoft s services on Yahoo Properties. We are also entitled to receive 88 percent of the revenue generated from Microsoft s services on Affiliate sites after the Affiliate s share of revenue. In the transitioned markets, for search revenue generated from Microsoft s services on Yahoo Properties and Affiliate sites, we report as revenue the 88 percent revenue share, as we are not the primary obligor in the arrangement with the advertisers and publishers. The underlying search advertising services are provided by Microsoft. For new Affiliates during the term of the Search Agreement, and for all Affiliates after the first five years of such term, we will receive 88 percent of the revenue generated from Microsoft s services on Affiliate sites after the Affiliate s share of revenue and certain Microsoft costs are deducted. On February 23, 2015 (the fifth anniversary of the date that implementation of the Search Agreement commenced), Microsoft will have the option to terminate our sales exclusivity for premium search advertisers. If Microsoft exercises its option, the revenue share rate will increase to 93 percent for the remainder of the term of the Search Agreement, unless we exercise our option to retain our sales exclusivity, in which case the revenue share rate would be reduced to 83 percent for the remainder of the term. If Microsoft does not exercise such option, the revenue share rate will be 90 percent for the remainder of the term of the Search Agreement. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement.

Under the Search Agreement, for each market, Microsoft generally guarantees Yahoo s revenue per search (RPS Guarantee) on Yahoo Properties only for 18 months after the transition of paid search services to Microsoft s platform in that market based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. We record the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013, and in the second quarter of 2013, Microsoft extended the RPS Guarantee in the U.S. through March 2014. In June 2013, Microsoft and we agreed upon the RPS Guarantee payment amounts to be paid to us for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013. We also agreed to fixed quarterly payments in lieu of the RPS Guarantee in the U.S. for the quarters ending September 30, 2013, December 31, 2013 and March 31, 2014. In addition, we agreed to waive our right to receive any future RPS Guarantee payments in all other markets except Taiwan and Hong Kong. We do not expect the remaining quarterly payments from Microsoft and any RPS Guarantee payments for Taiwan and Hong Kong to have a material impact on our expected future revenue.

Table of Contents

We completed the transition of our algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, we completed the transition of algorithmic search in all other markets and the transition of paid search in India. In 2012, we completed the transition of paid search in most of the EMEA markets as well as six markets in Latin America. In the second quarter of 2013, we completed the transition of paid search in Brazil. In the third quarter of 2013, we completed the transition of paid search in six markets in Southeast Asia. The market-by-market transition of our paid search platform to Microsoft s platform and the migration of paid search advertisers and publishers to Microsoft s platform are expected to continue through 2013 and possibly into 2014.

In September 2013, the Company advised Microsoft that we were delaying the transition of paid search in Taiwan and Hong Kong. Microsoft disagreed with the delay and initiated an emergency arbitration under the Search Agreement. The arbitrator enjoined the Company from continuing the delay and directed the Company to complete the transition of Taiwan and Hong Kong in October and November, respectively. The Company sought to vacate the arbitrator s award in the United States District Court for the Southern District of New York, but the District Court issued an order denying the Company s petition to vacate. The Company then filed a notice of appeal to the United States Court of Appeals for the Second Circuit, together with a motion to stay enforcement of the District Court s order pending the appeal. The Second Circuit granted a temporary stay of enforcement of the District Court s order, but on November 7, 2013, denied the continuation of the stay pending appeal. The Company is working with Microsoft on a transition schedule.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft is required under the Search Agreement to reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. Our results reflect search operating cost reimbursements from Microsoft under the Search Agreement of $17 million and $51 million for the three and nine months ended September 30, 2012, respectively, and $11 million and $42 million for the three and nine months ended September 30, 2013, respectively. Search operating cost reimbursements are expected to decline as we fully transition all markets and, in the long term, the underlying expenses are not expected to be incurred under our cost structure.

We record receivables for the reimbursements as costs are incurred and apply them against the operating expense categories in which the costs were incurred. Of the total amounts incurred during the year ended December 31, 2012 and the nine months ended September 30, 2013, the total reimbursements not yet received from Microsoft of $5 million and $8 million, were classified as part of prepaid expenses and other current assets on our condensed consolidated balance sheets as of December 31, 2012 and September 30, 2013, respectively.

See Note 16 Search Agreement with Microsoft Corporation in the Notes to our condensed consolidated financial statements for additional information.

Table of Contents

Results of Operations

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Percent Change	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Percent Change
			(dollars in thousands)			
Revenue for groups of similar services:						
Display						
Yahoo Properties	$ 446,669	$ 421,378	(6)%	$ 1,417,004	$ 1,251,781	(12)%
Affiliate Sites	59,333	48,554	(18)%	135,187	144,964	7%
Total Display revenue	$ 506,002	$ 469,932	(7)%	$ 1,552,191	$ 1,396,745	(10)%
Search						
Yahoo Properties	$ 311,060	$ 345,428	11 %	$ 881,435	$ 994,974	13 %
Affiliate Sites	161,477	89,764	(44)%	522,468	283,107	(46)%
Total Search revenue	$ 472,537	$ 435,192	(8)%	$ 1,403,903	$ 1,278,081	(9)%
Other	$ 223,193	$ 233,849	5 %	$ 684,665	$ 739,759	8 %
Total revenue	$ 1,201,732	$ 1,138,973	(5)%	$ 3,640,759	$ 3,414,585	(6)%
Cost of revenue traffic acquisition costs	112,829	58,464	(48)%	393,945	188,848	(52)%
Cost of revenue other	282,081	271,763	(4)%	814,513	821,032	1 %
Sales and marketing	269,272	282,562	5 %	827,450	819,319	(1)%
Product development	217,301	267,444	23 %	645,407	723,272	12 %
General and administrative	135,249	151,304	12 %	395,637	419,764	6 %
Amortization of intangibles	8,084	15,253	89 %	27,893	30,702	10%
Restructuring charges (reversals), net	24,727	(576)	(102)%	159,536	(4,060)	(103)%
Total operating expenses	$ 1,049,543	$ 1,046,214		$ 3,264,381	$ 2,998,877	(8)%
Income from operations	$ 152,189	$ 92,759	(39)%	$ 376,378	$ 415,708	10 %
Includes:						
Stock-based compensation expense	$ 61,366	$ 80,726	32 %	$ 166,903	$ 193,467	16 %

35

Table of Contents

The following table sets forth selected information concerning our results of operations as a percentage of revenue for the period indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Revenue for groups of similar services:				
Display				
Yahoo Properties	37%	37%	39%	37%
Affiliate Sites	5%	4%	4%	4%
Total Display revenue	42%	41%	43%	41%
Search				
Yahoo Properties	26%	30%	24%	29%
Affiliate Sites	13%	8%	14%	8%
Total Search revenue	39%	38%	38%	37%
Other	19%	21%	19%	22%
Total revenue	100%	100%	100%	100%
Cost of revenue traffic acquisition costs	9%	5%	11%	6%
Cost of revenue other	24%	24%	22%	24%
Sales and marketing	22%	25%	23%	24%
Product development	18%	24%	18%	21%
General and administrative	11%	13%	11%	12%
Amortization of intangibles	1%	1%	1%	1%
Restructuring charges (reversals), net	2%		4%	
Total operating expenses	87%	92%	90%	88%
Income from operations	13%	8%	10%	12%

Table of Contents

Management Reporting

We continue to manage our business geographically. The primary areas of measurement and decision-making are currently the Americas, EMEA, and Asia Pacific. Management relies on an internal reporting process that provides revenue ex-TAC, direct costs excluding TAC by segment, and consolidated income from operations for making decisions related to the evaluation of the financial performance of, and allocating resources to, our segments. Tumblr, which we acquired during June 2013, is included as part of the Americas for segment reporting purposes.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Percent Change	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Percent Change
			(dollars in thousands)			
Revenue by segment:						
Americas	$ 843,731	$ 850,935	1 %	$ 2,501,515	$ 2,521,667	1 %
EMEA	96,473	89,156	(8)%	358,534	281,367	(22)%
Asia Pacific	261,528	198,882	(24)%	780,710	611,551	(22)%
Total revenue	$ 1,201,732	$ 1,138,973	(5)%	$ 3,640,759	$ 3,414,585	(6)%
TAC by segment:						
Americas	$ 41,289	$ 36,435	(12)%	$ 130,154	$ 111,077	(15)%
EMEA	17,399	9,929	(43)%	97,248	32,837	(66)%
Asia Pacific	54,141	12,100	(78)%	166,543	44,934	(73)%
Total TAC	$ 112,829	$ 58,464	(48)%	$ 393,945	$ 188,848	(52)%
Revenue ex-TAC by segment:						
Americas	$ 802,442	$ 814,500	2 %	$ 2,371,361	$ 2,410,590	2 %
EMEA	79,074	79,227		261,286	248,530	(5)%
Asia Pacific	207,387	186,782	(10)%	614,167	566,617	(8)%
Total revenue ex-TAC	$ 1,088,903	$ 1,080,509	(1)%	$ 3,246,814	$ 3,225,737	(1)%
Direct costs by segment(1):						
Americas	189,345	171,285	(10)%	550,080	513,677	(7)%
EMEA	39,167	39,922	2 %	120,665	119,766	(1)%
Asia Pacific	56,329	47,583	(16)%	164,068	152,264	(7)%
Global operating costs(2)(3)	396,269	490,594	24 %	1,228,686	1,354,118	10 %
Depreciation and amortization	169,511	158,216	(7)%	480,498	480,797	
Stock-based compensation expense	61,366	80,726	32 %	166,903	193,467	16 %
Restructuring charges (reversals), net	24,727	(576)	(102)%	159,536	(4,060)	(103)%
Income from operations	$ 152,189	$ 92,759	(39)%	$ 376,378	$ 415,708	10 %

(1) Direct costs for each segment include cost of revenue other, as well as other operating expenses that are directly attributable to the segment such as employee compensation expense (excluding stock-based compensation expense), local sales and marketing expenses, and facilities expenses.

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

(3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs.

Revenue

We generate revenue principally from display and search advertising on Yahoo Properties and Affiliate sites. The majority of our revenue comes from display and search advertising on Yahoo Properties. Our margins on revenue from Yahoo Properties advertising are higher than our margins on revenue from display and search advertising on Affiliate sites as we pay TAC to our Affiliates. Additionally, we generate revenue from other sources including listings-based services, facilitating commercial transactions, royalties, and consumer and business fee-based services.

We earn revenue from guaranteed or premium display advertising by delivering advertisements according to advertisers specified criteria, such as number of impressions during a fixed period on a specific placement. Also, we earn revenue from non-guaranteed or non-premium display advertising by delivering advertisements for advertisers purchasing inventory on a preemptible basis, which means that the advertisement may or may not appear, inventory is not reserved and position placement is not assured.

Table of Contents

With the significant platform shift to mobile devices, including smartphones and tablets, we have increased our strategic focus on mobile products and mobile ad formats. We have hired engineering and technical talent to help us accelerate our efforts in mobile development, and introduced new mobile apps and refreshed the user experience on mobile across a number of Yahoo Properties, including News, Sports and Finance. We are seeing an increase in the number of our daily and monthly mobile users as a result of these product improvements. The monetization of these mobile products is driven primarily through advertisements and we are committed to developing and delivering innovative ad formats on mobile. While we see a significant opportunity for monetization on mobile, at present our revenue from mobile is not material.

For additional information about how we generate and recognize revenue, see Results of Operations Revenue included in our Annual Report on Form 10-K for the year ended December 31, 2012 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations.

Display and Search Metrics

We present information below regarding the Number of Ads Sold and Price-per-Ad for display and the number of Paid Clicks and Price-per-Click for search. This information is derived from internal data. We periodically review and refine our methodologies for monitoring, gathering, and counting Number of Ads Sold and Paid Clicks and for calculating Price-per-Ad and Price-per-Click. Based on this process, from time to time, we update such methodologies.

Commencing this quarter, we made three updates to our methodology. First, we now include the impressions and revenue associated with Yahoo s new stream ad units in our display price and volume metrics (Number of Ads Sold and Price-per-Ad). Second, to provide metrics that are more consistent with our historical revenue trends, the revenue and volume associated with other display advertisements sold on a price-per-click basis have been excluded from our search price and volume metrics (Paid Clicks and Price-per-Click) and they will continue to be excluded from our display price and volume metrics. Finally, the Microsoft RPS Guarantee has been excluded from the calculation of Price-per-Click. Due to the closure of the Korea business in the fourth quarter of 2012, Number of Ads Sold, Paid Clicks, Price-per-Ad, and Price-per-Click, as presented below, exclude the Korea market for all periods presented. Prior period amounts have been revised to conform to the current presentation.

Number of Ads Sold is defined as the total number of display ad impressions for paying advertisers on Yahoo Properties. Price-per-Ad is defined as display revenue from Yahoo Properties divided by our Number of Ads Sold. Our price and volume metrics for display are based on display revenue which we report on a gross basis (before TAC). Our price and volume metrics for display exclude both the Number of Ads Sold and the related revenue for certain regions where we did not retain historical information in a manner that would support period-to-period comparison on these metrics. The countries and regions included in our display metrics are: the United States, the United Kingdom, France, Germany, Spain, Italy, Taiwan, Hong Kong, Southeast Asia, and India.

Paid Clicks are defined as the total number of times an end-user clicks on a sponsored search listing on Yahoo Properties and Affiliate sites. Price-per-Click is defined as search revenue divided by our Paid Clicks. Our price and volume metrics for search are based on gross search revenue (before TAC) in all markets in which we operate.

Display Revenue

Display revenue for the three and nine months ended September 30, 2013 decreased by 7 percent and 10 percent, respectively, as compared to the same periods of 2012. The decline for the three and nine months ended September 30, 2013 was primarily attributable to a decline in pricing due to an increase in the proportion of ads sold on a non-premium basis on Yahoo Properties. For the three months ended September 30, 2013, the decrease was partially offset by an increase in the number of non-premium ads sold as a result of the new stream ad units launched in the second quarter of 2013.

For the three and nine months ended September 30, 2013, Number of Ads Sold increased 1 percent and decreased 2 percent, respectively, and Price-per-Ad decreased 7 percent for both the three and nine months ended September 30, 2013, as compared to the same periods of 2012. The increase in Number of Ads Sold for the three months ended September 30, 2013 was attributable to growth in non-premium advertising as a result of new stream ad units. This was partially offset by a decline in premium ads sold. The decrease in Number of Ads Sold for the nine months ended September 30, 2013 was attributable to a decline in premium ads sold, which was partially offset by the growth in non-premium advertising as a result of stream ad units described above. The decrease in Price-per-Ad for the three months ended September 30, 2013 was due to a lower percentage of ads sold on a premium basis. The decrease in Price-per-Ad for the nine months ended September 30, 2013 was due to a shift in the mix of ads sold towards lower monetizing geographic regions, as well as a lower percentage of ads sold on a premium basis.

Search Revenue

Search revenue for the three and nine months ended September 30, 2013 decreased by 8 percent and 9 percent, respectively, as compared to the same periods of 2012. Search revenue decreased for the three and nine months ended September 30, 2013 primarily due to declines in Affiliate revenue in the Asia Pacific region resulting from the closure of our Korea business, and declines in Affiliate revenue in the EMEA region due to the required change in revenue presentation for transitioned markets from a gross (before TAC) to a net (after TAC) basis. This was partially offset by increased search revenue in the Americas region which resulted from an increase in sponsored searches on Yahoo Properties and higher revenue per search.

Table of Contents

For the three and nine months ended September 30, 2013, Paid Clicks increased 21 percent and 20 percent, respectively, and Price-per-Click decreased 4 percent and 5 percent, respectively, as compared to the same periods of 2012. The increase in Paid Clicks for the three and nine months ended September 30, 2013 was attributable to improved ad formats and increased mobile traffic in the Americas region as well as increased Affiliate traffic in the Asia Pacific Region. The increase for the three months ended September 30, 2013 was also attributable to the redesign of the search user experience launched in the second quarter of 2013. The decrease in Price-per-Click for the three and nine months ended September 30, 2013 was primarily due to a higher mix of traffic in lower monetizing geographic regions and traffic quality improvement initiatives conducted by Yahoo, which lowered Price-per-Click. These declines were partially offset by an increase in higher monetizing Paid Clicks from Yahoo Search in the Americas region.

Other Revenue

Other revenue for the three and nine months ended September 30, 2013 increased by 5 percent and 8 percent, respectively, as compared to the same periods of 2012. The increase for both the three and nine months ended September 30, 2013 was primarily due to increased royalty revenue resulting from the amended TIPLA agreement with Alibaba Group. This was partially offset by a decrease in listings-based revenue in the Americas region.

Revenue ex-TAC by Segment

Americas

Americas revenue ex-TAC for the three and nine months ended September 30, 2013 increased $12 million, or 2 percent, and $39 million, or 2 percent, respectively, as compared to the same periods of 2012. The increase in Americas revenue ex-TAC for the three and nine months ended September 30, 2013 was primarily attributable to an increase in search revenue ex-TAC and fees revenue. The increase in search revenue ex-TAC was attributable to an increase in Paid Clicks on Yahoo Properties, as well as higher revenue per search due to improved ad formats. The increase in fees revenue was primarily due to increased royalty revenue resulting from the amended TIPLA agreement with Alibaba Group. This was partially offset by a decline in display revenue ex-TAC due to declines in the Number of Ads Sold and Price-per-Ad on Yahoo Properties.

Revenue ex-TAC in the Americas accounted for approximately 75 percent of total revenue ex-TAC for both the three and nine months ended September 30, 2013 compared to 74 percent and 73 percent for the three and nine months ended September 30, 2012, respectively.

EMEA

EMEA revenue ex-TAC for the three months ended September 30, 2013 was flat compared to the same period of 2012, due to an increase in search revenue ex-TAC on Yahoo Properties offset by declines in display revenue ex-TAC and fees revenue. EMEA revenue ex-TAC for the nine months ended September 30, 2013 decreased $13 million, or 5 percent, respectively, as compared to the same period of 2012, due to declines in display revenue ex-TAC on Yahoo Properties driven by a decrease in premium advertising.

Revenue ex-TAC in EMEA accounted for approximately 7 percent and 8 percent of total revenue ex-TAC for both the three and nine months ended September 30, 2013 and 2012, respectively.

Asia Pacific

Asia Pacific revenue ex-TAC for the three and nine months ended September 30, 2013 decreased $21 million, or 10 percent, and $48 million, or 8 percent, respectively, as compared to the same periods of 2012. The decline for the three and nine months ended September 30, 2013 was primarily attributable to a decrease in search revenue ex-TAC in the region related to the closure of our Korea business and unfavorable foreign exchange rate fluctuations.

Revenue ex-TAC in Asia Pacific accounted for approximately 17 percent and 18 percent of total revenue ex-TAC for the three and nine months ended September 30, 2013, respectively, compared to 19 percent for both the three and nine months ended September 30, 2012, respectively.

Direct Costs by Segment

Americas

For the three and nine months ended September 30, 2013, direct costs attributable to the Americas segment decreased $18 million, or 10 percent, and $36 million, or 7 percent, respectively, as compared to the same periods of 2012. For the three months ended September 30, 2013, the decrease in direct costs was primarily due to declines in marketing expenses of $7 million and content costs of $5 million. For the nine months ended September 30, 2013, the decrease in direct costs was primarily due to declines in marketing expenses of $21 million, compensation costs of $9 million, and bandwidth and other cost of revenue of $3 million.

Direct costs attributable to the Americas segment as a percentage of Americas revenue ex-TAC for both the three and nine months ended September 30, 2013 was 21 percent, compared to 24 percent and 23 percent for the three and nine months ended September 30, 2012, respectively.

Table of Contents

EMEA

For the three and nine months ended September 30, 2013, direct costs attributable to the EMEA segment increased $1 million, or 2 percent, and decreased $1 million, or 1 percent, respectively, as compared to the same periods of 2012. For the three months ended September 30, 2013, direct costs in the region increased due to an increase in compensation costs and content costs, partially offset by a decline in bandwidth and other cost of revenue. For the nine months ended September 30, 2013, the decrease in direct costs in the region was attributable to a decline in compensation costs partially offset by an increase in marketing expenses and content costs.

Direct costs attributable to the EMEA segment as a percentage of EMEA revenue ex-TAC for the three and nine months ended September 30, 2013 was 50 percent and 48 percent, respectively, compared to 50 percent and 46 percent for the three and nine months ended September 30, 2012, respectively.

Asia Pacific

For the three and nine months ended September 30, 2013, direct costs attributable to the Asia Pacific segment decreased $9 million, or 16 percent, and $12 million, or 7 percent, respectively, as compared to the same periods of 2012. For the three and nine months ended September 30, 2013, the decrease was primarily attributable to declines in compensation costs which resulted from reduced headcount primarily related to the closure of our Korea business, as well as declines in content costs. This overall decrease was partially offset by an increase in bandwidth and other cost of revenue in the region.

Direct costs attributable to the Asia Pacific segment as a percentage of Asia Pacific revenue ex-TAC for the three and nine months ended September 30, 2013 was 25 percent and 27 percent, respectively, compared to 27 percent for both the three and nine months ended September 30, 2012.

Operating Costs and Expenses

Traffic Acquisition Costs for Non-transitioned Search Markets and All Display Markets

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

TAC for the three and nine months ended September 30, 2013 decreased $54 million, or 48 percent, and $205 million, or 52 percent, as compared to the same periods of 2012. The decrease for the three months ended September 30, 2013, compared to 2012, was primarily attributable to declines in the Asia Pacific, EMEA and Americas regions of $42 million, $7 million and $5 million, respectively. The decrease for the nine months ended September 30, 2013, compared to 2012, was primarily attributable to declines in the Asia Pacific, EMEA and Americas regions of $122 million, $64 million and $19 million, respectively. The decline for both the three and nine months was due to (i) the closure of our Korea business in the Asia Pacific region, (ii) the required change in revenue presentation for transitioned markets from a gross (before TAC) to a net (after TAC) basis in the EMEA region, and (iii) a decline in display revenue in the Americas region.

TAC as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 5 percent and 6 percent, respectively, compared to 9 percent and 11 percent for the three and nine months ended September 30, 2012, respectively.

Cost of Revenue Other

Cost of revenue other consists of bandwidth costs and other expenses associated with the production and usage of Yahoo Properties, including amortization of acquired intellectual property rights and developed technology. Cost of revenue other also includes costs for Yahoo s technology platforms and infrastructure, including depreciation expense and other operating costs, directly related to revenue generating activities.

Cost of revenue other decreased $10 million, or 4 percent, and increased $7 million, or 1 percent, for the three and nine months ended September 30, 2013, respectively, as compared to the same periods of 2012. The decrease for the three months ended September 30, 2013, compared to 2012, was primarily due to a decline in depreciation expense resulting from fully depreciated assets, asset write offs, and data center closures, which resulted in a reduction of depreciable assets, and a decline in content costs. This was partially offset by incremental cost of revenue related to our Asia Pacific e-commerce business. The increase for the nine months ended September 30, 2013, compared to 2012, was primarily due to incremental depreciation of server, storage and network equipment and developed software and incremental cost of revenue related to our Asia Pacific e-commerce business. This overall increase was partially offset by a decline in bandwidth costs and amortization of intellectual property and intangibles.

Cost of revenue other as a percentage of GAAP revenue for both the three and nine months ended September 30, 2013 was 24 percent, compared to 24 percent and 22 percent for the three and nine months ended September 30, 2012, respectively.

Sales and Marketing

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

Sales and marketing expenses for the three and nine months ended September 30, 2013 increased $13 million, or 5 percent, and decreased $8 million, or 1 percent, respectively, as compared to the same periods of 2012. For the three months ended September 30, 2013, sales and marketing expenses increased primarily due to increases in marketing expenses of $6 million and stock-based compensation expenses of $9 million. The increase in marketing expenses was primarily due to our Fantasy Football television advertising campaign, for which there were no similar campaigns in 2012. The increase in stock-based compensation expense in the sales and marketing function was primarily attributable to an increase in the number of awards granted at a higher fair value. The decrease for the nine months ended September 30, 2013 was primarily due to a decline in compensation costs of $36 million, partially offset by an increase in marketing expenses of $15 million and stock-based compensation expenses of $9 million (as discussed above). The decline in compensation costs was attributable to a decline in headcount year-over-year. The increase in marketing expenses was primarily due to our On the Road with Yahoo marketing campaign and our Fantasy Football television advertising campaign, for which there were no similar campaigns in 2012.

Sales and marketing expenses as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 25 percent and 24 percent, respectively, compared to 22 percent and 23 percent for the three and nine months ended September 30, 2012, respectively.

Product Development

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

Product development expenses for the three and nine months ended September 30, 2013 increased $50 million, or 23 percent, and $78 million, or 12 percent, as compared to the same periods of 2012. For the three months ended September 30, 2013, the increase was primarily attributable to increases in compensation costs, facilities and equipment expense and stock-based compensation expense. This was partially offset by a decline in depreciation expense. The increase in stock-based compensation in the product development function was primarily due to an increase in the number of awards granted at a higher fair value. For the nine months ended September 30, 2013, the increase was primarily attributable to an increase in facilities and equipment expense, travel and entertainment expense, and stock-based compensation expense (as discussed above). This was partially offset by a decline in compensation costs as a result of terminations from the Q2 12 Restructuring Plan.

Product development expenses as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 24 percent and 21 percent, respectively, compared to 18 percent for both the three and nine months ended September 30, 2012.

General and Administrative

General and administrative expenses consist primarily of compensation-related expenses (including stock-based compensation expense) related to other corporate departments and fees for professional services.

General and administrative expenses for the three months and nine months ended September 30, 2013 increased $16 million, or 12 percent, and $24 million, or 6 percent, respectively, as compared to the same periods of 2012. For the three months ended September 30, 2013, the increase was due to increases in facilities and equipment expense, professional services expense, and compensation costs. For the nine months ended September 30, 2013, the increase was due to increases in facilities and equipment expense, compensation costs, and stock-compensation expense. The increase in stock-based compensation expense in the general and administrative function was primarily attributable to an increase in the number of awards granted at a higher fair value, including performance-based awards.

General and administrative expenses as a percentage of GAAP revenue for the three and nine months ended September 30, 2013 was 13 percent and 12 percent, respectively, compared to 11 percent for both the three and nine months ended September 30, 2012.

Amortization of Intangibles

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

Amortization of intangibles for the three and nine months ended September 30, 2013 increased $7 million, or 89 percent, and $3 million, or 10 percent, respectively, as compared to the same periods of 2012. For the three and nine months ended September 30, 2013, the increase in amortization of intangibles was primarily driven by incremental amortization from acquisitions completed in 2013, partially offset by a decrease in amortization of intangibles driven by fully amortized assets acquired in prior years.

Amortization of intangibles as a percentage of GAAP revenue for the three and nine months ended September 30, 2012 and 2013 was 1 percent.

Table of Contents

Restructuring Charges (Reversals), Net

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

	Three Months Ended September 30, 2012				Nine Months Ended September 30, 2012			
	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total
Employee severance pay and related costs	$ (44)	$ 11,511	$	$ 11,467	$ 3,617	$ 102,577	$	$ 106,194
Non-cancelable lease, contract terminations, and other charges	2,104	9,332		11,436	6,360	9,949		16,309
Other non-cash charges, net		1,824		1,824		40,462		40,462
Sub-total before reversal of stock-based compensation expense	2,060	22,667		24,727	9,977	152,988		162,965
Reversal of stock-based compensation expense for forfeitures						(3,429)		(3,429)
Restructuring charges, net	$ 2,060	$ 22,667	$	$ 24,727	$ 9,977	$ 149,559	$	$ 159,536

	Three Months Ended September 30, 2013				Nine Months Ended September 30, 2013			
	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total	Restructuring Plans Prior to 2012	Q2 12 Restructuring Plan	Q4 12 Korea Business Closure	Total
Employee severance pay and related costs	$ (20)	$ (2,807)	$	$ (2,827)	$ (459)	$ (15,784)	$ (103)	$ (16,346)
Non-cancelable lease, contract terminations, and other charges	2,217	33	1	2,251	11,652	131	(44)	11,739
Other non-cash charges, net							547	547
Restructuring charges (reversals), net	$ 2,197	$ (2,774)	$ 1	$ (576)	$ 11,193	$ (15,653)	$ 400	$ (4,060)

Restructuring Plans Prior to 2012. Prior to 2012, we implemented workforce reductions, a strategic realignment, and consolidation of certain real estate facilities and data centers to reduce our cost structure, align resources with our product strategy, and improve efficiency. During the three and nine months ended September 30, 2012, we recorded total pre-tax cash charges of $2 million and $10 million, respectively, in severance, facility, and other related costs, the majority of which related to the Americas segment.

During the three and nine months ended September 30, 2013, we incurred total pre-tax cash charges of $2 million and $11 million, respectively, in severance, facility, and other related costs under these restructuring plans. The $2 million recorded for the three months ended September 30, 2013 was primarily related to the Americas segment. Of the $11 million recorded for the nine months ended September 30, 2013, $7 million related to the Americas segment and $4 million related to the EMEA segment.

As of September 30, 2013, the aggregate outstanding restructuring liability related to the Restructuring Plans Prior to 2012 was $26 million, most of which relates to non-cancelable lease costs that we expect to pay over the terms of the related obligations, which extend to the second quarter of 2017.

Q2 12 Restructuring Plan. During the second quarter of 2012, we began implementing the Q2 12 Restructuring Plan to reduce our worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities. During the three months ended September 30, 2012, we recorded total pre-tax cash charges of $35 million in severance- and facility-related costs and $2 million in non-cash facility and other asset impairment charges. Those total pre-tax charges were offset by a reversal of $14 million for adjustments to original estimates in severance-related costs primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $23 million in restructuring charges, net recorded in the three months ended September 30, 2012, $11 million related to the Americas segment and $12 million related to the EMEA segment. During the nine months ended September 30, 2012, we recorded total pre-tax cash charges of $127 million in severance- and facility-related costs and $40 million in non-cash facility and other asset impairment charges. The total pre-tax charges during the nine months ended September 30, 2012 were offset by a reversal of $17 million for adjustments to original estimates. Of the $150 million in restructuring charges, net recorded in the nine months ended September 30, 2012, $97 million related to the Americas segment, $47 million related to the EMEA segment, and $6 million related to the Asia Pacific segment.

During the three months ended September 30, 2013, we recorded a net reversal of $3 million for severance-related costs due to changes to original estimates and redeployments and voluntary resignations of employees prior to their planned severance dates. During the nine months ended September 30, 2013, we recorded $6 million in severance- and facility-related costs which were offset by a credit of $22 million for severance-related reversals due to adjustments to original estimates as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $3 million credit in restructuring charges, net, recorded in the three months ended September 30, 2013, $2 million related to the EMEA segment and $1 million related to the Asia Pacific segment. Of the $16 million credit in restructuring charges, net, recorded in the nine months ended September 30, 2013, $8 million related to the Americas segment, $7 million related to the EMEA segment, and $1 million related to the Asia Pacific segment.

As of September 30, 2013, the aggregate outstanding restructuring liability related to the Q2 12 Restructuring Plan was $4 million, most of which relates to severance-related costs that we expect to be substantially paid by the fourth quarter of 2013. The remaining liability relates to non-cancelable lease costs that we expect to pay over the terms of the related obligations, which extend to the fourth quarter of 2021.

Q4 12 Korea Business Closure. During the fourth quarter of 2012, we decided to close our Korea business to streamline our operations and focus our resources. During both the three and nine months ended September 30, 2013, we recorded net pre-tax charges of less than $1 million in severance, facility and contract termination costs related to the Asia Pacific segment.

As of September 30, 2013, the aggregate outstanding restructuring liability related to the Q4 12 Korea Business Closure was $1 million, most of which relates to contract termination costs that we expect to be paid by the first quarter of 2014.

See Note 13 Restructuring Charges (Reversals), Net in the Notes to our condensed consolidated financial statements for additional information.

Other Income, Net

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2013	September 30, 2012	September 30, 2013
Interest, dividend, and investment income	$ 6,402	$ 5,362	$ 15,682	$ 53,214
Gain related to sale of Alibaba Group Shares	4,603,322		4,603,322	
Other	(2,068)	8	11,105	(7,166)
Total other income, net	$ 4,607,656	$ 5,370	$ 4,630,109	$ 46,048

For the nine months ended September 30, 2013, interest, dividend and investment income increased, compared to the same period of 2012, primarily due to dividend income of $46 million on the Alibaba Group Preference Shares.

For the three and nine months ended September 30, 2012, we recorded a pre-tax gain of approximately $4.6 billion related to the sale of Alibaba Group Shares. See Note 8 Investments in Equity Interests for additional information.

For the nine months ended September 30, 2013, other decreased due to foreign exchange losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies as well as a gain on investment sale that occurred in the second quarter of 2012, for which no similar transactions occurred in 2013.

Income Taxes

Our effective tax rate is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Historically, our provision for income taxes has differed from the tax computed at the U.S. federal statutory income tax rate due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits.

The effective tax rate reported for the three months ended September 30, 2013 was 32 percent compared to 37 percent for the same period in 2012. The effective tax rate reported for the nine months ended September 30, 2013 was 24 percent compared to 37 percent for the same period in 2012. The effective tax rates for the three and nine months ended September 30, 2012 were higher than for the corresponding periods in 2013, because they included the tax expense associated with our taxable gain from the sale of Alibaba Group Shares in September 2012. The lower effective tax rates for the three and nine months ended September 30, 2013 were also related to a reduction of tax reserves that were recorded as tax audits were favorably settled and a tax benefit from the resolution of certain tax matters associated with a one-time foreign earnings distribution made in 2012 as described below.

The conclusion of the 2005 and 2006 IRS tax audit and certain foreign tax audits had the effect of increasing the foreign tax credits available to offset the tax from the distribution of foreign earnings made during the three months ended September 30, 2012. The increased foreign tax credits and the tax benefit relating to the resolution of certain tax matters associated with a one-time foreign earnings distribution made during the quarter ended September 30, 2012 as described below, resulted in a tax benefit during the nine months ended September 30, 2013 of approximately $31 million.

The federal research and development credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Under this act, the federal research and development credit was retroactively extended for amounts paid or incurred after December 31, 2011 and before January 1, 2014. This change resulted in a 2012 tax benefit of approximately $11 million, which was recognized over the nine months ended September 30, 2013.

The U.S. Department of the Treasury issued final regulations on the deduction and capitalization of expenditures related to tangible property for income tax purposes. These regulations apply to our tax year beginning on January 1, 2014. We are currently assessing the financial statement impact of these regulations.

In connection with a review of our cash position and anticipated cash needs for investment in our core business, including potential acquisitions, capital expenditures and stock repurchases, we made a one-time repatriation of cash from certain of our consolidated foreign subsidiaries in 2012. The remaining undistributed foreign earnings of approximately $2 billion plus all subsequent earnings will continue to be indefinitely reinvested going forward. As of September 30, 2013, those earnings are approximately $2.5 billion in total and are principally related to Yahoo Japan.

During the nine months ended September 30, 2013, we settled the income tax examination for the 2005 and 2006 returns with the IRS Appeals Division. That settlement resulted in a reduction of tax reserves. The income tax examination for the 2007 and 2008 returns is currently under protest with the IRS Appeals Division relating to certain proposed adjustments to our intercompany transfer pricing methodology. Our 2009 and 2010 returns are currently under IRS examination.

As of September 30, 2013, our 2005 through 2008 tax returns are also under various stages of audit by the California Franchise Tax Board. While the California Franchise Tax Board has not reached any conclusions on the 2007 and 2008 returns, we have protested the proposed California Franchise Tax Board s adjustments to the 2005 and 2006 returns. We are also in various stages of examination and appeal in connection with our taxes in foreign jurisdictions, which generally span tax years 2005 through 2011.

Our gross amount of unrecognized tax benefits as of September 30, 2013 is $703 million, of which $621 million is recorded on our condensed consolidated balance sheets. The gross unrecognized tax benefits as of September 30, 2013 decreased by $24 million from the recorded balance as of December 31, 2012. It is difficult to determine when the examinations will be settled or their final outcomes; however, certain audits in various jurisdictions related to multinational income tax issues are expected to be resolved in the foreseeable future. As a result, it is reasonably possible that our unrecognized tax benefits could be reduced by up to approximately $24 million in the next twelve months. We believe that we have adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

We may have additional tax liabilities in China related to the sale to Alibaba Group of 523 million Alibaba Group Shares that took place during the year ended December 31, 2012. Any taxes assessed and paid in China are expected to be ultimately offset and recovered in the U.S.

During the year ended December 31, 2012, tax authorities from the Brazilian State of Sao Paulo assessed certain indirect taxes against our Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment totaling approximately $85 million is for calendar years 2008 and 2009. We currently believe the assessment is without merit. We do not believe that it is probable the assessment will be sustained upon appeal, and accordingly, we have not recorded an accrual for the assessment.

Earnings in Equity Interests

Earnings in equity interests for the three and nine months ended September 30, 2013 were $233 million and $675 million, respectively, compared to $175 million and $527 million for the same periods in 2012. The increase for the three and nine months ended September 30, 2013 was due primarily to improved financial performance for Alibaba Group and Yahoo Japan. See Note 8 Investments in Equity Interests in the Notes to our condensed consolidated financial statements for additional information. We record earnings in equity interests one quarter in arrears.

Noncontrolling Interests

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

Liquidity and Capital Resources

	December 31, 2012	September 30, 2013
	(Dollars in thousands)	
Cash and cash equivalents	$ 2,667,778	$ 842,428
Short-term marketable securities	1,516,175	987,870
Long-term marketable securities	1,838,425	1,384,638
Total cash, cash equivalents, and marketable securities	$ 6,022,378	$ 3,214,936
Percentage of total assets	35%	22%

Cash Flow Highlights	Nine Months Ended September 30, 2012	2013
	(In thousands)	
Net cash provided by operating activities	$ 1,618,321	$ 847,520
Net cash provided by investing activities	$ 5,002,336	$ 322,937
Net cash (used in) financing activities	$ (620,824)	$ (2,974,548)

Our operating activities for the nine months ended September 30, 2013 generated adequate cash to meet our operating needs.

As of September 30, 2013, we had cash, cash equivalents, and marketable securities totaling $3.2 billion compared to $6.0 billion at December 31, 2012.

During the nine months ended September 30, 2013, we repurchased 123 million shares of our outstanding common stock for $3.1 billion.

Our foreign subsidiaries held $601 million of our total $3.2 billion of cash and cash equivalents and marketable securities as of September 30, 2013. Cumulative earnings in our consolidated foreign subsidiaries and the related potential tax effect of repatriation are not material to our condensed consolidated financial statements.

On October 19, 2012, we entered into a credit agreement (the Credit Agreement) with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time, which was scheduled to mature on October 18, 2013. On October 10, 2013, we entered into Amendment No. 1 to the Credit Agreement, which extended the termination date of the Credit Agreement from October 18, 2013 to October 9, 2014. During the three months ended September 30, 2013, we borrowed $150 million under the Credit Agreement and subsequently repaid the amount within the same period. As of September 30, 2013, we were in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding. See Note 10 Credit Agreement and Note 17 Subsequent Events in the Notes to our condensed consolidated financial statements for additional information regarding our Credit Agreement.

We currently hedge our net investment in Yahoo Japan with forward contracts to reduce the risk that our investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. The forward contracts are required to be settled in cash and the amount of cash payment we receive or could be required to pay upon settlement could be material. In October 2013, we received $158 million in cash for the settlement of certain foreign exchange forward contracts designated as net investment hedges reducing the outstanding notional amount to $2.3 billion.

We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products, and technologies that are complementary to our business, which acquisitions and investments may require the use of cash.

We expect to continue to generate positive cash flows from operations for the fourth quarter of 2013. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable securities, together with any cash generated from operations and borrowings under the Credit Agreement, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months.

Table of Contents

Cash Flow Changes

Net cash provided by operating activities. For the nine months ended September 30, 2013, operating activities provided $848 million in cash. We generated adjusted EBITDA of $1,086 million and received dividends of $135 million, which were partially offset by changes in working capital: accrued expenses and other liabilities decreased $184 million, accounts payable decreased $54 million, deferred revenue decreased $114 million, and prepaid expenses and other current assets increased $18 million, partially offset by a decrease in accounts receivable of $161 million. For the nine months ended September 30, 2012, operating activities provided $1,618 million in cash, generated by adjusted EBITDA of $1,190 million and dividends received of $84 million, which were partially offset by changes in working capital: accrued expenses and other liabilities increased $2,629 million primarily due to income tax liability associated with our sale of Alibaba Group Shares in September 2012, deferred revenue increased $515 million, accounts receivable decreased $87 million, and prepaid expenses and other current assets decreased $41 million, partially offset by a decrease in accounts payable of $22 million.

Net cash provided by investing activities. In the nine months ended September 30, 2013, the $323 million provided by investing activities was due to net proceeds from sales and maturities of marketable securities of $3,200 million and $800 million received from the redemption of the Alibaba Group Preference Shares, offset by purchases of marketable securities of $2,247 million, $229 million used for capital expenditures, $1,187 million used for acquisitions, and $14 million used for purchases of intangible assets and other activities. During the nine months ended September 30, 2012, cash provided by investing activities was primarily attributable to the sale of Alibaba Group Shares. In the nine months ended September 30, 2012, we received proceeds from sales and maturities of marketable securities of $936 million, $14 million of proceeds from the sale of investments and other activities, and cash proceeds, net of fees, of $6.2 billion received from the sale of Alibaba Group Shares which was offset by purchases of marketable securities of $1.8 billion and the investment of $356 million in capital expenditures.

Net cash used in financing activities. In the nine months ended September 30, 2013, the $2,975 million used in financing activities was due to $3,113 million used for the repurchase of 123 million shares of common stock at an average price of $25.41 per share, and $112 million used for tax withholding payments related to net share settlements of restricted stock units and other financing activities. This use of cash was partially offset by $203 million in cash proceeds received from employee stock option exercises and employee stock purchases made through our employee stock purchase plan, and an excess tax benefit from stock-based awards of $47 million. In the nine months ended September 30, 2012, $621 million was used in financing activities due to $716 million used for the repurchase of 46 million shares of common stock at an average price of $15.43 per share and $52 million used for tax withholding payments related to net share settlements of restricted stock units and other financing activities. This use of cash was partially offset by $116 million in cash proceeds received from employee stock option exercises and employee stock purchases made through our employee stock purchase plan, and an excess tax benefit from stock-based awards of $31 million.

Capital Expenditures, Net

Capital expenditures have generally been comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, real estate, capitalized software and labor. Capital expenditures, net were $229 million for the nine months ended September 30, 2013 compared to $356 million in the same period of 2012. The decline in capital expenditures was due to server purchases in the second half of 2012 which fulfilled certain purchasing needs for 2013. We expect capital expenditures, net to increase in the fourth quarter of 2013 from the amount recorded during the three months ended September 30, 2013.

Contractual Obligations and Commitments

Leases. We have entered into various non-cancelable operating and capital lease agreements for office space and data centers globally for original lease periods up to 12 years, expiring between 2013 and 2025.

In May 2013, we entered into a 12 year operating lease agreement for four floors of the former New York Times building in New York City with a total expected minimum lease commitment of $125 million. We have the option to renew the lease for an additional five years. The lease requires monthly payments of approximately $1 million starting in July 2015 through June 2025; however, rent expense will be recorded over the lease term commensurate with the right to control the space which began in July 2013.

Table of Contents

A summary of lease commitments as of September 30, 2013 is as follows (in millions):

	Gross Operating Lease Commitments		Capital Lease Commitment	
Three months ending December 31, 2013	$	39	$	4
Years ending December 31,				
2014		132		15
2015		108		12
2016		72		9
2017		53		9
2018		36		9
Due after 5 years		108		4
Total gross lease commitments	$	548	$	62
Less: interest				(16)
Net lease commitments	$	548	$	46

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of September 30, 2013, these commitments totaled $33 million, of which $22 million will be payable in the remainder of 2013, $9 million will be payable in 2014, $1 million will be payable in 2015, and $1 million will be payable in 2016.

Intellectual Property Rights. We are committed to make certain payments under various intellectual property arrangements of up to $29 million through 2023.

Income Taxes. As of September 30, 2013, unrecognized tax benefits of $686 million, including interest and penalties, are recorded on our condensed consolidated balance sheets. The Company is unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities.

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

As of September 30, 2013, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, as of September 30, 2013, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our consolidated financial condition, results of operations, liquidity, capital expenditures, or capital resources.

Critical Accounting Policies and Estimates

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

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

For a discussion of our critical accounting policies and estimates, see Critical Accounting Policies and Estimates included in our Annual Report on Form 10-K for the year ended December 31, 2012 under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations. We have made no significant changes to our critical accounting policies and estimates from those described in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

We are exposed to financial market risks, including changes in currency exchange rates and interest rates and changes in the market values of our investments. We may use derivative financial instruments to mitigate certain risks in accordance with our investment and foreign exchange policies.

We generally enter into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. We present our derivative assets and liabilities at their gross fair values on the condensed consolidated balance sheets.

Interest Rate Exposure

Our exposure to market risk for changes in interest rates may impact our costs associated with hedging but primarily relates to our cash and marketable securities portfolio. We invest excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, U.S. municipalities, and high-credit corporate issuers which are classified as marketable securities and cash equivalents.

Investments in fixed rate and floating rate interest-earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. A hypothetical 100 basis point increase in interest rates would result in a $33 million and $26 million decrease in the fair value of our available-for-sale securities as of December 31, 2012 and September 30, 2013, respectively.

Foreign Currency Exposure

Our foreign currency exposure continues to increase as we grow internationally. The objective of our foreign exchange risk management program is to identify material foreign currency exposures and identify methods to manage these exposures to minimize the potential effects of currency fluctuations on our reported condensed consolidated cash flows and results of operations. Counterparties to our derivative contracts are all major financial institutions.

We transact business in various foreign currencies and have significant international revenue, as well as costs denominated in foreign currencies. This exposes us to the risk of fluctuations in foreign currency exchange rates.

Net realized and unrealized foreign currency transaction gains and losses were not material for the three and nine months ended September 30, 2012 and the three months ended September 30, 2013. Net realized and unrealized foreign currency transaction losses were $6 million for the nine months ended September 30, 2013. We categorize our foreign currency exposure as follows: 1) net investment, 2) cash flow, 3) balance sheet, and 4) translation.

Net Investment Exposure. In December 2012, we began hedging, on an after-tax basis, our net investment in Yahoo Japan with forward contracts to reduce the risk that our investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. At inception, the forward contracts had maturities ranging from 9 to 15 months. If the Japanese yen appreciates at maturity from the forward contract execution rates, the forward contracts will require us to pay a cash settlement, which may be material. If the Japanese yen depreciates at maturity from the forward contract execution rates, we will receive a cash settlement, which may be material. We apply net investment hedge accounting and expect the hedges to be effective, allowing changes in fair value of the derivative instrument to be recorded within accumulated other comprehensive income on our condensed consolidated balance sheet. The notional amounts of the foreign currency forward contracts were $3 billion and $2.5 billion as of December 31, 2012 and September 30, 2013, respectively. The fair value of the foreign currency forward contract assets was $3 million as of December 31, 2012, and was included in prepaid expenses and other current assets on our condensed consolidated balance sheets. The fair value of the foreign currency forward contracts were a $416 million asset and a $4 million liability as of September 30, 2013, and were included in prepaid expenses and other current assets and accrued expenses and other current liabilities, respectively, on our condensed consolidated balance sheets. Pre-tax net gains of $3 million and $412 million were recorded as of December 31, 2012 and September 30, 2013, respectively, and were included in accumulated other comprehensive income on our condensed consolidated balance sheets.

Cash Flow Exposure. In May 2013, we began hedging a portion of our forecasted revenue from Yahoo Japan with forward contracts to reduce the risk that our expected future cash flows from Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. We entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through January 31, 2014. For derivatives designated as cash flow hedges, the effective portion of the unrealized gains or losses on these forward contracts is recorded in accumulated other comprehensive income on our condensed consolidated balance sheets and reclassified into revenue on the condensed consolidated statements of income when the underlying hedged revenue is recognized. If the cash flow hedges were to become ineffective, the ineffective portion would be immediately recorded in other income, net on the Company s condensed consolidated statements of income. The cash flow hedges were considered to be effective as of September 30, 2013. The notional amounts of the foreign currency forward contracts were $82 million as of September 30, 2013. The fair value of the foreign currency forward contracts was a less than $1 million net asset as of September 30, 2013; the contracts fair value was included in prepaid expenses and other current assets and accrued expenses and other current liabilities on our condensed consolidated balance sheets. A pre-tax net gain of less than $1 million was recorded as of September 30, 2013, which was included in accumulated other comprehensive income on our condensed consolidated balance sheets. For both three and nine months ended September 30, 2013, we recorded gains of less than $1 million, net of tax, for cash flow hedges, which were recorded in revenue on the condensed consolidated statements of income. We expect all of the forward contracts designated as cash flow hedges to be reclassified to revenue within fiscal year 2013, as we expect to recognize the hedged anticipated revenue related to these contracts by December 31, 2013.

Balance Sheet Exposure. We hedge our net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that our earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities, including intercompany transactions, which are denominated in foreign currencies. We recognize balance sheet derivative instruments as either assets or liabilities on our condensed consolidated balance sheets at fair value. These derivative instruments do not subject us to material balance sheet risk due to exchange rate movements because gains and losses on these derivatives are intended to offset gains or losses on the assets and liabilities being hedged. The notional amounts of the foreign currency forward contracts were $356 million and $398 million as of December 31, 2012 and September 30, 2013, respectively. As of December 31, 2012, the fair value of the foreign currency forward contracts was a $5 million liability, which was included in accrued expenses and other current liabilities on our condensed consolidated balance sheet. As of September 30, 2013, the fair value of the foreign currency forward contracts was a $6 million net liability; the contracts fair value was included in prepaid expenses and other current assets and accrued expenses and other current liabilities on our condensed consolidated balance sheets. Gains of $13 million and losses of $11 million were recorded for the three months ended September 30, 2012 and 2013, respectively, and were included in other income, net on our condensed consolidated statements of income. Gains of $8 million and losses of $7 million were recorded for the nine months ended September 30, 2012 and 2013, respectively, and were included in other income, net on our condensed consolidated statements of income. We paid $6 million in cash for the settlement of certain foreign currency forward contracts during the nine months ended September 30, 2013.

Translation Exposure. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries and our investments in equity interests into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries financial statements into U.S. dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income which is part of stockholders equity. We do not hedge our exposure to foreign currency risks arising from translation.

A Value-at-Risk (VaR) sensitivity analysis was performed on all of our foreign currency derivative positions as of September 30, 2013 and December 31, 2012 to assess the potential impact of fluctuations in exchange rates. The VaR model uses a Monte Carlo simulation to generate thousands of random price paths assuming normal market conditions. The VaR is the maximum expected one day loss in fair value, for a given statistical confidence level, to our foreign currency derivative positions due to adverse movements in rates. The VaR model is used as a risk management tool and is not intended to represent either actual or forecasted losses. Based on the results of the model using a 99 percent confidence interval, we estimate the maximum one-day loss in fair value is $25 million on the notional value of our net investment hedges at September 30, 2013 compared to a $28 million one-day loss at December 31, 2012. The maximum one-day loss in fair value is $1 million on the notional value of our cash flow hedges at September 30, 2013. There were no cash flow hedges outstanding at December 31, 2012. The maximum one-day loss in fair value is $2 million on the notional value of our balance sheet hedges at September 30, 2013 compared to a $3 million one-day loss at December 31, 2012.

Actual future gains and losses associated with our derivative positions may differ materially from the sensitivity analysis performed as of September 30, 2013 due to the inherent limitations associated with predicting the timing and amount of changes in foreign currency exchange rates and our actual exposures and positions. In addition, the VaR sensitivity analysis may not reflect the complex market reactions that may arise from the market shifts modeled within this VaR sensitivity analysis.

Table of Contents

Revenue ex-TAC and related expenses generated from our international subsidiaries are generally denominated in the currencies of the local countries. Primary currencies include Australian dollars, British pounds, Euros, Japanese yen, and Taiwan dollars. The statements of income of our international operations are translated into U.S. dollars at exchange rates indicative of market rates during each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currency-denominated transactions results in reduced consolidated revenue and operating expenses. Conversely, our consolidated revenue and operating expenses will increase if the U.S. dollar weakens against foreign currencies. Using the foreign currency exchange rates from the three and nine months ended September 30, 2012, revenue ex-TAC for the Americas segment for the three and nine months ended September 30, 2013 would have been higher than we reported by $2 million and $4 million; revenue ex-TAC for the EMEA segment would have been lower than we reported by $2 million and $1 million; and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by $12 million and $23 million. Using the foreign currency exchange rates from the three and nine months ended September 30, 2012, direct costs for the Americas segment for the three and nine months ended September 30, 2013 would have been higher than we reported by $1 million and $2 million; direct costs for the EMEA segment would have been lower than we reported by $1 million for both periods; and direct costs for the Asia Pacific segment would have been higher than we reported by $2 million and $1 million.

Investment Exposure

We are exposed to investment risk as it relates to changes in the market value of our investments. We have investments in marketable securities of public and private companies.

Our cash and marketable securities investment policy and strategy attempts primarily to preserve capital and meet liquidity requirements. A large portion of our cash is managed by external managers within the guidelines of our investment policy. We protect and preserve invested funds by limiting default, market, and reinvestment risk. To achieve this objective, we maintain our portfolio of cash and cash equivalents and short-term and long-term investments in a variety of liquid fixed income securities, including both government and corporate obligations and money market funds. As of December 31, 2012 and September 30, 2013, net unrealized gains and losses on these investments were not material.

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

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

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

Table of Contents

PART II   OTHER INFORMATION

Item 1.   *Legal Proceedings*

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

Item 1A.   *Risk Factors*

We have updated the risk factors previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission on March 1, 2013 (2012 Annual Report), as set forth below. We do not believe any of the changes constitute material changes from the risk factors previously disclosed in our 2012 Annual Report.

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

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

Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and content in a manner similar to Yahoo. We compete against these and other companies to attract and retain users, advertisers, developers, and third-party Website publishers as participants in our Affiliate network, and to obtain agreements with third parties to promote or distribute our services. We also compete with social media and networking sites which are attracting a substantial and increasing share of users, users online time, and online advertising dollars.

A key element of our strategy is focusing on mobile products and mobile advertising formats. Our revenue from mobile is, however, not material at present. A number of our competitors are also focused on devoting significant resources to the development of products and services for mobile devices and currently have mobile revenue significantly greater than ours. If we are unable to develop products for mobile devices that users find engaging and that help us grow our mobile revenue, our competitive position, our financial condition and operating results could be harmed.

In addition, several competitors offer products and services that directly compete for users with our offerings, including e-mail, search, sports, news and finance. Similarly, the advertising networks operated by our competitors or by other participants in the display marketplace offer advertising exchanges, ad networks, demand side platforms, ad serving technologies, sponsored search offerings, and other services that directly compete for advertisers with our offerings. We also compete with traditional print and broadcast media companies to attract domestic and international advertising spending. Some of our existing competitors and possible entrants may have greater brand recognition for certain products and services, more expertise in particular market segments, and greater operational, strategic, technological, financial, personnel, or other resources than we do. Many of our competitors have access to considerable financial and technical resources with which to compete aggressively, including by funding future growth and expansion and investing in acquisitions, technologies, and research and development. Further, emerging start-ups may be able to innovate and provide new products and services faster than we can. In addition, competitors may consolidate or collaborate with each other, and new competitors may enter the market. Some of our competitors in international markets have a substantial competitive advantage over us because they have dominant market share in their territories, are owned by local telecommunications providers, have greater local brand recognition, are focused on a single market, are more familiar with local tastes and preferences, or have greater regulatory and operational flexibility due to the fact that we may be subject to both U.S. and foreign regulatory requirements.

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

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

For the three and nine months ended September 30, 2013, 79 percent and 78 percent, respectively, of our total revenue came from display and search advertising. Our ability to retain and grow display and search revenue depends upon:

- maintaining and growing our user base and popularity as an Internet destination site;
- maintaining the popularity of our existing products and introducing engaging new products;
- maintaining and expanding our advertiser base on PCs and mobile devices;
- broadening our relationships with advertisers to small- and medium-sized businesses;

- successfully implementing changes and improvements to our advertising management platforms and obtaining the acceptance of our advertising management platforms by advertisers, Website publishers, and online advertising networks;

- successfully acquiring, investing in, and implementing new technologies and strategic partnerships;

- successfully implementing changes in our sales force, sales development teams, and sales strategy;

- continuing to innovate and improve the monetization capabilities of our display advertising and mobile products;

- effectively monetizing mobile and other search queries;

- continuing to innovate and improve users search experiences;

- maintaining and expanding our Affiliate program for search and display advertising services; and

- deriving better demographic and other information about our users to enable us to offer better experiences to both our users and advertisers.

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

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

We plan to continue to manage costs to better and more efficiently manage our business. However, our operating expenses might increase from their reduced levels as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo brand, fund product development, build data centers or acquire real property, and acquire and integrate complementary businesses and technologies. Our operating costs might also increase if we do not effectively manage costs as we transition markets under the Search Agreement and reimbursements from Microsoft under the Search Agreement decline or cease. In addition, weak economic conditions or other factors could cause our business to contract, requiring us to implement cost cutting measures. If our expenses increase at a greater pace than our revenue, or if we fail to effectively manage costs, our profitability will decline.

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

Internet search is characterized by rapidly changing technology, significant competition, evolving industry standards, and frequent product and service enhancements. We currently deploy our own technology to provide paid search results on our network, except in markets where we have transitioned those services to Microsoft s platform. Even after we complete the transition to Microsoft s platform in all markets, we will need to continue to invest and innovate to improve our users search experience to continue to attract, retain, and expand our user base and paid search advertiser base.

We also generate revenue through other online products and services, such as Yahoo Mail, and continue to innovate the products and services that we offer. The research and development of new, technologically advanced products is a complex process that requires significant levels of innovation and investment, as well as accurate anticipation of technology, market and consumer trends. If we are unable to provide innovative products and services which generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

Risks associated with our Search Agreement with Microsoft may adversely affect our business and operating results.

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. Approximately 25 percent, 31 percent, and 30 percent of our revenue for 2012 and the three and nine months ended September 30, 2013, respectively, were attributable to the Search Agreement. Our business and operating results would be adversely affected by a significant decline in or loss of this revenue.

Implementation of our Search Agreement with Microsoft commenced on February 23, 2010. We have completed the transition of our algorithmic search platform to the Microsoft platform in all markets, and have completed transition of paid search in a substantial majority of our markets. The market-by-market transition of our paid search platform to Microsoft s platform and the migration of paid search advertisers and publishers to Microsoft s platform are expected to continue through 2013 and possibly into 2014. The transition process is complex and requires the expenditure of significant time and resources by us. Delays, difficulties, disruptions or inconveniences resulting from the transition process could result in the loss of advertisers, publishers, Affiliates, and employees, as well as delays in recognizing or reductions in the anticipated benefits of the transaction, any of which could negatively impact our business and operating results.

Table of Contents

In September 2013, the Company advised Microsoft that we were delaying the transition of paid search in Taiwan and Hong Kong. Microsoft disagreed with the delay and the parties engaged in litigation regarding the transition of these markets. See Note 16 Search Agreement with Microsoft Corporation. The uncertainty and disruption created by this litigation regarding the transition of Taiwan and Hong Kong and the timing of the transition could result in the loss of advertisers and publishers and revenue in these markets. In addition, depending on the ultimate outcome of the litigation, Microsoft could seek recovery of its costs and damages.

Under the Search Agreement, Microsoft initially agreed to guarantee Yahoo s revenue per search (RPS Guarantee) on Yahoo Properties for 18 months after the transition of paid search services to Microsoft s platform in each market based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. Paid search services in the U.S. and Canada transitioned to Microsoft s platform in the fourth quarter of 2010, other markets followed and transitions are ongoing as described above. To date, there has been a gap in revenue per search between pre-transition and post-transition periods in most markets and the payments under the RPS Guarantee are to compensate for the difference. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013, and in the second quarter of 2013 Microsoft extended the RPS Guarantee in the U.S. through March 2014. In June 2013, Microsoft and Yahoo agreed upon the RPS Guarantee payment amounts to be paid to us for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013. We also agreed to fixed quarterly payments in lieu of the RPS Guarantee in the U.S. for the quarters ending September 30, 2013, December 31, 2013 and March 31, 2014. In addition, we agreed to waive our right to receive any future RPS Guarantee payments in all markets except Taiwan and Hong Kong.

To the extent the fixed quarterly payments and any RPS Guarantee payments we receive from Microsoft do not fully offset any shortfall relating to revenue per search in the transitioned markets, our search revenue and profitability would decline. Notwithstanding the fixed quarterly payments or any RPS Guarantee payments we may receive from Microsoft, our competitors may continue to increase revenue, profitability, and market share at a higher rate than we do.

More people are using devices other than a PC to access the Internet and are accessing new platforms to make search queries, and versions of our services developed for these devices might not gain widespread adoption by the devices users, manufacturers, or distributors or might fail to function as intended on some devices.

The number of people who access the Internet through devices other than a PC, including mobile telephones, smartphones, personal digital assistants, handheld computers such as tablets and netbooks, video game consoles, televisions, and set-top box devices has increased dramatically, and the trend is likely to continue. Our services were originally designed for rich, graphical environments such as those available on PCs. Limitations on the memory, resolution, functionality and display associated with many alternative devices may make the use of our products and services through such devices more difficult and versions of our products and services developed for those devices may not be compelling to users, manufacturers and distributors of alternative devices. Similarly, the licenses we have negotiated to present third-party content to PC users may not extend to users of alternative devices. In those cases, we may need to enter into new or amended agreements with the content providers in order to present a similar user-experience on the new devices. The content providers may not be willing to enter into such new or amended agreements on reasonable terms or at all. In addition, search queries are increasingly being undertaken via applications tailored to particular devices or social media platforms, which could affect our share of the search market over time.

As new devices and platforms are introduced, it is difficult to predict the problems we may encounter in adapting our services and developing creative new products and services. We expect to continue to devote significant resources to the creation, support, and maintenance of mobile products and services. If we are unable to successfully innovate new forms of Internet advertising for alternative devices, to attract and retain a substantial number of alternative device manufacturers, distributors, content providers, and users to our services, to develop products and technologies that are more compatible with alternative devices and platforms, or to earn adequate margins on revenues derived from these products and services, we will fail to capture opportunities as consumers and advertisers transition to a dynamic, multi-screen environment.

A key to our strategy is focusing on mobile devices. If we are unable to generate and grow our revenue on mobile or other alternative devices or incur excessive expenses attempting to attract such revenue, our financial condition and operating results could be harmed. If monetization stays at current levels and we see an increase in mobile search queries and deceleration of the growth of or decrease in desktop queries, our results may be adversely impacted.

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

Table of Contents

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

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

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

Our business depends on a strong brand, and failing to maintain or enhance the Yahoo brands in a cost-effective manner could harm our operating results.

Maintaining and enhancing our brands is an important aspect of our efforts to attract and expand our user, advertiser, and Affiliate base. We believe that the importance of brand recognition will increase due to the relatively low barriers to entry in certain portions of the Internet market. Maintaining and enhancing our brands will depend largely on our ability to provide high-quality, innovative products and services, which we might not do successfully. We have spent and expect to spend considerable money and resources on the establishment and maintenance of our brands, as well as advertising, marketing, and other brand-building efforts to preserve and enhance consumer awareness of our brands. Our brands may be negatively impacted by a number of factors such as service outages, product malfunctions, data protection and security issues, exploitation of our trademarks by others without permission, and poor presentation or integration of our search marketing offerings by Affiliates on their sites or in their software and services.

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

Our intellectual property rights are valuable, and any failure or inability to sufficiently protect them could harm our business and our operating results.

We create, own, and maintain a wide array of copyrights, patents, trademarks, trade dress, trade secrets, rights to domain names and other intellectual property assets which we believe are collectively among our most valuable assets. We seek to protect our intellectual property assets through patent, copyright, trade secret, trademark, and other laws of the U.S. and other countries of the world, and through contractual provisions. However, the efforts we have taken to protect our intellectual property and proprietary rights might not be sufficient or effective at stopping unauthorized use of those rights. Protection of the distinctive elements of Yahoo might not always be available under copyright law or trademark law, or we might not discover or determine the full extent of any unauthorized use of our copyrights and trademarks in order to protect our rights. In addition, effective trademark, patent, copyright, and trade secret protection might not be available or cost-effective in every country in which our products and media properties are distributed or made available through the Internet. Changes in patent law, such as changes in the law regarding patentable subject matter, could also impact our ability to obtain patent protection for our innovations. In particular, recent amendments to the U.S. patent law may affect our ability to protect our innovations and defend against claims of patent infringement.

Further, given the costs of obtaining patent protection, we might choose not to protect (or not to protect in some jurisdictions) certain innovations that later turn out to be important. There is also a risk that the scope of protection under our patents may not be sufficient in some cases or that existing patents may be deemed invalid or unenforceable. To help maintain our trade secrets, we have entered into confidentiality agreements with most of our employees and contractors, and confidentiality agreements with many of the parties with whom we conduct business, in order to limit access to and disclosure of our proprietary information. If these confidentiality agreements are breached it could compromise our trade secrets and cause us to lose any competitive advantage provided by those trade secrets.

If we are unable to protect our proprietary rights from unauthorized use, the value of our intellectual property assets may be reduced. In addition, protecting our intellectual property and other proprietary rights is expensive and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and consequently harm our operating results.

We are regularly involved in claims, suits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly involved in claims, suits, government investigations, and proceedings arising from the ordinary course of our business, including actions with respect to intellectual property claims, privacy, consumer protection, information security, data protection or law enforcement matters, tax matters, labor and employment claims, commercial claims, as well as actions involving content generated by our users, stockholder derivative actions, purported class action lawsuits, and other matters. Such claims, suits, government investigations, and proceedings are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, such legal proceedings can have an adverse impact on us because of legal costs, diversion of management and other personnel, and other factors. In addition, it is possible that a resolution of one or more such proceedings could result in reputational harm, liability, penalties, or sanctions, as well as judgments, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, or requiring a change in our business practices, products or technologies, which could in the future materially and adversely affect our business, operating results, and financial condition. See Note 11 Commitments and Contingencies in the Notes to our condensed consolidated financial statements.

On May 15, 2013, the Superior Court of Justice for the Federal District of Mexico reversed a judgment of U.S. $2.75 billion that had been entered against us and our subsidiary, Yahoo! Mexico, in a lawsuit brought by plaintiffs Worldwide Directories S.A. de C.V. and Ideas Interactivas, S.A. de C.V. The plaintiffs have appealed. We believe the plaintiffs claims are without legal or factual merit. We do not believe that it is probable the judgment will be reinstated on appeal, however we cannot predict the timing of a decision or assure the ultimate outcome of the pending or further appeals. If we are ultimately required to pay all or a significant portion of the judgment, together with any potential additional damages, interests and costs, it would have a material adverse effect on our financial condition, results of operations and cash flows. We will also be required to record an accrual for the judgment if we should determine in the future that it is probable that we will be required to pay the judgment.

We are, and may in the future be, subject to intellectual property infringement or other third-party claims, which are costly to defend, could result in significant damage awards, and could limit our ability to provide certain content or use certain technologies in the future.

Internet, technology, media, and patent holding companies often possess a significant number of patents. Further, many of these companies and other parties are actively developing or purchasing search, indexing, electronic commerce, and other Internet-related technologies, as well as a variety of online business models and methods.

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

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

As we expand our business and develop new technologies, products and services, we may become increasingly subject to intellectual property infringement and other claims, including those that may arise under international laws. 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 required to enter into costly royalty or licensing agreements or be prevented from using such rights, which could require us to change our business practices in the future, hinder us from offering certain features, functionalities, products or services, require us to develop non-infringing products or technologies, and limit our ability to compete effectively. We may also incur substantial expenses in defending against third-party claims regardless of the merit of such claims. In addition, many of our agreements with our customers or Affiliates require us to indemnify them for some types of third-party intellectual property infringement claims, which could increase our costs in defending such claims and our damages. Furthermore, such customers and Affiliates may discontinue the use of our products, services, and technologies either as a result of injunctions or otherwise. The occurrence of any of these results could harm our brands or have an adverse effect on our business, financial position, operating results, and cash flows.

A variety of new and existing U.S. and foreign government laws and regulations could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices.

We are subject to numerous U.S. and foreign laws and regulations covering a wide variety of subject matters. New laws and regulations, changes in existing laws and regulations or the interpretation of them, our introduction of new products, or an extension of our business into new areas, could increase our future compliance costs, make our products and services less attractive to our users, or cause us to change or limit our business practices. We may incur substantial expenses to comply with laws and regulations or defend against a claim that we have not complied with them. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal liabilities, penalties, and negative publicity.

The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, security, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, billing, real estate, consumer protection, accessibility, content regulation, quality of services, law enforcement demands, telecommunications, mobile, television, and intellectual property ownership and infringement in many instances is unclear or unsettled. Further, the application to us or our subsidiaries of existing laws regulating or requiring licenses for certain businesses of our advertisers can be unclear. U.S. export control laws and regulations also impose requirements and restrictions on exports to certain nations and persons and on our business. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country.

The Digital Millennium Copyright Act (DMCA) is intended, in part, to limit the liability of eligible online service providers for caching, hosting, listing or linking to, third-party Websites or user content that include materials that give rise to copyright infringement. Portions of the Communications Decency Act (CDA) are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business, and may be adversely impacted by future legislation and future judicial decisions altering these safe harbors or if international jurisdictions refuse to apply similar protections.

The Children s Online Privacy Protection Act and rule, as amended in December 2012 (COPPA), impose restrictions on the ability of online services to collect some types of information from children under the age of 13. In addition, Providing Resources, Officers, and Technology to Eradicate Cyber Threats to Our Children Act of 2008 (PROTECT) requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. COPPA and PROTECT currently impose restrictions and requirements on our business, and other federal, state or international laws and legislative efforts designed to protect children on the Internet may impose additional requirements on us.

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

Federal, state, and international laws and regulations govern the collection, use, retention, disclosure, sharing and security of data that we receive from and about our users. The use of consumer data by online service providers and advertising networks is a topic of active interest among federal, state, and international regulatory bodies, and the regulatory environment is unsettled. Many states have passed laws requiring notification to users where there is a security breach for personal data, such as California s Information Practices Act. We face similar risks in international markets where our products and services are offered. Any failure, or perceived failure, by us to comply with or make effective modifications to our policies, or to comply with any federal, state, or international privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles could result in proceedings or actions against us by governmental entities or others, a loss of user confidence, damage to the Yahoo brands, and a loss of users, advertising partners, or Affiliates, any of which could potentially have an adverse effect on our business.

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. The interpretation and application of privacy, data protection and data retention laws and regulations are often uncertain and in flux in the U.S. and internationally. These laws may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices, complicating long-range business planning decisions. If privacy, data protection or data retention laws are interpreted and applied in a manner that is inconsistent with our current policies and practices we may be fined or ordered to change our business practices in a manner that adversely impacts our operating results. Complying with these varying international requirements could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Table of Contents

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

Our products and services involve the storage and transmission of Yahoo s users and customers personal and proprietary information in our facilities and on our equipment, networks and corporate systems. Security breaches expose us to a risk of loss of this information, litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation, and potential liability. Our user data and corporate systems and security measures have been and may in the future be breached due to the actions of outside parties (including cyber attacks), employee error, malfeasance, a combination of these, or otherwise, allowing an unauthorized party to obtain access to our data or our users or customers data. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users or customers data.

Any breach or unauthorized access could result in significant legal and financial exposure, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently or may be designed to remain dormant until a predetermined event and often are not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

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

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

- Our operations are susceptible to outages and interruptions due to fire, flood, earthquake, tsunami, other natural disasters, power loss, equipment or telecommunications failures, cyber attacks, terrorist attacks, political or social unrest, and other events over which we have little or no control. We do not have multiple site capacity for all of our services and some of our systems are not fully redundant in the event of delays or disruptions to service, so some data or systems may not be fully recoverable after such events.

- The systems through which we provide our products and services are highly technical, complex, and interdependent. Design errors might exist in these systems, or might be introduced when we make modifications, which might cause service malfunctions or require services to be taken offline while corrective responses are developed.

- Despite our implementation of network security measures, our servers are vulnerable to computer viruses, worms, hacking, physical and electronic break-ins, router disruption, sabotage or espionage, and other disruptions from unauthorized access and tampering, as well as coordinated denial-of-service attacks. We may not be in a position to promptly address attacks or to implement adequate preventative measures if we are unable to immediately detect such attacks. Such events could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, including changes to security measures, to deploy additional personnel, to defend litigation or to protect against similar future events, and may cause damage to our reputation or loss of revenue.

- We rely on third-party providers over which we have little or no control for our principal Internet connections and co-location of a significant portion of our data servers, as well as for our payment processing capabilities and key components or features of certain of our products and services. Any disruption of the services they provide us or any failure of these third-party providers to handle higher volumes of use could, in turn, cause delays or disruptions in our services and loss of revenue. In addition, if our agreements with these third-party providers are terminated for any reason, we might not have a readily available alternative.

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

Our international operations expose us to additional risks that could harm our business, operating results, and financial condition.

In addition to uncertainty about our ability to continue to generate revenue from our foreign operations and expand our international market position, there are additional risks inherent in doing business internationally (including through our international joint ventures), including:

- tariffs, trade barriers, customs classifications and changes in trade regulations;
- difficulties in developing, staffing, and simultaneously managing a large number of varying foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;

- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting bribery and corrupt payments to government officials;
- antitrust and competition regulations;
- potentially adverse tax developments;
- seasonal volatility in business activity and local economic conditions;
- economic uncertainties relating to European sovereign and other debt;
- laws, regulations, licensing requirements, and business practices that favor local competitors or prohibit foreign ownership or investments;
- different, uncertain or more stringent user protection, content, data protection, privacy, intellectual property and other laws; and
- risks related to other government regulation, required compliance with local laws or lack of legal precedent.

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

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

We host and provide a wide variety of services and technology products that enable and encourage individuals and businesses to exchange information; upload or otherwise generate photos, videos, text, and other content; advertise products and services; conduct business; and engage in various online activities both domestically and internationally. The law relating to the liability of providers of online services and products for activities of their users is currently unsettled both within the U.S. and internationally. As a publisher and producer of original content, we may be subject to claims such as copyright, libel, defamation or improper use of publicity rights, as well as other infringement claims such as plagiarism. Claims have been threatened and brought against us for defamation, negligence, breaches of contract, plagiarism, copyright and trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information which we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, we have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates laws in domestic and international jurisdictions. We arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content, such as stock quotes and trading information, under the Yahoo brand or via distribution on Yahoo Properties. We may be subject to claims concerning these products, services, or content by virtue of our involvement in marketing, branding, broadcasting, or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services, or content. While our agreements with respect to these products, services, and content may provide that we will be indemnified against such liabilities, the ability to receive such indemnification may be disputed, could result in substantial costs to enforce or defend, and depends on the financial resources of the other party to the agreement, and any amounts received might not be adequate to cover our liabilities or the costs associated with defense of such proceedings. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

It is also possible that if any information provided directly by us contains errors or is otherwise wrongfully provided to users, third parties could make claims against us. For example, we offer Web-based e-mail services, which expose us to potential risks, such as liabilities or claims, by our users and third parties, resulting from unsolicited e-mail, lost or misdirected messages, illegal or fraudulent use of e-mail, alleged violations of policies, property interests, or privacy protections, including civil or criminal laws, or interruptions or delays in e-mail service. We may also face purported consumer class actions or state actions relating to our online services, including our fee-based services (particularly in connection with any decision to discontinue a fee-based service). In addition, our customers, third parties, or government entities may assert claims or actions against us if our online services or technologies are used to spread or facilitate malicious or harmful code or applications.

Table of Contents

Investigating and defending these types of claims are expensive, even if the claims are without merit or do not ultimately result in liability, and could subject us to significant monetary liability or cause a change in business practices that could negatively impact our ability to compete.

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

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

- the difficulty of assimilating the operations and personnel of acquired companies into our operations;
- the potential disruption of our ongoing business and distraction of management;
- the incurrence of additional operating losses and expenses of the businesses we acquired or in which we invested;
- the difficulty of integrating acquired technology and rights into our services and unanticipated expenses related to such integration;
- the failure to successfully further develop an acquired business or technology and any resulting impairment of amounts currently capitalized as intangible assets;
- the failure of strategic investments to perform as expected;
- the potential for patent and trademark infringement and data privacy and security claims against the acquired companies, or companies in which we have invested;
- litigation or other claims in connection with acquisitions, acquired companies, or companies in which we have invested;
- the impairment or loss of relationships with customers and partners of the companies we acquired or in which we invested or with our customers and partners as a result of the integration of acquired operations;
- the impairment of relationships with, or failure to retain, employees of acquired companies or our existing employees as a result of integration of new personnel;
- our lack of, or limitations on our, control over the operations of our joint venture companies;
- the difficulty of integrating operations, systems, and controls as a result of cultural, regulatory, systems, and operational differences;

- in the case of foreign acquisitions and investments, the impact of particular economic, tax, currency, political, legal and regulatory risks associated with specific countries; and

- the impact of known potential liabilities or liabilities that may be unknown, including as a result of inadequate internal controls, associated with the companies we acquired or in which we invested.

We are likely to experience similar risks in connection with our future acquisitions and strategic investments. Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions and strategic investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

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

Our business is dependent on our ability to recruit, hire, motivate, and retain talented, highly skilled personnel. Achieving this objective may be difficult due to many factors, including the intense competition for such highly skilled personnel in the San Francisco Bay Area and other metropolitan areas where our offices are located; fluctuations in global economic and industry conditions; competitors hiring practices; and the effectiveness of our compensation programs. If we do not succeed in retaining and motivating our existing key employees and in attracting new key personnel, we may be unable to meet our business plan and as a result, our revenue and profitability may decline.

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

If we are unable to effectively manage a large and geographically dispersed group of employees or to anticipate our future growth and personnel needs, our business may be adversely affected. As we expand our business, we must also expand and adapt our operational infrastructure. Our business relies on data systems, billing systems, and financial reporting and control systems, among others. All of these systems have become increasingly complex in the recent past due to the growing complexity of our business, acquisitions of new businesses with different systems, and increased regulation over controls and procedures. To manage our business in a cost-effective manner, we will need to continue to upgrade and improve our data systems, billing systems, and other operational and financial systems, procedures, and controls. In some cases, we are outsourcing administrative functions to lower-cost providers. These upgrades, improvements and outsourcing changes will require a dedication of resources and in some cases are likely to be complex. If

Table of Contents

we are unable to adapt our systems and put adequate controls in place in a timely manner, our business may be adversely affected. In particular, sustained failures of our billing systems to accommodate increasing numbers of transactions, to accurately bill users and advertisers, or to accurately compensate Affiliates could adversely affect the viability of our business model.

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

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

In addition, widespread adoption of new Internet, networking or telecommunications technologies, or other technological changes, could require substantial expenditures to modify or adapt our services or infrastructure. The technology architectures and platforms utilized for our services are highly complex and may not provide satisfactory security features or support in the future, as usage increases and products and services expand, change, and become more complex. In the future, we may make additional changes to our existing, or move to completely new, architectures, platforms and systems, or our users may increasingly access our sites through devices that compel us to invest in new architectures, platforms and systems. Such changes may be technologically challenging to develop and implement, may take time to test and deploy, may cause us to incur substantial costs or data loss, and may cause changes, delays or interruptions in service. These changes, delays, or interruptions in our service may cause our users, Affiliates and other advertising platform participants to become dissatisfied with our service or to move to competing providers or seek remedial actions or compensation. Further, to the extent that demands for our services increase, we will need to expand our infrastructure, including the capacity of our hardware servers and the sophistication of our software. This expansion is likely to be expensive and complex and require additional technical expertise. As we acquire users who rely upon us for a wide variety of services, it becomes more technologically complex and costly to retrieve, store, and integrate data that will enable us to track each user s preferences. Any difficulties experienced in adapting our architectures, platforms and infrastructure to accommodate increased traffic, to store user data, and track user preferences, together with the associated costs and potential loss of traffic, could harm our operating results, cash flows from operations, and financial condition.

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

We rely on third parties to provide the technologies that we use to deliver content, advertising, and services to our users. There can be no assurance that these providers will continue to license their technologies or intellectual property to us on reasonable terms, or at all. Providers may change the fees they charge users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. In order for our services to be successful, there must be a large base of users of the technologies necessary to deliver our content, advertising, and services. We have limited or no control over the availability or acceptance of those technologies, and any change in the licensing terms, costs, availability, or user acceptance of these technologies could adversely affect our business.

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

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

- We maintain search and display advertising relationships with Affiliate sites, which integrate our advertising offerings into their Websites.

- We enter into distribution alliances with Internet service providers (including providers of cable and broadband Internet access) and software distributors to promote our services to their users.

- We enter into agreements with mobile, tablet, netbook, television, and other device manufacturers, electronics companies and carriers to promote our software and services on their devices.

In some markets, we depend on a limited number of distribution arrangements for a significant percentage of our user activity. A failure by our distributors to attract or retain their user bases would negatively impact our user activity and, in turn, reduce our revenue. In some cases, device manufacturers may be unwilling to pay fees to Yahoo in order to distribute Yahoo services.

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

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

Technologies, tools, software, and applications could block our advertisements, impair our ability to deliver interest-based advertising, or shift the location in which advertising appears, which could harm our operating results.

Technologies, tools, software, and applications (including new and enhanced Web browsers) have been developed and are likely to continue to be developed that can block display, search, and interest-based advertising and content, delete or block the cookies used to deliver such advertising, or shift the location in which advertising appears on pages so that our advertisements do not show up in the most monetizable places on our pages or are obscured. Most of our revenue is derived from fees paid by advertisers in connection with the display of graphical advertisements or clicks on search advertisements on Web pages. As a result, the adoption of such technologies, tools, software, and applications could reduce the number of display and search advertisements that we are able to deliver and/or our ability to deliver interest-based advertising and this, in turn, could reduce our advertising revenue and operating results.

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

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

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

We offer fee-based enhancements for many of our free services. The development cycles for these technologies are long and generally require significant investment by us. We have invested and will continue to invest in premium products and services. Some of these premium products and services might not generate anticipated revenue or might not meet anticipated user adoption rates. We have previously discontinued some non-profitable premium services and may discontinue others. General economic conditions as well as the rapidly evolving competitive landscape may affect users willingness to pay for such premium services. If we cannot generate revenue from our premium services that are greater than the cost of providing such services, our operating results could be harmed.

Fluctuations in foreign currency exchange rates may adversely affect our operating results and financial condition.

Revenue generated and expenses incurred by our international subsidiaries and equity method investees are often denominated in the currencies of the local countries. As a result, our consolidated U.S. dollar financial statements are subject to fluctuations due to changes in exchange rates as the financial results of our international subsidiaries and equity method investees are translated from local currencies into U.S. dollars. Our financial results are also subject to changes in exchange rates that impact the settlement of transactions in non-local currencies. The carrying values of our equity investments in our equity investees are also subject to fluctuations in the exchange rates of foreign currencies.

We use derivative instruments, such as foreign currency forward contracts, to partially offset certain exposures to fluctuations in foreign currency exchange rates. The use of such instruments may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign currency exchange rates. Any losses on these instruments that we experience may adversely impact our financial results, cash flows and financial condition. See Part I, Item 3 Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report.

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

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

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

We are subject to income taxes and other taxes in both the U.S. and the foreign jurisdictions in which we currently operate or have historically operated. The determination of our worldwide provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. We earn a material amount of our operating income from outside the U.S., and any repatriation of funds in foreign jurisdictions to the U.S. may result in higher effective tax rates for us. As a U.S. multinational corporation, we are subject to changing tax laws both within and outside of the U.S. We cannot predict the form or timing of potential legislative changes, but any newly enacted tax law could have a material adverse impact on our tax expense and cash flow. We are subject to regular review and audit by both domestic and foreign tax authorities as well as subject to the prospective and retrospective effects of changing tax regulations and legislation. Although we believe our tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in our consolidated financial statements and may materially affect our income tax provision, net income, or cash flows in the period or periods for which such determination and settlement is made.

Adverse macroeconomic conditions could cause decreases or delays in spending by our advertisers and could harm our ability to generate revenue and our results of operations.

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

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

The trading price of our common stock has been and may continue to be subject to broad fluctuations. During the three months ended September 30, 2013, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $24.99 to $33.55 per share and the closing sale price on October 31, 2013 was $32.94 per share. Our stock price may fluctuate in response to a number of events and factors, such as variations in quarterly operating results or announcements of technological innovations, significant transactions, or new features, products or services by us or our competitors; changes in financial estimates and recommendations by securities analysts; the operating and stock price performance of, or other developments involving, other companies that investors may deem comparable to us; trends in our industry; general economic conditions; and the current and anticipated future operating performance and equity valuation of Alibaba Group (including speculation regarding its potential initial public offering) and Yahoo Japan Corporation in which we have equity investments, including changes in equity valuation due to fluctuations in foreign currency exchange rates.

In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees who have been granted stock options or other stock-based awards. A sustained decline in our stock price and market capitalization could lead to an impairment charge to our long-lived assets.

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

Our Board has the authority to issue up to 10 million shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of Yahoo without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Some provisions of our charter documents, including provisions eliminating the ability of stockholders to take action by written consent and limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or changes in our management, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a

Table of Contents

third-party to gain control of our Board. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control of us.

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

Repurchases of Equity Securities

Share repurchase activity during the three months ended September 30, 2013 was as follows:

Period	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) [1]
July 1 July 31, 2013 [2]	49,046,910	$ 28.69	49,046,910	$ 602,631
August 1 August 31, 2013	7,435,059	$ 27.62	7,435,059	$ 397,252
September 1 September 30, 2013	2,598,033	$ 28.05	2,598,033	$ 324,388
Total	59,080,002	$ 28.53	59,080,002	

(1) The share repurchases in the three months ended September 30, 2013 were made under our stock repurchase program announced in May 2012, which authorizes the repurchase of up to $5 billion of our outstanding shares of common stock from time to time. This program, according to its terms, will expire in June 2015 unless revoked earlier by the Board. Repurchases under this program may take place in open market or privately negotiated transactions, including structured and derivative transactions such as accelerated share repurchase transactions, and may be made under a Rule 10b5-1 plan.

(2) These repurchases included the Company s repurchase of 40 million shares of its common stock beneficially owned by Third Point LLC on July 25, 2013. These shares were repurchased pursuant to a Purchase Agreement entered into on July 22, 2013, at $29.11 per share, which equaled the closing price of the Company s common stock on July 19, 2013. The total purchase price for these shares was $1.164 billion. The repurchase transaction was funded primarily with cash as well as borrowings of $150 million under the Company s unsecured revolving credit facility.

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

None.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

Table of Contents

SIGNATURES

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

	YAHOO! INC.	
Dated: November 12, 2013	By:	/s/ Marissa A. Mayer **Marissa A. Mayer** **Chief Executive Officer** **(Principal Executive Officer)**
Dated: November 12, 2013	By:	/s/ Ken Goldman **Ken Goldman** **Chief Financial Officer** **(Principal Financial Officer)**

Table of Contents

YAHOO! INC.

Index to Exhibits

Exhibit Number	Description
2.3	Second Amendment to Share Repurchase and Preference Share Sale Agreement, by and among Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of October 14, 2013 (previously filed as Exhibit 2.3 to the Registrant s Current Report on Form 8-K filed October 15, 2013 and incorporated herein by reference).
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (previously filed as Exhibit 4.8 to the Registrant s Quarterly Report on Form 10-Q filed May 4, 2001 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K/A filed December 20, 2010 and incorporated herein by reference).
4.1*	Form of the Registrant s Common Stock certificate with new logo.
10.2(P)*+	Form of Restricted Stock Unit Award Agreement Letter Amendment between the Registrant and executives regarding tax withholding elections.
10.24(B)	Amendment No. 1 to Credit Agreement, dated as of October 10, 2013, by and among the Registrant, the lenders named therein, and Citibank, N.A. as Administrative Agent (previously filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed October 15, 2013 and incorporated herein by reference).
10.25(B)+	Letter Agreement, dated July 26, 2013, between the Registrant and David Dibble (previously filed as Exhibit 10.25(B) to the Registrant s Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).
10.26(B)*+	Separation Agreement, dated August 9, 2013, between the Registrant and Miyuki Rosen.
10.28(A)	Purchase Agreement, dated July 22, 2013, among the Registrant, Third Point, LLC, Daniel S. Loeb, Third Point Partners L.P., Third Point Partners Qualified L.P., Third Point Offshore Master Fund L.P., Third Point Ultra Master Fund L.P. and Third Point Reinsurance Company, Ltd. (previously filed as Exhibit 99.1 to the Registrant s Current Report on Form 8-K filed on July 25, 2013 and incorporated herein by reference).
10.28(B)	Amendment to Agreement, dated July 22, 2013, between the Registrant, Third Point, LLC and each of the other persons set forth on the signature pages thereto (previously filed as Exhibit 99.2 to the Registrant s Current Report on Form 8-K filed on July 25, 2013 and incorporated herein by reference).
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 12, 2013.
31.2*	Certificate of Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 12, 2013.
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 12, 2013.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels

101.PRE*	XBRL Taxonomy Extension Presentation

* Filed herewith.
\+ Indicates a management contract or compensatory plan or arrangement.