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

Form 10-Q

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

For the quarterly period ended March 31, 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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

Large accelerated filer ☑ Accelerated filer ☐

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

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

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

Class	Outstanding at April 30, 2013
Common Stock, $0.001 par value	1,082,634,754

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YAHOO! INC.

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PART I — FINANCIAL INFORMATION

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

YAHOO! INC.

Condensed Consolidated Balance Sheets

	December 31, 2012	March 31, 2013
	(Unaudited, in thousands except par values)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,667,778	$ 1,174,633
Short-term marketable debt securities	1,516,175	1,838,527
Accounts receivable, net	1,008,448	943,658
Prepaid expenses and other current assets	460,312	644,204
Total current assets	5,652,713	4,601,022
Long-term marketable debt securities	1,838,425	2,382,026
Alibaba Group Preference Shares	816,261	830,925
Property and equipment, net	1,685,845	1,612,690
Goodwill	3,826,749	3,803,433
Intangible assets, net	153,973	136,610
Other long-term assets	289,130	239,427
Investments in equity interests	2,840,157	2,884,846
Total assets	$17,103,253	$16,490,979
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 184,831	$ 110,162
Accrued expenses and other current liabilities	808,475	720,461
Deferred revenue	296,926	308,462
Total current liabilities	1,290,232	1,139,085
Long-term deferred revenue	407,560	370,414
Capital lease and other long-term liabilities	124,587	121,475
Deferred and other long-term tax liabilities	675,271	674,077
Total liabilities	2,497,650	2,305,051
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 1,197,437 shares issued and 1,084,766 shares outstanding as of March 31, 2013	1,187	1,196
Additional paid-in capital	9,563,348	9,639,638
Treasury stock at cost, 74,583 shares as of December 31, 2012 and 112,671 shares as of March 31, 2013	(1,368,043)	(2,143,119)
Retained earnings	5,792,459	6,182,744
Accumulated other comprehensive income	571,249	459,457
Total Yahoo! Inc. stockholders' equity	14,560,200	14,139,916
Noncontrolling interests	45,403	46,012
Total equity	14,605,603	14,185,928
Total liabilities and equity	$17,103,253	$16,490,979

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

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YAHOO! INC.

Condensed Consolidated Statements of Income

	Three Months Ended	
	March 31, 2012	March 31, 2013
	(Unaudited, in thousands except per share amounts)	
Revenue	$1,221,233	$1,140,368
Operating expenses:		
Cost of revenue — traffic acquisition costs	144,091	66,068
Cost of revenue — other	253,980	278,007
Sales and marketing	285,267	257,019
Product development	228,478	219,580
General and administrative	124,271	133,421
Amortization of intangibles	10,053	7,365
Restructuring charges (reversals), net	5,717	(7,062)
Total operating expenses	1,051,857	954,398
Income from operations	169,376	185,970
Other income, net	2,278	17,072
Income before income taxes and earnings in equity interests	171,654	203,042
Provision for income taxes	(56,419)	(29,736)
Earnings in equity interests	172,243	217,588
Net income	287,478	390,894
Net income attributable to noncontrolling interests	(1,135)	(609)
Net income attributable to Yahoo! Inc.	$ 286,343	$ 390,285
Net income attributable to Yahoo! Inc. common stockholders per share — basic	$ 0.24	$ 0.36
Net income attributable to Yahoo! Inc. common stockholders per share — diluted	$ 0.23	$ 0.35
Shares used in per share calculation — basic	1,215,783	1,094,170
Shares used in per share calculation — diluted	1,226,486	1,108,095
Stock-based compensation expense by function:		
Cost of revenue — other	$ 2,893	$ 3,578
Sales and marketing	21,097	16,045
Product development	19,471	8,263
General and administrative	12,505	16,719

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

YAHOO! INC.

Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended	
	March 31, 2012	March 31, 2013
	(Unaudited, in thousands)	
Net income	$287,478	$ 390,894
Available-for-sale securities:		
Unrealized gains (losses) on available-for-sale securities, net of taxes of $100 and $154 for the three months ended March 31, 2012 and 2013, respectively	(463)	1,036
Reclassification adjustment for realized (gains) losses on available-for-sale securities included in net income, net of taxes of $(4,425) and $24 for the three months ended March 31, 2012 and 2013, respectively	7,728	(37)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	7,265	999
Foreign currency translation adjustments:		
Foreign currency translation adjustments (“CTA”), net of tax	10,234	(281,505)
Net investment hedge CTA, net of tax	—	168,714
Net foreign currency translation adjustments, net of tax	10,234	(112,791)
Other comprehensive income (loss)	17,499	(111,792)
Comprehensive income	304,977	279,102
Less: comprehensive income attributable to noncontrolling interests	(1,135)	(609)
Comprehensive income attributable to Yahoo! Inc.	$303,842	$ 278,493

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

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YAHOO! INC.

Condensed Consolidated Statements of Cash Flows

	Three Months Ended	
	March 31, 2012	March 31, 2013
	(Unaudited, in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 287,478	$ 390,894
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	122,750	143,864
Amortization of intangible assets	31,345	18,410
Stock-based compensation expense, net	55,966	44,605
Non-cash restructuring charges	—	547
Accrued dividend income related to Alibaba Group Preference Shares	—	(20,251)
Dividends received from equity investees	—	12,000
Tax benefits from stock-based awards	1,014	9,537
Excess tax benefits from stock-based awards	(8,161)	(12,807)
Deferred income taxes	(4,399)	(20,158)
Earnings in equity interests	(172,243)	(217,588)
(Gain) loss from sales of investments, assets, and other, net	(3,857)	11,905
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable, net	102,641	57,853
Prepaid expenses and other	(9,430)	19,707
Accounts payable	(42,442)	(71,135)
Accrued expenses and other liabilities	(43,988)	(123,472)
Deferred revenue	(19,221)	(25,229)
Net cash provided by operating activities	297,453	218,682
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment, net	(109,791)	(69,581)
Purchases of marketable debt securities	(176,220)	(1,481,293)
Proceeds from sales of marketable debt securities	133,961	424,347
Proceeds from maturities of marketable debt securities	77,700	183,100
Acquisitions, net of cash acquired	—	(10,147)
Purchases of intangible assets	(1,802)	(1,128)
Other investing activities, net	(7,280)	3,822
Net cash used in investing activities	(83,432)	(950,880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock, net	11,623	61,108
Repurchases of common stock	(70,500)	(775,075)
Excess tax benefits from stock-based awards	8,161	12,807
Tax withholdings related to net share settlements of restricted stock units	(31,504)	(43,689)
Other financing activities, net	(1,013)	(1,405)
Net cash used in financing activities	(83,233)	(746,254)
Effect of exchange rate changes on cash and cash equivalents	26,790	(14,693)
Net change in cash and cash equivalents	157,578	(1,493,145)
Cash and cash equivalents at beginning of period	1,562,390	2,667,778
Cash and cash equivalents at end of period	$1,719,968	$ 1,174,633

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

YAHOO! INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company. Yahoo! Inc., together with its consolidated subsidiaries ("Yahoo!" or the "Company"), is focused on making the world's daily habits inspiring and entertaining. By creating highly personalized experiences for 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. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

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

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 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.

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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

	March 31, 2013			
	Gross Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government and agency securities	$1,297,097	$ 840	$ (192)	$1,297,745
Corporate debt securities, commercial paper, and bank certificates of deposit	2,922,208	1,991	(1,391)	2,922,808
Corporate equity securities	238	40	—	278
Alibaba Group Preference Shares	830,925	—	—	830,925
Total investments in available-for-sale securities	$5,050,468	$ 2,871	$ (1,583)	$5,051,756

	December 31, 2012	March 31, 2013
Reported as:		
Short-term marketable debt securities	$1,516,175	$1,838,527
Long-term marketable debt securities	1,838,425	2,382,026
Alibaba Group Preference Shares	816,261	830,925
Other assets	197	278
Total	$4,171,058	$5,051,756

Available-for-sale securities included in cash and cash equivalents on the condensed consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial as of December 31, 2012 and March 31, 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 both the three months ended March 31, 2012 and March 31, 2013.

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

	December 31, 2012	March 31, 2013
Due within one year	$1,516,175	$1,838,527
Due after one year through five years	1,838,425	2,382,026
Total available-for-sale marketable debt securities	$3,354,600	$4,220,553

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)

	March 31, 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	$ 344,981	$ (192)	$ —	$ —	$ 344,981	$ (192)
Corporate debt securities, commercial paper, and bank certificates of deposit	1,002,662	(1,391)	—	—	1,002,662	(1,391)
Total investments in available-for-sale securities	$1,347,643	$ (1,583)	$ —	$ —	$1,347,643	$ (1,583)

The Company's investment portfolio consists of liquid high-quality fixed income government, agency, and corporate debt securities, money market funds, time deposits with financial institutions, and the preference shares ("Alibaba Group Preference Shares") of Alibaba Group Holding Limited ("Alibaba Group"). Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Fixed income securities may have their fair value adversely impacted due to a deterioration of the credit quality of the issuer. The longer the term of the securities, the more susceptible they are to changes in market rates. Investments are reviewed periodically to identify possible other-than-temporary impairment. The Company has no current requirement or intent to sell 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 is presented as an asset carried at fair value on the Company's condensed consolidated balance sheets. To estimate the fair value, 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. As of both December 31, 2012 and March 31, 2013, the carrying value of the Alibaba Group Preference Shares approximates the fair value. As of December 31, 2012, the total fair value of the Alibaba Group Preferences Shares was $822 million and includes $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. As of March 31, 2013, the total fair value of the Alibaba Group Preferences Shares was $831 million. Of the $831 million, $31 million was cumulative accrued dividend income recorded as part of the carrying value of the Alibaba Group Preference Shares. For the three months ended March 31, 2013, the Company received a cash dividend payment from Alibaba Group of approximately $12 million related to the Alibaba Group Preference Shares.

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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
Available-for-sale securities at fair value	$685,904	$4,744,681	$816,261	$6,246,846
Liabilities				
Foreign currency derivative contracts[3]	—	(6,662)	—	(6,662)
Total 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 March 31, 2013 (in thousands):

	Fair Value Measurements at Reporting Date Using			
Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds[1]	$261,137	$ —	$ —	$ 261,137
Available-for-sale securities:				
Government and agency securities[1]	—	1,537,897	—	1,537,897
Commercial paper and bank certificates of deposit[1]	—	771,441	—	771,441
Corporate debt securities[1]	—	2,161,370	—	2,161,370
Time deposits	—	80,219	—	80,219
Alibaba Group Preference Shares	—	—	830,925	830,925
Corporate equity securities[2]	278	—	—	278
Foreign currency derivative contracts[3]	—	273,251	—	273,251
Available-for-sale securities at fair value	$261,415	$4,824,178	$830,925	$5,916,518
Liabilities				
Foreign currency derivative contracts[3]	—	(4,608)	—	(4,608)
Total assets and liabilities at fair value	$261,415	$4,819,570	$830,925	$5,911,910

(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 debt securities in the condensed consolidated balance sheets.

(2) The corporate equity securities are classified as part of the other long-term assets 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 $3.4 billion, including contracts designated as net investment hedges of $3.2 billion, as of March 31, 2013.

The amount of cash and cash equivalents as of December 31, 2012 and March 31, 2013 included $597 million and $583 million, respectively, in 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 from readily-available pricing sources for the identical underlying security that may not be actively traded. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company classifies its investment in the Alibaba Group

Preference

Shares within Level 3 because it is valued using significant unobservable inputs. To estimate the fair value, 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 credit rating of Alibaba Group, general business conditions, and market rates could materially affect the fair value of the Alibaba Group Preference Shares. 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 and the three months ended March 31, 2013, the Company did not make any transfers between Level 1, Level 2, or Level 3 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	March 31, 2013
Unrealized gains on available-for-sale securities, net of tax	$ 9,121	$ 10,120
Foreign currency translation, net of tax	562,128	449,337
Accumulated other comprehensive income	$ 571,249	$459,457

Noncontrolling Interests

Noncontrolling interests were as follows (in thousands):

	December 31, 2012	March 31, 2013
Beginning noncontrolling interests	$ 40,280	$ 45,403
Net income attributable to noncontrolling interests	5,123	609
Ending noncontrolling interests	$ 45,403	$ 46,012

Other Income, Net

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

	Three Months Ended	
	March 31, 2012	March 31, 2013
Interest, dividend and investment income	$ 5,696	$ 25,918
Other	(3,418)	(8,846)
Total other income, net	$ 2,278	$ 17,072

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

Other consists of gains and losses from sales or impairments of marketable debt 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 March 31, 2013 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized gains on available-for-sale securities, net of tax	$ (37)	Other income, net
Total reclassifications for the period	$ (37)	

Note 4 ACQUISITIONS

The Company did not make any acquisitions during the three months ended March 31, 2012. However, during the three months ended March 31, 2013, the Company acquired three companies, all of which were accounted for as business combinations. The total purchase price for these acquisitions was $10 million and consisted entirely of cash consideration, primarily allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

The Company's business combinations completed during the three months ended March 31, 2013 did not have a material impact on the Company's condensed consolidated financial statements.

Note 5 GOODWILL

The Company's goodwill balance was $3.8 billion as of both December 31, 2012 and March 31, 2013, 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. The decrease in the carrying amount of goodwill of $23 million reflected on the Company's condensed consolidated balance sheets during the three months ended March 31, 2013 was primarily due to foreign currency translation losses of $33 million, offset by additions to goodwill related to acquisitions made during the three months ended March 31, 2013.

Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2012	March 31, 2013		
	Net	Gross Carrying Amount	Accumulated Amortization(*)	Net
Customer, affiliate, and advertiser related relationships	$ 62,393	$ 143,412	$ (87,927)	$ 55,485
Developed technology and patents	71,634	179,542	(116,979)	62,563
Trade names, trademarks, and domain names	19,946	50,383	(31,821)	18,562
Total intangible assets, net	$ 153,973	$ 373,337	$ (236,727)	$136,610

(*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities increased total intangible assets by approximately $18 million as of March 31, 2013.

For the three months ended March 31, 2012 and 2013, the Company recognized amortization expense for intangible assets of $31 million and $18 million, respectively, including $21 million and $11 million in cost of revenue—other for the three months ended March 31, 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: nine months ending December 31, 2013: $46 million; 2014: $43 million; 2015: $22 million; 2016: $5 million; and 2017: $5 million.

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 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 49 million shares of common stock for the three months ended March 31, 2012 and 24 million shares of common stock for the three months ended March 31, 2013 were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

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

	Three Months Ended	
	March 31, 2012	March 31, 2013
Basic:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 286,343	$ 390,285
Less: Net income allocated to participating securities	(9)	(11)
Net income attributable to Yahoo! Inc. common stockholders - basic	$ 286,334	$ 390,274
Denominator:		
Weighted average common shares	1,215,783	1,094,170
Net income attributable to Yahoo! Inc. common stockholders per share - basic	$ 0.24	$ 0.36
Diluted:		
Numerator:		
Net income attributable to Yahoo! Inc.	$ 286,343	$ 390,285
Less: Net income allocated to participating securities	(9)	(11)
Less: Effect of dilutive securities issued by equity investees	(1,266)	(2,119)
Net income attributable to Yahoo! Inc. common stockholders - diluted	$ 285,068	$ 388,155
Denominator:		
Denominator for basic calculation	1,215,783	1,094,170
Weighted average effect of Yahoo! Inc. dilutive securities:		
Restricted stock units	8,985	11,427
Stock options and employee stock purchase plan	1,718	2,498
Denominator for diluted calculation	1,226,486	1,108,095
Net income attributable to Yahoo! Inc. common stockholders per share - diluted	$ 0.23	$ 0.35

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	March 31, 2013	Percent Ownership
Alibaba Group	$ 276,389	24%	$ 453,097	24%
Yahoo Japan	2,555,717	35%	2,425,590	35%
Other	8,051	24%	6,159	24%
Total	$2,840,157		$2,884,846	

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 March 31, 2013, Alibaba Group's common shareholders' equity is a net deficit as a result of the repurchase of its ordinary shares from the Company at fair value, which was significantly in excess of the book value per share. The Company's remaining investment balance represents excess cost 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, 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. The Initial Repurchase resulted in a pre-tax gain of approximately $4.6 billion for the year ended December 31, 2012. Yahoo! will continue to account for its remaining approximately 24 percent ownership interest in Alibaba Group under the equity method.

The Alibaba Group Preference Shares yield 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 resulting in an increase to the liquidation preference. The dividend rate is subject to certain adjustments. The Alibaba Group Preference Shares will be freely transferable by Yahoo! after 18 months from the Repurchase Closing Date, are callable by Alibaba Group at any time at the liquidation preference, will not be convertible, and are mandatorily redeemable at the liquidation preference (including accrued dividends) by Alibaba Group on the earlier of the tenth anniversary of the Repurchase Closing Date and the occurrence of certain specified events. The Alibaba Group Preference Shares are classified as available for sale securities.

The Repurchase Agreement provides that at the time Alibaba Group completes an initial public offering meeting certain specified criteria (a "Qualified IPO"), Yahoo! and YHK will 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. 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.

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 March 31, 2013, the Company recognized approximately $34 million 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 $18 million and $35 million for the three months ended March 31, 2012 and March 31, 2013, respectively.

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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	
	December 31, 2011	December 31, 2012
Operating data(*):		
Revenue	$ 1,022,807	$1,840,450
Gross profit	$ 696,839	$1,347,875
Income from operations	$ 276,659	$ 752,585
Net income	$ 253,565	$ 649,977
Net income attributable to Alibaba Group	$ 236,912	$ 642,173

	September 30, 2012	December 31, 2012
Balance sheet data(*):		
Current assets	$ 4,062,823	$6,510,327
Long-term assets	$ 3,204,144	$3,249,335
Current liabilities	$ 2,624,656	$3,879,596
Long-term liabilities	$ 4,705,347	$4,789,612
Convertible preferred shares	$ 1,317,526	$1,678,424
Noncontrolling interests	$ 65,907	$ 113,661

(*) In the three months ended June 30, 2012, Alibaba Group purchased the remaining noncontrolling interest in Alibaba.com for total consideration of approximately $2.5 billion. The purchase was primarily financed by the issuance of debt. The excess of consideration over book value of the noncontrolling interest was recorded as a reduction to the shareholders' equity of Alibaba Group, which increased the Company's excess cost related to its investment in Alibaba Group.

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 $9 billion as of March 31, 2013.

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

	Three Months Ended	
	December 31, 2011	December 31, 2012
	(In thousands)	
Operating data:		
Revenue	$ 1,069,327	$1,195,869
Gross profit	$ 897,708	$ 981,062
Income from operations	$ 542,498	$ 614,492
Net income	$ 302,604	$ 343,414
Net income attributable to Yahoo Japan	$ 301,193	$ 340,550

	September 30, 2012	December 31, 2012
	(In thousands)	
Balance sheet data:		
Current assets	$ 5,752,826	$5,506,847
Long-term assets	$ 1,837,829	$1,687,657
Current liabilities	$ 1,167,772	$ 997,211
Long-term liabilities	$ 49,461	$ 45,308
Noncontrolling interests	$ 31,034	$ 83,385

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 $70 million for both the three months ended March 31, 2012 and March 31, 2013. As of December 31, 2012 and March 31, 2013, the Company had net receivable balances from Yahoo Japan of approximately $43 million and $56 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.

Net Investment Hedges. In December 2012, the Company started 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 months to 15 months. The Company elected to apply hedge accounting on its forward contracts for the net investment hedge of Yahoo Japan. The after-tax net investment hedge was less than the Yahoo Japan investment balance as of both December 31, 2012 and March 31, 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 $3.2 billion as of December 31, 2012 and March 31, 2013, respectively. The fair value of the foreign currency forward contract assets was $3 million and $273 million as of December 31, 2012 and March 31, 2013, respectively, and was included in prepaid expenses and other current assets on the Company's condensed consolidated balance sheets. Pre-tax gains of $3 million and $270 million were recorded for the year ended December 31, 2012 and the three months ended March 31, 2013, respectively, and were included in accumulated other comprehensive income on the Company's condensed consolidated balance sheets, due to changes in the Japanese yen exchange rates.

Balance Sheet Hedges. The Company recognizes balance sheet derivative instruments as either an asset or a liability 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 these foreign currency forward contracts were $356 million and $233 million as of December 31, 2012 and March 31, 2013, respectively. The fair value of the foreign currency forward contracts was a $5 million liability as of December 31, 2012 and March 31, 2013, which was included in accrued expenses and other current liabilities on the Company's condensed consolidated balance sheets. A loss of $1 million and a gain of $4 million were recorded for the three months ended March 31, 2012 and March 31, 2013, respectively, which were included in other income, net. The Company received $4 million in cash from the settlement of some of the foreign currency forward contracts during the three months ended March 31, 2013.

Foreign currency forward contracts activity for the three months ended March 31, 2013 (in millions):

	Beginning Fair Value	Settlement	Gain (loss) recorded in Other income, net	Gain (loss) recorded in Other comprehensive income	Ending Fair Value
Net investment hedges	$ 3	$ —	$ —	$ 270*	$ 273
Balance sheet hedges	(5)	(4)	4	—	(5)

(*) This amount does not reflect the tax impact of $101 million recorded during the three months ended March 31, 2013. The $169

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.

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Note 10 CREDIT FACILITY

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 of 364 days, subject to 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. The applicable margin for borrowings under the Credit Agreement will be based upon the leverage ratio of the Company and range 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.

As of March 31, 2013, the Company was in compliance with the financial covenants in the credit facility 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 2022.

A summary of gross and net lease commitments as of March 31, 2013 was as follows (in millions):

	Gross Operating Lease Commitments	Sublease Income	Net Operating Lease Commitments
Nine months ending December 31, 2013	$ 101	$ (10)	$ 91
Years ending December 31,			
2014	107	(11)	96
2015	83	(7)	76
2016	46	(1)	45
2017	31	—	31
2018	17	—	17
Due after 5 years	21	—	21
Total gross and net lease commitments	$ 406	$ (29)	$ 377

	Capital Lease Commitment
Nine months ending December 31, 2013	$ 6
Years ending December 31,	
2014	8
2015	8
2016	8
2017	9
2018	9
Due after 5 years	5
Gross lease commitment	$ 53
Less: interest	(17)
Net lease commitment included in capital lease and other long-term liabilities	$ 36

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent traffic acquisition costs ("TAC"), to its Affiliates. As of March 31, 2013, these commitments totaled $67 million, of which $60 million will be payable in the remainder of 2013, $5 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 $30 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 March 31, 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. As such, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

See Note 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 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 September 19, 2011, the Court sustained Yahoo!'s demurrer to plaintiff's third amended complaint without leave to amend. Plaintiff has appealed.

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.

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.

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! 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 purports 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"). The appeals must be heard as a matter of law and are pending.

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 does not believe that it is probable that the judgment will be sustained on appeal and, accordingly, has not recorded an accrual for the judgment.

The Company cannot assure the ultimate outcome of its appeals. The Company intends to vigorously pursue all of its appeals. If the current appeals were to be unsuccessful, the Company and Yahoo! Mexico may file a petition with the Mexican Federal Civil Collegiate Court for the First Circuit (the "Civil Collegiate Court") to challenge the decision of the Superior Court as unconstitutional, unlawful, or both. If filed, this petition also must be heard as a matter of law. The parties may then petition for review of any decision of the Civil Collegiate Court to the Supreme Court of Justice of the Nation of Mexico (the "Mexico Supreme Court"). A petition to the Mexico Supreme Court, if filed, is granted at the discretion of the Mexico Supreme Court and its review is limited to interpretations of the Constitution of Mexico or the constitutionality of a provision of Mexico law.

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 March 31, 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 March 31, 2013, there was $13 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 0.9 years.

Stock Options. The Company's 1995 Stock Plan, the Directors' Plan, and other stock-based award plans assumed through acquisitions are collectively referred to as the "Plans." Stock option activity under the Company's Plans for the three months ended March 31, 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	13	$ 23.53
Options exercised(*)	(2,908)	$ 14.68
Options expired	(1,087)	$ 29.88
Options cancelled/forfeited	(214)	$ 14.97
Outstanding at March 31, 2013	33,896	$ 21.77

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

As of March 31, 2013, there was $33 million of unamortized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.0 year.

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

	Stock Options		Purchase Plan(*)	
	Three Months Ended		Three Months Ended	
	March 31, 2012	March 31, 2013	March 31, 2012	March 31, 2013
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.6%	0.6%	1.2%	0.1%
Expected volatility	32.4%	30.9%	34.2%	29.5%
Expected life (in years)	4.08	4.00	1.14	0.24

(*) 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.

Restricted stock award and restricted stock unit activity for the three months ended March 31, 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(*)	17,186	$ 21.19
Vested	(5,626)	$ 15.15
Forfeited	(1,556)	$ 16.13

Awarded and unvested at March 31, 2013(*)	43,805	$	19.40

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

As of March 31, 2013, there was $418 million of unamortized stock-based compensation expense related to unvested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted average period of 2.8 years.

During the three months ended March 31, 2012 and March 31, 2013, 5.7 million shares and 5.6 million shares, respectively, that were subject to previously granted restricted stock awards and restricted stock units vested. These vested restricted stock awards and restricted stock units were net share settled. During both the three months ended March 31, 2012 and March 31, 2013, the Company withheld 2.1 million shares, 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 $32 million and $44 million, respectively, for the three months ended March 31, 2012 and March 31, 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 and tax withholding related to the reacquisition of shares of restricted stock. 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 Committee established performance goals under these stock options for the first performance period (the six months ending 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 subject to each goal 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 installments 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 subject to each annual 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 of Directors. The aggregate amount available under the May 2012 repurchase program was approximately $2.7 billion at March 31, 2013. Repurchases under the repurchase programs may take place in the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan. During the three months ended March 31, 2013, the Company repurchased approximately 38 million shares of its common stock under this stock repurchase program at an average price of $20.35 per share for a total of $775 million.

Note 13 RESTRUCTURING CHARGES (REVERSALS), NET

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

	Three Months Ended March 31, 2012			
	Restructuring Plans Prior to 2012	Q2'12 Restructuring Plan	Q4'12 Korea Business Closure	Total
Employee severance pay and related costs	$ 2,991	$ —	$ —	$ 2,991
Non-cancelable lease, contract terminations, and other charges	2,726	—	—	2,726
Other non-cash charges, net	—	—	—	—
Restructuring charges, net	$ 5,717	$ —	$ —	$ 5,717

	Three Months Ended March 31, 2013			
	Restructuring Plans Prior to 2012	Q2'12 Restructuring Plan	Q4'12 Korea Business Closure	Total
Employee severance pay and related costs	$ (3)	$ (10,265)	$ (103)	$(10,371)
Non-cancelable lease, contract terminations, and other charges	2,811	65	(114)	2,762
Other non-cash charges, net	—	—	547	547
Restructuring charges (reversals), net	$ 2,808	$ (10,200)	$ 330	$ (7,062)

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 months ended March 31, 2012, the Company recorded net pre-tax cash charges of $6 million in severance, facility, and other related costs, the majority of which related to the Americas segment. During the three months ended March 31, 2013, the Company recorded net pre-tax cash charges of $3 million in severance, facility, and other related costs, the majority of which related to the Americas 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 March 31, 2013, the Company recorded total pre-tax cash charges of $6 million in severance and facility related costs. The total pre-tax cash charges were offset by a credit of $16 million for severance-related costs due to changes to original estimates and redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $10 million credit in restructuring charges, net, recorded in the three months ended March 31, 2013, $6 million related to the Americas segment and $4 million related to the EMEA 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 the three months ended March 31, 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 $42 million restructuring liability as of March 31, 2013 consisted of $13 million for employee severance pay expenses, which the Company expects to pay out by the end of the fourth quarter of 2013, and $29 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 three months ended March 31, 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	45	5,988	443	6,476
Non-cancelable lease, contract termination, and other charges	3,209	65	1,109	4,383
Other non-cash charges	—	—	547	547
Changes in estimates and reversals of previous charges	(446)	(16,253)	(1,769)	(18,468)
Restructuring charges (reversals), net for the three months ended March 31, 2013	$ 2,808	$ (10,200)	$ 330	$ (7,062)
Cash paid	(4,104)	(9,773)	(8,206)	(22,083)
Other non-cash charges	—	—	(547)	(547)
Foreign currency	(129)	(445)	(187)	(761)
Balance as of March 31, 2013	$ 26,291	$ 14,631	$ 1,492	$ 42,414

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

	December 31, 2012	March 31, 2013
Americas	$ 42,689	$28,866
EMEA	18,144	10,713
Asia Pacific	12,034	2,835
Total restructuring accruals	$ 72,867	$42,414

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 March 31, 2013 was 15 percent compared to 33 percent for the same period in 2012. The rates in both periods were lower than the U.S. federal statutory rate primarily due to the reductions of tax reserves that were recorded as tax audits were favorably settled. The reduction of tax reserves for the three months ended March 31, 2013 was related to various tax audits worldwide, settled and ongoing, and resulted in a net benefit of approximately $30 million.

The conclusion of the 2005 and 2006 IRS tax audit, discussed below, settled various international transfer pricing matters and had the effect of increasing the foreign tax credits available to offset the tax from the distribution of foreign earnings reported during the three months ended September 30, 2012. The increased foreign tax credits resulted in a tax benefit during the three months ended March 31, 2013 of approximately $12 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 $9 million, which was recognized during the three months ended March 31, 2013.

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 and 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 principally related to Yahoo Japan, and future earnings, will continue to be indefinitely reinvested going forward.

During the three months ended March 31, 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. An initial meeting with the IRS Appeals Division is expected to be held in 2013 to address those matters. The Company's 2009 and 2010 returns are currently under IRS examination.

As of March 31, 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 California Franchise Tax Board's proposed 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 2010.

The Company's gross amount of unrecognized tax benefits as of March 31, 2013 was $710 million, of which $627 million is recorded on the condensed consolidated balance sheets. The gross unrecognized tax benefits as of March 31, 2013 decreased by $18 million from the recorded balance as of December 31, 2012. While it is difficult to determine when the examinations will be settled or their final outcomes, 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 $35 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 Shares of Alibaba Group 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 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.

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

	Three Months Ended	
	March 31, 2012	March 31, 2013
Revenue by segment:		
Americas	$ 836,033	$ 842,195
EMEA	133,962	94,824
Asia Pacific	251,238	203,349
Total Revenue	$1,221,233	$1,140,368
TAC by segment:		
Americas	$ 42,955	$ 37,522
EMEA	45,662	11,536
Asia Pacific	55,474	17,010
Total TAC	$ 144,091	$ 66,068

Revenue ex-TAC by segment:		
Americas	$ 793,078	$ 804,673
EMEA	88,300	83,288
Asia Pacific	195,764	186,339
Total revenue ex-TAC	1,077,142	1,074,300
Direct costs by segment[1]:		
Americas	179,225	170,124
EMEA	40,221	38,428
Asia Pacific	51,491	55,014
Global operating costs[2][3]	421,898	425,129
Depreciation and amortization	153,248	162,092
Stock-based compensation expense	55,966	44,605
Restructuring charges (reversals), net	5,717	(7,062)
Income from operations	$ 169,376	$ 185,970

(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	
	March 31, 2012	March 31, 2013
Capital expenditures, net:		
Americas	$ 82,884	$ 65,416
EMEA	9,283	2,907
Asia Pacific	17,624	1,258
Total capital expenditures, net	$ 109,791	$ 69,581

	December 31, 2012	March 31, 2013
Property and equipment, net:		
Americas:		
U.S	$1,483,225	$1,434,198
Other	1,869	1,665
Total Americas	$1,485,094	$1,435,863
EMEA	59,416	53,294
Asia Pacific	141,335	123,533
Total property and equipment, net	$1,685,845	$1,612,690

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	
	March 31, 2012	March 31, 2013
Display	$ 511,217	$ 455,071
Search	470,397	424,687
Other	239,619	260,610
Total revenue	$1,221,233	$1,140,368

	Three Months Ended	
	March 31, 2012	March 31, 2013
Revenue:		
U.S.	$ 799,650	$ 804,753
International	421,583	335,615
Total revenue	$1,221,233	$1,140,368

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 will have 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 will be the exclusive worldwide relationship sales force for both companies' premium search advertisers, which include advertisers meeting certain spending or other criteria, advertising agencies that specialize in or offer search engine marketing services and their clients, and resellers and their clients seeking assistance with their paid search accounts. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement.

During the first five years of the term of the Search Agreement, in the transitioned markets, the Company is entitled to receive 88 percent of the revenue generated from Microsoft's services on Yahoo! Properties (the "Revenue Share Rate") and the Company is also entitled to receive 88 percent of the revenue generated from Microsoft's services on Affiliate sites after the Affiliate's share of revenue. 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 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. The Company's uncollected 88 percent share in connection with the Search Agreement was $258 million and $268 million, which is included in accounts receivable, net, as of December 31, 2012 and March 31, 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. The RPS Guarantee is calculated 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 would typically be 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. The RPS Guarantee in the U.S. and Canada expired on March 31, 2013. On April 30, 2013, Microsoft extended the RPS Guarantee in the U.S. for an additional 12 months commencing April 1, 2013.

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 EMEA markets as well as six markets in Latin America. The Company is continuing to work with Microsoft on transitioning paid search in the remaining markets. 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.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results for the three months ended March 31, 2012 and March 31, 2013 reflect $17 million and $13 million, respectively, in search operating cost reimbursements from Microsoft under the Search Agreement. Search operating cost reimbursements began during the quarter ended March 31, 2010 and will, subject to specified exclusions and limitations, continue until the Company has fully transitioned to Microsoft's platform.

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 three months ended March 31, 2013, the total reimbursements not yet received from Microsoft of $5 million and $4 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 March 31, 2013.

Note 17 SUBSEQUENT EVENTS

Stock Repurchase Transactions. From April 1, 2013 through May 6, 2013, the Company repurchased approximately 3 million shares of its common stock at an average price of $23.86 per share, for a total of $76 million.

Net Investment Hedge. On April 24, 2013, the Company entered into an additional forward contract to further hedge its net investment in Yahoo Japan. The forward contract has a term of 15 months, a notional amount of $300 million and is being accounted for as a net investment hedge.

Microsoft RPS Guarantee. On April 30, 2013, Microsoft extended the RPS Guarantee in the U.S. for an additional 12 months commencing April 1, 2013.

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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 of such terms or other comparable terminology. This Report includes, among others, forward-looking statements regarding our:

- expectations about revenue, including display, search, and other revenue;
- expectations about growth in users;
- expectations about changes in our earnings in equity interests;
- expectations about operating expenses;
- anticipated capital expenditures;
- expectations about the implementation and the financial and operational impacts of our Search Agreement with Microsoft;
- impact of recent acquisitions on our business and evaluation of, and expectations for, possible acquisitions of, or investments in, businesses, products, intangible assets, and technologies;
- projections and estimates with respect to our restructuring activities and changes to our organizational structure;
- expectations about the impact of the closure of our Korea business;
- 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 overturn a 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 inspiring 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.

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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 March 31,	
	2012	2013
	(dollars in thousands)	
Revenue	$ 1,221,233	$ 1,140,368
Revenue ex-TAC	$ 1,077,142	$ 1,074,300
Income from operations(*)	$ 169,376	$ 185,970
Adjusted EBITDA	$ 384,307	$ 385,605
Net income attributable to Yahoo! Inc.	$ 286,343	$ 390,285
Net cash provided by operating activities	$ 297,453	$ 218,682
Free cash flow	$ 195,823	$ 149,908
(*) Includes:		
Stock-based compensation expense	$ 55,966	$ 44,605
Restructuring charges (reversals), net	$ 5,717	$ (7,062)

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

	Three Months Ended March 31,		2012-2013 % Change
	2012	2013	
	(dollars in thousands)		
Revenue	$ 1,221,233	$ 1,140,368	(7)%
Less: TAC	144,091	66,068	(54)%
Revenue ex-TAC	$ 1,077,142	$ 1,074,300	—

For the three months ended March 31, 2013, revenue ex-TAC was flat compared to the same period of 2012, due to an increase in search and other revenue ex-TAC offset by a decline in display revenue ex-TAC.

Adjusted EBITDA (a Non-GAAP Financial Measure)

	Three Months Ended March 31,		2012-2013 % Change
	2012	2013	
	(dollars in thousands)		
Net income attributable to Yahoo! Inc.	$ 286,343	$ 390,285	36%
Depreciation and amortization	153,248	162,092	6%
Stock-based compensation expense	55,966	44,605	(20)%
Restructuring charges (reversals), net	5,717	(7,062)	N/M
Other income, net	(2,278)	(17,072)	N/M
Provision for income taxes	56,419	29,736	(47)%
Earnings in equity interests	(172,243)	(217,588)	26%
Net income attributable to noncontrolling interests	1,135	609	(46)%
Adjusted EBITDA	$ 384,307	$ 385,605	—
Percentage of Revenue ex-TAC(1)(2)	36%	36%	

N/M = Not Meaningful

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

(2) Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue for the three months ended March 31, 2012 and 2013 was 23 percent and 34 percent, respectively.

For the three months ended March 31, 2013, adjusted EBITDA was flat compared to 2012, mainly due to flat revenue ex-TAC.

Free Cash Flow (a Non-GAAP Financial Measure)

	Three Months Ended March 31,	
	2012	2013
	(dollars in thousands)	
Net cash provided by operating activities	$ 297,453	$ 218,682
Acquisition of property and equipment, net	(109,791)	(69,581)
Dividends received from equity investees	—	(12,000)
Excess tax benefits from stock-based awards	8,161	12,807
Free cash flow	$ 195,823	$ 149,908

For the three months ended March 31, 2013, free cash flow decreased $46 million, or 23 percent compared to 2012. The decrease was primarily attributable to a decline in net cash provided by operating activities which was partially offset by a decline in capital expenditures year-over-year.

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 acquisition of property and equipment, net, and 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

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 Holding Limited ("Alibaba Group") of 523 million of the 1,047 million ordinary shares of Alibaba Group (the "Shares") owned by us (the "Initial Repurchase").

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 intend to return $3.65 billion of the after-tax proceeds to shareholders. This amount includes approximately $2.9 billion we returned to shareholders through share repurchases from May 20, 2012, the date we announced the Repurchase Agreement, through March 31, 2013.

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. The RPS Guarantee is calculated 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. The RPS Guarantee in the U.S. and Canada expired on March 31, 2013. On April 30, 2013, Microsoft extended the RPS Guarantee in the U.S. for an additional 12 months commencing April 1, 2013. We are currently unable to estimate what impact, if any, the extension of the RPS Guarantee will have on our future financial results.

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. We are continuing to work with Microsoft on transitioning paid search in the remaining 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.

From February 23, 2010 until the applicable services are fully transitioned to Microsoft in all markets, Microsoft will also reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. Our results reflect search operating cost reimbursements from Microsoft under the Search Agreement of $17 million and $13 million for the three months ended March 31, 2012 and 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 three months ended March 31, 2013, the total reimbursements not yet received from Microsoft of $5 million and $4 million, were classified as part of

prepaid expenses and other current assets on our condensed consolidated balance sheets as of December 31, 2012 and March 31, 2013, respectively.

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

Results of Operations

	Three Months Ended March 31,		2012-2013 % Change
	2012	2013	
	(dollars in thousands)		
Revenue for groups of similar services:			
Display	$ 511,217	$ 455,071	(11)%
Search	470,397	424,687	(10)%
Other	239,619	260,610	9%
Total revenue	$ 1,221,233	$ 1,140,368	(7)%
Cost of revenue — traffic acquisition costs	$ 144,091	$ 66,068	(54)%
Cost of revenue — other	253,980	278,007	9%
Sales and marketing	285,267	257,019	(10)%
Product development	228,478	219,580	(4)%
General and administrative	124,271	133,421	7%
Amortization of intangibles	10,053	7,365	(27)%
Restructuring charges (reversals), net	5,717	(7,062)	N/M
Total operating expenses	$ 1,051,857	$ 954,398	(9)%
Income from operations	$ 169,376	$ 185,970	10%
Includes:			
Stock-based compensation expense	$ 55,966	$ 44,605	(20)%

N/M = Not Meaningful

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.

	Three Months Ended March 31,		2012-2013 % Change
	2012	2013	
	(dollars in thousands)		
Revenue by segment:			
Americas	$ 836,033	$ 842,195	1%
EMEA	133,962	94,824	(29)%
Asia Pacific	251,238	203,349	(19)%
Total revenue	$ 1,221,233	$ 1,140,368	(7)%
TAC by segment:			
Americas	$ 42,955	$ 37,522	(13)%
EMEA	45,662	11,536	(75)%
Asia Pacific	55,474	17,010	(69)%
Total TAC	$ 144,091	$ 66,068	(54)%
Revenue ex-TAC by segment:			
Americas	$ 793,078	$ 804,673	1%
EMEA	88,300	83,288	(6)%
Asia Pacific	195,764	186,339	(5)%
Total revenue ex-TAC	$ 1,077,142	$ 1,074,300	—

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	Three Months Ended March 31,		2012-2013 % Change
	2012	2013	
	(dollars in thousands)		
Direct costs by segment[1]:			
Americas	179,225	170,124	(5)%
EMEA	40,221	38,428	(4)%
Asia Pacific	51,491	55,014	7%
Global operating costs[2][3]	421,898	425,129	1%
Depreciation and amortization	153,248	162,092	6%
Stock-based compensation expense	55,966	44,605	(20)%
Restructuring charges (reversals), net	5,717	(7,062)	N/M
Income from operations	$ 169,376	$ 185,970	10%

N/M = Not Meaningful

(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, and our margins on revenue from Yahoo! Properties advertising is higher than our margins on revenue from display and search advertising on Affiliate sites, as we pay traffic acquisition costs 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 are increasing our strategic focus on the mobile industry due to a shift in Internet access by users and have hired engineering and technical talent to help us accelerate our efforts in mobile development. At present, our display and search revenue from mobile are 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. Based on this process, from time to time, we update such methodologies.

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.

“Number of Ads Sold” is defined as the total number of ads displayed, or 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 (excluding Korea as discussed above), and India.

"Paid Clicks" are defined as the total number of times an end-user clicks on a sponsored listing on Yahoo! Properties and Affiliate sites for which an advertiser pays on a per click basis. "Price-per-Click" is defined as search revenue divided by our Paid Clicks. Although Paid Clicks and Price-per-Click are predominantly search metrics, we include Paid Clicks and the related revenue from

certain display advertisements that are sold on a price-per-click basis. The revenue associated with display Paid Clicks is not material and is excluded from our display price volume metrics. Our price and volume metrics for search are based on gross search revenue (before TAC) in all markets in which we operate and include any Microsoft RPS Guarantee payments.

Display Revenue

Display revenue for the three months ended March 31, 2013 decreased by 11 percent compared to the same period of 2012. The year-over-year decline was primarily attributable to a decline in advertising on Yahoo! Properties in the Americas region due to a decline in supply related to actions we took to remove ad inventory and page views in order to improve the overall user experience in the redesign of Yahoo.com and Yahoo Mail. This was partially offset by an increase in Affiliate revenue in the Americas region.

For the three months ended March 31, 2013, Number of Ads Sold and Price-per-Ad decreased 7 percent and 2 percent, respectively, compared to the same period of 2012. The decrease in Number of Ads Sold year-over-year was attributable to a decline in supply. The decrease in Price-per-Ad was due to a shift in the mix of ads sold between our various geographies.

Search Revenue

Search revenue for the three months ended March 31, 2013 decreased by 10 percent compared to the same period of 2012. Search revenue decreased due to declines in the Asia Pacific region resulting from the closure of our Korea business, and declines 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.

For the three months ended March 31, 2013, Paid Clicks increased 16 percent and Price-per-Click decreased 7 percent compared to the same period of 2012. The increase in Paid Clicks was primarily attributable to higher click-through rates resulting from improvements in the user interface and strong advertiser adoption of new ad formats. The decrease in Price-per-Click was due to a higher mix of lower monetizing Affiliate traffic.

Other Revenue

Other revenue for the three months ended March 31, 2013 increased by 9 percent compared to the same period of 2012. The year-over-year increase was primarily due to increased royalty revenue resulting from the amended TIPLA agreement with Alibaba Group. This was partially offset by the loss of a partner in the Americas region and a decline in revenue from certain of our broadband partnerships.

Revenue ex-TAC by Segment

Americas

Americas revenue ex-TAC for the three months ended March 31, 2013 increased $12 million, or 1 percent compared to the same period of 2012. Our year-over-year increase in Americas revenue ex-TAC was primarily attributable to increased search revenue ex-TAC and fees revenue. The increase in search revenue ex-TAC was attributable to an increase in sponsored searches on Yahoo! Properties, as well as higher Price-per-Click. The increase in fees revenue was primarily due to increased royalty revenue. This was partially offset by a decline in display revenue ex-TAC due to declines in the Number of Ads Sold.

Revenue ex-TAC in the Americas accounted for approximately 75 percent of total revenue ex-TAC for the three months ended March 31, 2013 compared to 74 percent for the three months ended March 31, 2012.

EMEA

EMEA revenue ex-TAC for the three months ended March 31, 2013 decreased $5 million, or 6 percent, compared to the same period of 2012. The year-over-year declines in EMEA revenue ex-TAC were primarily related to decreased search and display revenue ex-TAC. Search revenue ex-TAC declined due to the revenue share with Microsoft associated with the Search Agreement. Display revenue ex-TAC on Yahoo! Properties declined due to a decrease in guaranteed advertising.

Revenue ex-TAC in EMEA accounted for approximately 8 percent of total revenue ex-TAC for the three months ended March 31, 2013 and March 31, 2012.

Asia Pacific

Asia Pacific revenue ex-TAC for the three months ended March 31, 2013 decreased $9 million, or 5 percent, compared to the same period of 2012. The decline was due to a decrease in search revenue ex-TAC which was offset slightly by an increase in display revenue ex-TAC in the region. The decline in search revenue ex-TAC was primarily attributable to the closure of our Korea business and unfavorable foreign exchange fluctuations. The increase in display revenue ex-TAC was related to increases in Taiwan and Southeast Asia.

Revenue ex-TAC in Asia Pacific accounted for approximately 17 percent of total revenue ex-TAC for the three months ended March 31, 2013 compared to 18 percent for the three months ended March 31, 2012.

Direct Costs by Segment

Americas

For the three months ended March 31, 2013, direct costs attributable to the Americas segment decreased $9 million, or 5 percent, compared to the same period of 2012. The decrease in direct costs was primarily due to lower compensation costs and marketing and public relations expenses. This decrease was partially offset by higher content costs, bandwidth costs and cost of revenue - other.

EMEA

For the three months ended March 31, 2013, direct costs attributable to the EMEA segment decreased $2 million, or 4 percent, compared to the same period of 2012. The decline was primarily due to decreased compensation costs, bandwidth costs and cost of revenue - other in the region. This decline was partially offset by increased marketing and public relations expenses as well as increased content costs.

Asia Pacific

For the three months ended March 31, 2013, direct costs attributable to the Asia Pacific segment increased $4 million, or 7 percent, compared to the same period of 2012. The increase was primarily attributable to increased bandwidth costs and cost of revenue - other which were offset slightly by a decline in compensation costs related to the closure of our Korea business.

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 months ended March 31, 2013 decreased $78 million, or 54 percent, compared to the same period of 2012. The decrease for the three months ended March 31, 2013, compared to 2012, was primarily attributable to declines in the EMEA and Asia Pacific regions of $34 million and $38 million, respectively. The decline in EMEA was due to the required change in revenue presentation for transitioned markets from a gross (before TAC) to a net (after TAC) basis. The decline in Asia Pacific was primarily related to the closure of our Korea business.

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 increased $24 million, or 9 percent, for the three months ended March 31, 2013 compared to the same period of 2012. The increase for the three months ended March 31, 2013, compared to 2012, was primarily due to $7 million in legal accrual releases in the three months ended March 31, 2012 that did not occur in the three months ended March 31, 2013, $5 million in content costs, and $9 million in incremental depreciation of server, storage and network equipment.

Sales and Marketing

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

Sales and marketing expenses for the three months ended March 31, 2013 decreased $28 million, or 10 percent, compared to the same period of 2012. The decrease was primarily due to a decline in compensation costs related to reduced headcount in the function year-over-year.

Product Development

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

Product development expenses for the three months ended March 31, 2013 decreased $9 million, or 4 percent, compared to the same period of 2012. For the three months ended March 31, 2013, the decline was primarily attributable to a decline in salaries of $40 million and a decline in stock based compensation expense of $11 million in the product development function as a result of reduced headcount related to the Q2'12 Restructuring Plan described below. The decrease in product development expenses was partially offset by increases of $13 million in facilities and equipment expense and $10 million in incremental amortization of developed software, as well as a decrease in capitalized labor projects resulting in an increase in expense in the product development function of $22 million.

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 ended March 31, 2013 increased $9 million, or 7 percent, compared to the same period of 2012. The increase in the general and administrative function was due to increases of $5 million in facilities and equipment expense and $4 million in stock-based compensation expense primarily due to performance-based awards granted.

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 months ended March 31, 2013 decreased $3 million, or 27 percent, compared to the same period of 2012. The year-over-year decrease in amortization of intangibles from 2013 to 2012 was primarily driven by fully amortized assets acquired in prior years.

Restructuring Charges (Reversals), Net

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

	Three Months Ended March 31, 2012			
	Restructuring Plans Prior to 2012	Q2'12 Restructuring Plan	Q4'12 Korea Business Closure	Total
Employee severance pay and related costs	$ 2,991	$ —	$ —	$ 2,991
Non-cancelable lease, contract terminations, and other charges	2,726	—	—	2,726
Other non-cash charges, net	—	—	—	—
Restructuring charges, net	$ 5,717	$ —	$ —	$ 5,717

	Three Months Ended March 31, 2013			
	Restructuring Plans Prior to 2012	Q2'12 Restructuring Plan	Q4'12 Korea Business Closure	Total
Employee severance pay and related costs	$ (3)	$ (10,265)	$ (103)	$(10,371)
Non-cancelable lease, contract terminations, and other charges	2,811	65	(114)	2,762
Other non-cash charges, net	—	—	547	547
Restructuring charges (reversals), net	$ 2,808	$ (10,200)	$ 330	$ (7,062)

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 months ended March 31, 2012, we recorded net pre-tax cash charges of $6 million in severance, facility, and other related costs, the majority of which related to the Americas segment. During the three months ended March 31, 2013, we recorded net pre-tax cash charges of $3 million in severance, facility, and other related costs, the majority of which related to the Americas segment.

As of March 31, 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 March 31, 2013, we recorded total pre-tax cash charges of $6 million in severance and facility related costs. The total pre-tax cash charges were offset by a credit of $16 million for severance-related costs due to changes to original estimates and redeployments and voluntary resignations of employees prior to their planned severance dates. Of the $10 million credit in restructuring charges, net, recorded in the three months ended March 31, 2013, $6 million related to the Americas segment and $4 million related to the EMEA segment.

As of March 31, 2013, the aggregate outstanding restructuring liability related to the Q2'12 Restructuring Plan was $15 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 the three months ended March 31, 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 March 31, 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 substantially paid by the second quarter of 2013.

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	
	March 31, 2012	March 31, 2013
Interest, dividend and investment income	$ 5,696	$25,918
Other	(3,418)	(8,846)
Total other income, net	$ 2,278	$17,072

Interest, dividend and investment income increased primarily due to dividend income on the Alibaba Group Preference Shares.

Other decreased due to foreign exchange losses due to re-measurement of monetary assets and liabilities denominated in non-functional currencies offset slightly by foreign exchange gains from balance sheet hedges.

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 March 31, 2013 was 15 percent compared to 33 percent for the same period in 2012. The rates in both periods were lower than the U.S. federal statutory rate primarily due to the reductions of tax reserves that were recorded as tax audits were favorably settled. The reduction of tax reserves for the three months ended March 31, 2013 was related to various tax audits worldwide, settled and ongoing, and resulted in a net benefit of approximately $30 million.

The conclusion of the 2005 and 2006 IRS tax audit, discussed below, settled various international transfer pricing matters and had the effect of increasing the foreign tax credits available to offset the tax from the distribution of foreign earnings reported during the three months ended September 30, 2012. The increased foreign tax credits resulted in a tax benefit during the three months ended March 31, 2013 of approximately $12 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 $9 million, which was recognized during the three months ended March 31, 2013.

In connection with a review of our cash position and anticipated cash needs for investment in our core business, including potential acquisitions and 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 principally related to Yahoo Japan, and future earnings, will continue to be indefinitely reinvested going forward.

During the three months ended March 31, 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. An initial meeting with the IRS Appeals Division is expected to be held in 2013 to address those matters. Our 2009 and 2010 returns are currently under IRS examination.

As of March 31, 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 2010.

Our gross amount of unrecognized tax benefits as of March 31, 2013 is $710 million, of which $627 million is recorded on our condensed consolidated balance sheets. The gross unrecognized tax benefits as of March 31, 2013 decreased by $18 million from the recorded balance as of December 31, 2012. While it is difficult to determine when the examinations will be settled or their final outcomes, 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 $35 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 Shares of Alibaba Group 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.

We currently expect our annual effective tax rate to be approximately 34 percent for 2013.

Earnings in Equity Interests

Earnings in equity interests for the three months ended March 31, 2013 was $218 million compared to $172 million for the same period in 2012. The increase for the three months ended March 31, 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. We expect a significant decline in earnings in equity interests for the three months ended June 30, 2013 due to the effect of seasonality and a decline in the value of the Japanese yen.

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	March 31, 2013
	(Dollars in thousands)	
Cash and cash equivalents	$2,667,778	$1,174,633
Short-term marketable debt securities	1,516,175	1,838,527
Long-term marketable debt securities	1,838,425	2,382,026
Total cash, cash equivalents, and marketable debt securities	$6,022,378	$5,395,186
Percentage of total assets	35%	33%

Cash Flow Highlights	Three Months Ended March 31, 2012	2013
	(In thousands)	
Net cash provided by operating activities	$297,453	$ 218,682
Net cash used in investing activities	$ (83,432)	$(950,880)
Net cash used in financing activities	$ (83,233)	$(746,254)

Our operating activities for the three months ended March 31, 2013 generated adequate cash to meet our operating needs.

As of March 31, 2013, we had cash, cash equivalents, and marketable debt securities totaling $5.4 billion compared to $6 billion at December 31, 2012. During the three months ended March 31, 2013, we repurchased 38 million shares of our outstanding common stock for $775 million.

Our foreign subsidiaries held $555 million of our total $5.4 billion of cash and cash equivalents and marketable debt securities as of March 31, 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. As of March 31, 2013, we were in compliance with the financial covenants in the credit facility and no amounts were outstanding. See Note 10 — "Credit Facility" in the Notes to our condensed consolidated financial statements for additional information regarding our Credit Agreement.

We monitor our exposure to European markets, and as of March 31, 2013 we do not have any material direct exposure to European sovereign debt securities. We invest a portion of excess operating cash in money market funds denominated in Euros and British pounds, and through some of these funds we may have immaterial indirect exposure to high-credit quality European sovereign debt securities.

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.

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 second 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 debt 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.

Cash Flow Changes

Net cash provided by operating activities. For the three months ended March 31, 2013, operating activities provided $219 million in cash. We generated adjusted EBITDA of $386 million and received dividends of $12 million, which were offset by working capital movements. Accrued expenses and other liabilities increased $123 million, accounts payable increased $71 million, and deferred revenue increased $25 million, offset by a decrease in accounts receivable of $58 million and a decrease in prepaid expenses and other current assets of $20 million. For the three months ended March 31, 2012, operating activities provided $297 million in cash, generated by adjusted EBITDA of $384 million offset by a net use of working capital. Accrued expenses and other liabilities increased $44 million, accounts payable increased $42 million, deferred revenue increased $19 million and prepaid expenses and other current assets increased $9 million, offset by a decrease in accounts receivable of $103 million.

Net cash used in investing activities. In the three months ended March 31, 2013, the $951 million used in investing activities was due to net purchases of marketable debt securities of $874 million, $70 million used for capital expenditures and $7 million used for acquisitions and other activities. In the three months ended March 31, 2012, the $83 million used in investing activities was due to $110 million used for capital expenditures and $9 million used for acquisitions and other activities, offset by net proceeds of $36 million received from sales and maturities of marketable debt securities.

Net cash used in financing activities. In the three months ended March 31, 2013, the $746 million used in financing activities was due to $775 million used for the repurchase of 38 million shares of common stock at an average price of $20.35 per share and $45 million used for tax withholding payments related to net share settlements of restricted stock units and other activities. This was partially offset by $61 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 $13 million. In the three months ended March 31, 2012, $83 million was used in financing activities due to $71 million used for the repurchase of 5 million shares of common stock at an average price of $15.47 per share and $32 million used for tax withholding payments related to net share settlements of restricted stock units. This was partially offset by $12 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 $8 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 $70 million for the three months ended March 31, 2013 compared to $110 million in the same period of 2012. We expect capital expenditures, net to increase in future quarters in 2013 from the amount recorded during the three months ended March 31, 2013, as we continue to invest in our datacenter footprint and traffic serving efficiency.

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 2022.

A summary of lease commitments as of March 31, 2013 is as follows (in millions):

	Gross Operating Lease Commitments	Capital Lease Commitment
Nine months ending December 31, 2013	$ 101	$ 6
Years ending December 31,		
2014	107	8
2015	83	8
2016	46	8
2017	31	9
2018	17	9
Due after 5 years	21	5
Total gross lease commitments	$ 406	$ 53

Less: interest	—	(17)
Net lease commitments	$ 406	$ 36

Affiliate Commitments. In connection with contracts to provide advertising services to Affiliates, we are obligated to make payments, which represent TAC, to our Affiliates. As of March 31, 2013, these commitments totaled $67 million, of which $60 million will be payable in the remainder of 2013, $5 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 $30 million through 2023.

Income Taxes. As of March 31, 2013, unrecognized tax benefits of $683 million, including interest and penalties, are recorded on our condensed consolidated balance sheets. As of March 31, 2013, the settlement period for our income tax liabilities cannot be determined.

Other Commitments and Off-Balance Sheet Arrangements. In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, joint 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 March 31, 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 March 31, 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 do not use derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Exposure

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

Investments in fixed rate and floating rate interest-earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if forced to sell securities 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 $7 million and $49 million decrease in the fair value of our available-for-sale debt securities as of March 31, 2012 and 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 losses were immaterial for the three months ended March 31, 2012 and were $8 million for the three months ended March 31, 2013. We categorize our foreign currency exposure as follows: 1) net investment, 2) balance sheet, and 3) 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 have elected to apply net investment hedge accounting and expect the hedges to be effective, allowing changes in fair value of the derivative instrument to be recorded in accumulated other comprehensive income on our condensed consolidated balance sheet. The notional amounts of the foreign currency forward contracts were $3 billion and $3.2 billion as of December 31, 2012 and March 31, 2013, respectively. The fair value of the foreign currency forward contract assets were $3 million and $273 million as of December 31, 2012 and March 31, 2013, respectively, and were included in prepaid expenses and other current assets on our condensed consolidated balance sheets. A pre-tax gain of $3 million and $270 million were recorded for the year ended December 31, 2012 and the three months ended March 31, 2013, respectively, and were included in accumulated other comprehensive income on our condensed consolidated balance sheets.

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 that are denominated in foreign currencies. The balance sheet hedges are carried at fair value with changes in the fair value recorded in other income, net on our condensed consolidated statements of income. 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 $233 million as of December 31, 2012 and as of March 31, 2013, respectively. The fair value of the foreign currency forward contract was a $5 million liability as of both December 31, 2012 and March 31, 2013, which was included in accrued expenses and other current liabilities on our condensed consolidated balance sheets. A loss of $1 million and a gain of $4 million was recorded for the three months ended March 31, 2012 and March 31, 2013, respectively, which was included in other income, net on our condensed consolidated statements of income. We received $4 million in cash from the settlement of some of the foreign currency forward contracts during the three months ended March 31, 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, except for the Japanese yen forward contracts entered into related to our investment in Yahoo Japan.

A Value-at-Risk (“VaR”) sensitivity analysis was performed on all of our foreign currency derivative positions as of March 31, 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 $2 million on the notional value of our balance sheet hedges at March 31, 2013 compared to a $3 million loss at December 31, 2012. The maximum one-day loss in fair-value is $48 million on the notional value of our net investment hedges at March 31, 2013 compared to a $28 million 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 March 31, 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.

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 months ended March 31, 2012, revenue ex-TAC for the Americas segment for the three months ended March 31, 2013 would have been higher than we reported by $1 million; revenue ex-TAC for the EMEA segment would have been lower than we reported by $1 million; and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by $4 million. Using the foreign currency exchange rates from the three months ended March 31, 2012, direct costs for the Americas segment for the three months ended March 31, 2013 would have been higher than we reported by $1 million; direct costs for the EMEA segment would have been approximately equivalent to what we reported; and direct costs for the Asia Pacific segment would have been lower than we reported by $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 debt securities and equity instruments of public and private companies.

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

Alibaba Group Preference Shares Exposure. To estimate the fair value of the Alibaba Group Preference Shares, we 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 receipt of any credit rating of Alibaba Group, general business conditions, and market rates could materially affect the fair value of the Alibaba Group Preference Shares.

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.

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 devices. 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 months ended March 31, 2013, 77 percent 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. 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 several markets. We are continuing to work with Microsoft on transitioning paid search in the remaining 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.

Under the Search Agreement, Microsoft generally guarantees 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 a particular market. The RPS Guarantee is calculated based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. To date, there has been a gap in revenue per search between pre-transition and post-transition periods in most markets and Microsoft has been making payments under the RPS Guarantee to compensate for the difference. To the extent the RPS Guarantee payments we receive do not fully offset any shortfall relating to revenue per search in a particular transitioned market or the RPS Guarantee in that transitioned market expires before the gap in revenue per search in that market is closed, our search revenue and profitability would decline. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013. The RPS Guarantee in the U.S. and Canada expired on March 31, 2013. On April 30, 2013, Microsoft extended the RPS Guarantee in the U.S. for an additional 12 months commencing April 1, 2013. Notwithstanding any RPS Guarantee payments that we may receive, our competitors may continue to increase revenue, profitability, and market share at a higher rate than us.

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 connected 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.

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, music videos, music radio, and maps. We believe that users will increasingly demand high-quality content and services, including music videos, film clips, news footage, and special productions. 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 November 28, 2012, the 49th Civil Court of the Federal District of Mexico City entered a non-final judgment of U.S. $2.75 billion against the Company 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. We believe the plaintiffs’ claims are without legal or factual merit and the Company and Yahoo! Mexico have filed appeals from the judgment. We do not believe that it is probable the judgment will be sustained on appeal, and accordingly, we have not recorded an accrual for the judgment. The Company cannot predict the timing of a decision or assure the ultimate outcome of the appeals. The Company intends to vigorously pursue all of its appeals. If all of our appeals are ultimately unsuccessful, however, and we are 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 infringe copyrights or other rights of others. Portions of the Communications Decency Act ("CDA") are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business, 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.

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.

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 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 March 31, 2013, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from $18.99 to $23.59 per share and the closing sale price on April 30, 2013 was $24.73 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 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 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***

Share repurchase activity during the three months ended March 31, 2013 was as follows:

Period	Total Number of Shares Purchased (*)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (in 000s) (*)
January 1 — January 31, 2013	14,002,762	$ 19.41	14,002,762	$ 3,165,694
February 1 — February 28, 2013	18,791,272	$ 20.84	18,791,272	$ 2,774,025
March 1 — March 31, 2013	5,293,668	$ 21.08	5,293,668	$ 2,662,431
Total	38,087,702	$ 20.35	38,087,702	

(*) The share repurchases in the three months ended March 31, 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 the open market or in privately negotiated transactions, including derivative transactions, and may be made under a Rule 10b5-1 plan.

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

None.

Item 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.

SIGNATURES

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

YAHOO! INC.

Dated: May 6, 2013

By: /s/ MARISSA A. MAYER

Marissa A. Mayer
Chief Executive Officer
(Principal Executive Officer)

Dated: May 6, 2013

By: /s/ KEN GOLDMAN

Ken Goldman
Chief Financial Officer
(Principal Financial Officer)

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YAHOO! INC.

Index to Exhibits

Exhibit Number	Description
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (included as Exhibit A within the Amended and Restated Rights Agreement, dated as of April 1, 2005, by and between the Registrant and Equiserve Trust Company, N.A., as rights agent (previously filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed April 4, 2005 and incorporated herein by reference)).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K/A filed December 20, 2010 and incorporated herein by reference).
10.2(B)+*	Form of Stock Option Agreement, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan.
10.2(C)+*	Form of Stock Option Agreement for Executives, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan.
10.2(D)+*	Form of Restricted Stock Unit Award Agreement, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan.
10.2(E)+	Form of Restricted Stock Unit Award Agreement for Executives, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.2(N)+	Form of Performance Restricted Stock Unit Award Agreement for Executives, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.2(O) +*	Form of Performance Restricted Stock Unit Award Agreement for Executives (2012 TSR version) under the Yahoo! Inc. 1995 Stock Plan.
10.11+	Yahoo! Inc. Executive Incentive Plan for 2013 (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.12(B)+	Form of Severance Agreement (2013 version) (previously filed as Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.21(F)+	Form of Performance Restricted Stock Unit Award Agreement between the Registrant and Marissa A. Mayer, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.21(G)+	Form of Restricted Stock Unit Award Agreement between the Registrant and Marissa A. Mayer, including Notice of Grant Plan, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.21(H)+	Form of Severance Agreement between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed March 6, 2013 and incorporated herein by reference).
10.23(E)+*	Form of Severance Agreement between the Registrant and Henrique de Castro.
10.25+*	Employment Offer Letter, dated November 17, 2008, between the Registrant and David Dibble.
10.26+*	Employment Offer Letter, dated January 5, 2011, between the Registrant and Miyuki Rosen.
31.1*	Certificate of Chief Executive Officer Pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 6, 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 May 6, 2013.

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Exhibit Number	Description
32*	Certificate of Chief Executive Officer and Chief Financial Officer Pursuant to Securities Exchange Act Rules 13a-14(b) and 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 6, 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.