

# YAHOO INC

## FORM 10-K (Annual Report)

Filed 02/28/14 for the Period Ending 12/31/13

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

**Form 10-K**

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

For the fiscal year ended December 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

(State or other jurisdiction of incorporation or organization)

77-0398689

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

701 First Avenue

Sunnyvale, California 94089

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, \$.001 par value	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

(Title of Class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 by Rule 12b-2 of the Exchange Act). Yes  No

As of June 28, 2013, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of voting stock held by non-affiliates of the Registrant, based upon the closing sales price for the Registrant's common stock, as reported on the NASDAQ Global Select Market was \$21,982,938,411. Shares of common stock held by each officer and director and by each person who owns 10 percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding as of February 14, 2014 was 1,009,392,339.

**DOCUMENTS INCORPORATED BY REFERENCE**

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K:

Proxy Statement for the 2014 Annual Meeting of Shareholders—Part III Items 10, 11, 12, 13, and 14.

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**YAHOO! INC.**  
**Form 10-K**  
**Fiscal Year Ended December 31, 2013**

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*The trademarks and/or registered trademarks of Yahoo! Inc. and its subsidiaries referred to herein include, but are not limited to, Yahoo!, Y!, Flickr, Tumblr, Xobni, Aviate, Yahoo Finance, Summly, Right Media, Yahoo Celebrity, Shine, Mojito, Stamped, Rivals, Yahoo BOSS, interclick and their respective logos. Other names are trademarks and/or registered trademarks of their respective owners.*

**Part I**

**Item 1. Business**

**OVERVIEW**

Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo,” the “Company,” “we,” or “us”) is a global technology company focused on making the world’s daily habits inspiring and entertaining. Our mission is driven by our commitment to creating highly personalized experiences that reach our users wherever they might be—on their mobile phone, tablet or desktop. Our more than 800 million monthly users connect to the things that matter most to them with beautiful, engaging experiences across Search, Communications, Digital Magazines and Video—some of which will be powered by Flickr and Tumblr.

We create value for advertisers with a streamlined, simplified advertising technology stack that leverages Yahoo’s data, reach and analytics to connect advertisers with their target audiences. For advertisers, the opportunity to be a part of users’ daily habits across products and platforms is a powerful tool to engage audiences and build brand loyalty.

Advertisers can build their businesses through advertising to targeted audiences on our online properties and services (“Yahoo Properties”) and a distribution network of third party entities (“Affiliates”) who integrate our advertising offerings into their Websites or other offerings (“Affiliate sites”); together with Yahoo Properties, the “Yahoo Network”). Our revenue is generated principally from display and search advertising.

We are proud of our storied history that has evolved with the Internet, beginning in 1994 when our founders, Jerry Yang and David Filo, then graduate students at Stanford University, created *Jerry and Dave’s Guide to the World Wide Web*, a simple directory of websites to help people navigate the Internet. Yahoo was incorporated in 1995 and is a Delaware corporation. We completed our initial public offering on April 12, 1996, and our stock is listed on the NASDAQ Global Select Market under the symbol “YHOO.” Yahoo is a global company headquartered in Sunnyvale, California—with offices in more than 30 countries, regions and territories.

**EXECUTIVE LEADERSHIP**

The management team reporting to Marissa Mayer, our Chief Executive Officer and President, is:

- David Filo—Co-Founder & Chief Yahoo;
- Ken Goldman—Chief Financial Officer;
- Ron Bell—General Counsel & Secretary;
- Jacqueline Reses—Chief Development Officer;
- Kathy Savitt—Chief Marketing Officer;
- Adam Cahan—Senior Vice President, Mobile & Emerging Products;
- Mike Kerns—Senior Vice President, Homepage & Verticals;
- Laurence Mann—Senior Vice President, Search Products;
- Jeffrey Bonforte—Senior Vice President, Communication Products;
- Scott Burke—Senior Vice President, Advertising and Data;
- Jay Rossiter—Senior Vice President, Platforms and Personalization Products;
- Ned Brody—Senior Vice President, Americas;
- Dawn Airey—Senior Vice President, Europe, Middle East, and Africa; and
- Rose Tsou—Senior Vice President, Asia Pacific.

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Our Board of Directors is composed of:

- Marissa Mayer, our CEO; Maynard Webb, our Chairman of the Board; John Hayes; Susan James; Max Levchin; Peter Liguori; and Thomas McInerney.

### 2013 BUSINESS HIGHLIGHTS: People, Products, Traffic & Revenue

During 2013, we focused our attention on triggering a chain reaction of growth, which starts with hiring the best people who will build beautiful, engaging products. Those products drive increased traffic. The increased traffic generates greater advertiser interest, which ultimately results in revenue growth. Our focus on people, products, traffic and revenue in 2013 had measurable impacts on our business and opportunities for future growth as we outline below.

We are committed to building our products focusing on mobile first. Today we have over 400 million monthly mobile users, an increase of more than 150 million users since we launched our new Mobile and Emerging Products team in October 2012. Today, mobile traffic represents more than half of our 800 million monthly users (and these numbers do not include Internet Message Access Protocol (“IMAP”) or Tumblr users). Our growth in mobile traffic has been the result of an engaging and inspiring suite of new and revamped product experiences designed to make users’ daily habits mobile.

**PEOPLE:** During 2013, we have continued to invest in people, building out our management team and hiring exceptional talent from around the world. We made hiring a priority and focused on recruiting the best talent company-wide by implementing a more rigorous hiring process.

- We focused on filling several key leadership positions and addressing critical product needs. We hired Ned Brody as Senior Vice President, Americas, Dawn Airey as Senior Vice President, Europe, Middle East, and Africa, and Sandy Gould as the Senior Vice President of Talent Acquisition and Development. We also brought on several leaders to strengthen our Digital Magazines. We hired New York Times journalist and editor Megan Liberman as Editor-in-Chief for Yahoo News and Katie Couric as the Global Anchor in January 2014.
- We made hiring a priority and focused on attracting the best talent to Yahoo. Over the year, we received more than 340,000 applications to work at Yahoo, nearly double the number we received in 2012. We also accelerated our efforts towards hiring technical talent to bring excellence to our core products. Nearly half of our hires were technical talent.
- In 2013, we continued to work on several key initiatives that were launched in 2012 in an effort to enhance our culture and make Yahoo the best place to work by enhancing transparency, promoting accountability and improving employee efficiency. Some of these efforts include quarterly performance reviews for all employees; aggressive quarterly and annual goals for the company, for teams, and for individuals; and weekly all-hands meetings to communicate transparently and accountably on the most important events facing the Company.

**PRODUCTS:** In 2013, we accelerated the pace of innovation, launching nearly a dozen new product experiences to strengthen and expand our core products. These investments furthered our mission to make users’ daily habits more inspiring and entertaining through beautiful, intuitive, and innovative products.

- **SEARCH:** For Yahoo, Search remains one of our biggest areas of focus, and in 2013 we enhanced Search to create a better, more user-centered experience.
  - We introduced several new ad formats on Search in Q3 2013, helping to further optimize and monetize Search queries.
  - We acquired Aviate in Q4 2013 whose technology and talent will be critical to the future of Search—especially contextual mobile search. Factoring context into our Search offering opens up tremendous opportunities to better answer users’ Search queries and make their daily habits easier.

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- **COMMUNICATIONS:** In addition to Search, people come to Yahoo every day to communicate with their friends and family. We know how important email is to our users and so we continue to innovate our approach to everyday communications.
  - We refreshed Yahoo Mail, and followed up with multiple iterations to continue improving the experience for our users.
  - Additionally, we introduced threaded conversations, easier ways to reply to emails, and beautiful, photographic themes—all resulting in improved ease of use and a much more modern email experience.
  - In Q3 2013, we acquired Xobni as part of our continued efforts to deliver the best mail experience across all screens. With a strong reputation for building smart products that organize your inbox, this technology is helping us deliver a more personalized, more thoughtful and more precise mail experience making communicating easier for our users.
- **DIGITAL MAGAZINES:** In addition to Search and Communications, content has always been a key part of Yahoo’s business, and was a focus of our investments in 2013. Digital Magazines, which align with our verticals, bring users personalized, engaging content curated from across the web.
  - We launched a new Yahoo Finance, our industry-leading business and financial news product, across desktop, mobile web and mobile app.
  - Yahoo Sports was also upgraded, putting stats, highlights and footage of your favorite teams at your fingertips.
  - In Q1 2013, we announced the acquisition of Summly, a company that helps simplify the way we provide information—making it faster, more precise and easier to read. The technology was wrapped into our Yahoo App in less than a month, bringing users a new, improved way to consume content.
- **VIDEO:** Video has also become an increasingly important aspect of our content offerings. We continued to focus on enhancing the user experience and developing partnerships to bring users the best video content from across the web.
  - In September, we launched Yahoo Screen, our video experience across mobile and desktop. Screen seeks to bring users the absolute best content—including comedy, news, and live sports and concerts—from across the web.
  - We continue to offer premium content through our partnerships with ABC News and NBC Sports.
  - Comedy has found a home at Yahoo with the introduction of the Saturday Night Live (“SNL”) clip archive and clips from Viacom’s Comedy Central and MTV shows, including The Daily Show with Jon Stewart, The Colbert Report, and more. We also introduced eight original web series this past fall.
- **FLICKR:** With more than 10 billion photos, Flickr continues to be one of the world’s most comprehensive photo platforms and a continued focus of innovation for Yahoo.
  - In Q2 2013, we successfully launched a reimagined and industry-leading Flickr photo solution for mobile.
  - To improve the product’s functionality we added camera filtering and editing features to iOS devices in Q3 2013 and debuted in Apple’s share sheet in iOS7, making uploading much easier.
  - Flickr photo books, a web embed player, new auto-tagging and social features were all added in Q4 2013, rounding out a year of investing in Flickr.
- **TUMBLR:** Tumblr’s popularity and engagement among creators, curators and audiences of all ages brings a significant community of users to our network.

**TRAFFIC:** In 2013, we saw several positive traffic trends. By the end of the year, Yahoo had more than 800 million monthly users, with more than 400 million of them joining us on mobile. These numbers do not include IMAP or Tumblr users.

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**REVENUE:** While we are focused on creating the absolute best experiences for our users, we are also committed to delivering value to our advertisers and publishers. In 2013, we invested in our ad technology to continue strengthening this commitment.

- We announced a global, non-exclusive agreement with Google to display ads on various Yahoo Properties and certain co-branded sites using Google’s AdSense for Content and AdMob services. By adding Google to our list of world-class contextual ad partners, we can serve ads that are even more meaningful and personalized to our users.
- We introduced two new advertising formats designed to enhance the content experience in a more intuitive and immersive way.
  - Yahoo Stream Ads offer unobtrusive native ads that are part of a user’s Yahoo news stream.
  - Billboard Ads on Yahoo.com were designed to deliver richer content interactions to users and increased effectiveness to advertisers.
- We continue to generate business opportunities through streamlined advertising seamlessly integrated with the content experience. In Q3 2013, Yahoo expanded Yahoo Stream Ads across Mail and mobile content properties.

## OUR BUSINESS

### USER OFFERINGS

We are focused on building beautiful products that make the world’s daily habits inspiring and entertaining. With hundreds of Search partners, a world-class mail platform, three industry-leading verticals (News, Sports and Finance), a growing video content offering, the photo resources of Flickr and the social reach of Tumblr, we play an important role in the digital lives of our more than 800 million monthly users on Yahoo Properties.

Our user offerings include:

### SEARCH

*Yahoo Search* serves as a starting point to navigate the Internet and discover information that matters to users, offering rich search results ranked and organized based on their relevance to the query. Our Search continues to evolve to help users find the right information at the right time through web Search.

Under our Search and Advertising Services and Sales Agreement (“Search Agreement”) with Microsoft Corporation (“Microsoft”), Microsoft is the exclusive algorithmic and paid search advertising services provider on Yahoo Properties and non-exclusive provider of such services on Affiliates sites. Yahoo continues to develop and launch features around the results to enhance the search experience for our users. These features include rich results, contextual search results, site filters, related topic suggestions and more.

*Yahoo Answers* enables users to seek, discover and share knowledge and opinions across mobile phones, tablets and desktop.

### COMMUNICATIONS

*Yahoo Mail* connects users to the people and things that are most important to them across mobile phones, tablets and desktop. In addition to mail, we offer users integrated contacts, calendar and messaging products, all outfitted with one terabyte of storage and beautiful photo themes.

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**Yahoo Messenger** is an instant messaging service that provides an interactive and personalized way for users to connect, communicate and share experiences on a real-time basis. Similar to mail, we connect users across mobile phones, tablets and desktop.

**Yahoo Groups** allows users to join groups based on shared interests and involvements, providing access to messages, event calendars, polls and other shared information.

### DIGITAL MAGAZINES

**Yahoo.com** brings together the most relevant content—including Yahoo original content and partner content—curated from across the Web. Our homepage is optimized across mobile phones, tablets and desktop.

In addition, users can see a preview of their mailbox, local weather, stock quotes, sports scores, comics, and more. On our content properties, we generate revenue from display and search advertising, as well as from fee-based services. Many of our properties are also available in mobile-optimized versions for display on mobile phones and tablet devices, or available as native applications across different operating platforms for iOS, Android and Windows phones.

**My Yahoo** is a customizable homepage that gives registered users the ability to create, configure and easily modify their custom page with news and information from around the Web. It is a starting point for mobile users to bring relevant and personalized content from across the Web and other Yahoo Properties to users' devices.

**Yahoo Weather** provides users with real-time weather conditions and information for their favorite cities and locations and is available on desktop, tablets and mobile phones.

**Yahoo News** provides original, premium, partner, and syndicated news via text, photos, and video to engage users with wide-ranging, up-to-the-minute coverage and analysis into topical news events. In addition, we have a number of key content partnerships in place, including a strategic partnership with ABC News and the Good Morning America brand.

**Yahoo Sports** serves one of the largest audiences of digital sports enthusiasts in the world. Yahoo Sports is anchored by Fantasy Sports, editorial reporting, real-time scores, statistics and breaking news, coverage of the biggest global sports events, and premium college sports coverage through our Rivals publisher network. With award-winning writers, a leading fantasy platform and live game tracking, Yahoo Sports delivers experiences for every fan, every day. During 2013, we also released several new products and innovations, including:

- A redesign of Yahoo Sports to include greater content personalization, and a more visual interface to provide up-to-the-minute news, scores, statistics, and Fantasy updates for fans.
- A rebuilt Yahoo Sports mobile application and mobile website, which brings fans scores, statistics and play-by-play for their favorite teams.
- New mobile app experiences for Fantasy Football, Baseball, Basketball and Hockey featuring live drafting features for the first time on Yahoo Sports mobile.

**Yahoo Finance** provides a comprehensive set of financial data, information, and tools that help users make informed financial decisions. Yahoo Finance features a robust content offering that is a mix of original editorial and syndicated news via relationships with several third-party providers and is available on mobile phones, tablets and desktop.

**Yahoo Entertainment and Lifestyles** is a collection of properties focused on emerging trends and information in popular culture, women's issues, and media. Yahoo Celebrity, Movies, TV and Music are leading destinations for celebrity gossip, movie, music, and TV premieres, and awards coverage. Yahoo Shine is targeted to women and provides tips, features and in-depth analysis in areas such as well-being, food, fashion, relationships and parenting.

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### VIDEO

We provide original, premium and third-party news, finance, sports, entertainment, and lifestyle video content distributed in contextually relevant experiences across Yahoo Properties.

**Yahoo Screen** is a video destination site where videos from across Yahoo Properties are aggregated and watched. In 2013, we launched a brand new experience on Yahoo Screen for desktop computers and mobile web that lets users easily flip through channels of their favorite content—just like TV. We also launched applications on new platforms including iPhone, iPad, and Apple TV, and added new partners including SNL and Viacom.

**Yahoo Smart TV** is a software platform that enhances television through engaging interactive experiences. Yahoo Smart TV is accessible on certain televisions of major manufacturers including Samsung and VIZIO. We generate revenue from this offering through advertising and an application store.

### FLICKR

Flickr is a web and mobile photo management and sharing service that makes it easy for users to upload, store, organize, and share their photos. Flickr offers all members one terabyte of free storage. Members also have the ability to purchase printed books of their photos.

### TUMBLR

Tumblr offers a web service and mobile applications (particularly on the iOS and Android platforms) that allow users to create and share content of all kinds—including images, video, audio, and text, and to follow their interests and passions in the Tumblr Dashboard stream. Tumblr's primary form of monetization is native brand advertising within the Tumblr Dashboard. In addition, Tumblr generates revenue by enabling a marketplace for the sale of third-party developed blog themes and licensing its real-time feed of user-generated posts. At the end of 2013, Tumblr was home to nearly 150 million blogs and over 65 billion posts, reaching an audience of hundreds of millions of people worldwide each month.

### ADVERTISER OFFERINGS

As one of the Web's largest publishers and the owner of leading properties across multiple content categories, Yahoo provides a canvas of personalized content and experiences where advertisers can connect with users in a meaningful way. Advertisers seek partners that can address their business objectives, from high-impact branding campaigns that generate awareness among consumers to tactical campaigns that drive specific audiences to action. We have aligned our resources and developed a new, unified approach to digital advertising across search, native, audience, premium display, and video advertising. These products are supported by Yahoo's platform, data and analytical tools, with insights into the daily digital habits of more than 800 million people worldwide.

**Search Advertising:** The Yahoo Bing Network connects advertisers with an audience of hundreds of millions of users, with the support of strategic account teams, reporting, analytics, and extensive campaign controls. Yahoo continues to focus on developing new search ad formats to engage users across devices, including personalized search retargeting, click-to-call functionality in search ads, sitelink extensions, location extensions, product ads and more.

**Native Advertising** provides brand new ways for advertisers to engage their audience across devices on Yahoo's network of leading consumer products. Yahoo's native advertising offerings include Yahoo Stream Ads (served within content streams across our media properties and in Mail); Yahoo Image Ads (HD-quality image-rich ads served within native image environments and slideshows); and Tumblr Sponsored Posts—all powered by the Yahoo Advertising platform. Because native ads are a seamless part of a user's experience, they can help deliver higher impact for advertisers.

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**Yahoo Audience Ads** allow advertisers to buy display, video and mobile ads targeted to specific audiences. Yahoo Audience Ads deliver the right messages to the right users across Yahoo and other high-quality sites with the scale and targeting precision of real-time programmatic buying. Yahoo Audience Ads offer optimized, data-driven ad buying with enhanced analytics. Advertisers have access to a comprehensive set of audience data, combining Yahoo data with advertiser data and third-party data, all usable on an extended pool of high-quality inventory.

**Yahoo Premium Ads** offer the largest digital advertising canvas for brand and performance advertisers on the web. We offer high-impact advertising opportunities on the Yahoo Homepage; Yahoo’s leading vertical content properties; Yahoo Mail; program sponsorships of major events; and premium video placements—all with custom integrations, personalization and targeting that unite advertisers’ brands with consumers’ digital daily habits.

**Yahoo Video** is a premium video advertising platform anchored by Yahoo’s award-winning original programming and world-class partner content. Yahoo Video connects brands to their target audience at scale through a complete set of advertising opportunities including video channels, video programs, audience targeting, branded entertainment, live events, and ad placements that occur before, during and after a video rolls.

### A SIMPLIFIED AD PLATFORM

**Yahoo Ad Manager** is a simplified ad platform that gives advertisers direct, hands-on access to Yahoo’s advertising products. Yahoo Stream Ads, Yahoo Image Ads and Tumblr Sponsored Posts powered by Yahoo Advertising are available through Yahoo Ad Manager, with a simple user interface that helps advertisers get ads online in a matter of minutes, with insights and analytics built in.

**Yahoo Ad Manager Plus** is an extension of Yahoo Ad Manager for larger advertisers to plan, execute and optimize complex display ad campaigns directly, giving them greater control over the performance of their ads on Yahoo and third-party programmatic inventory. Yahoo offers managed services through Yahoo Ad Manager Plus for advertisers who want custom audience definition, richer campaign measurement and insights, access to exclusive inventory, varied pricing options, and full-service campaign optimization.

**Yahoo Ad Exchange** enables advertisers to easily target global audiences across Yahoo Properties, Affiliate sites and other publisher sites on mobile and the Web. Enhanced campaign measurement tools and insights are provided to optimize audience targeting and ad formats and placements as a means of increasing return on advertiser ad spend.

### PUBLISHER OFFERINGS

We work with high-quality publishers to attract new audiences and create engaging experiences across the Web. We monetize these experiences with a set of application programming interfaces (“APIs”) and tools to grow partner businesses. With these offerings, publishers are able to participate in the Yahoo Search and Bing Unified Search Marketplaces as well as the Yahoo Ad Exchange for display advertising.

### PRODUCT DEVELOPMENT

Yahoo continually launches, improves, and scales products and features to meet evolving user, advertiser, and publisher needs. Most of our software products and features are developed internally by our employees. In some instances, however, we might purchase technology and license intellectual property rights if the opportunity is strategically aligned, operationally compatible, and economically advantageous. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe based on past experience and industry practice that such licenses generally could be obtained on commercially-reasonable terms. We believe our continuing innovation and product development are not materially dependent upon any single license or other agreement with a third party relating to the development of our products.

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Yahoo's product teams include a broad array of engineering and product talent and support a large portion of the Yahoo product portfolio and technology infrastructure. Our product teams have expertise in consumer applications (Web/Mobile), scalable software platforms, information retrieval, machine learning and science, editorial, networking/communications technologies, and presentation layer frameworks.

Our engineering and production teams are primarily located in our Sunnyvale, California, headquarters, Bangalore, India, and Beijing, China. Product development expenses for 2011, 2012, and 2013 totaled approximately \$919 million, \$886 million, and \$1 billion, respectively, which included stock-based compensation expense of \$81 million, \$74 million, and \$83 million, respectively.

### M&A ACTIVITY

As part of our overall strategy, we focused on acquisitions in 2013 that help us achieve three different goals. The first is to grow our technical talent base. Our acquisition of Stamped is a good example of this, where the team came to Yahoo and focused on building the Yahoo Screen mobile experience which launched in Q3 2013. Second, is to enhance our technology and core products offerings. Our 2013 acquisition of Summly is an example where we acquired the summarization technology that was initially incorporated in our Yahoo App last Spring and continued with the launch of Yahoo News Digest in Q1 2014. Third, is to expand audience and engagement. Our acquisition of Tumblr in Q2 2013 is an example where we gained access to an engaged community of younger users that complemented our core audience.

We expect to make additional acquisitions and strategic investments in the future.

### GLOBAL OPERATIONS

We manage our business geographically. The primary areas of measurement and decision-making are Americas, EMEA (Europe, Middle East, and Africa), and Asia Pacific. Additional information required by this item is incorporated herein by reference to Note 18—"Segments" of the Notes to our consolidated financial statements, which appears in Part II, Item 8 of this Annual Report on Form 10-K.

We own a majority or 100 percent of all of these international operations (except in Australia and New Zealand, China, and Japan where we have joint ventures and/or noncontrolling interests). We support these businesses through a network of offices worldwide.

Revenue is primarily attributed to individual countries according to the international online property that generated the revenue.

Information regarding risks involving our international operations is included in Part I, Item 1A "Risk Factors" of this Annual Report on Form 10-K and is incorporated herein by reference.

### SALES

We maintain three primary channels for selling our advertising services: field, mid-market, and reseller/small business. Our field advertising sales team sells display advertising in all markets and search advertising to premium advertisers under the Search Agreement with Microsoft. Our mid-market channel sells our services to medium-sized businesses, while our reseller/small business channel enables us to sell advertising services to additional regional and small business advertisers. In 2013, we reorganized our U.S. sales force from a regional structure to a vertical structure providing one, customer-centric solution to our customers. We believe that this will allow us to provide the best solutions across all of our products based on a deeper understanding of our customers' businesses.

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In the U.S., we employ sales professionals in multiple locations, including Atlanta, Boston, Burbank, Chicago, Dallas, Detroit, Hillsboro, Los Angeles, Miami, New York, Omaha, San Francisco, and Sunnyvale. In international markets, we either have our own internal sales professionals or rely on our established sales agency relationships in more than 50 countries, regions, and territories.

No individual customer represented more than 10 percent of our revenue in 2011, 2012, or 2013. Revenue under the Search Agreement represented approximately 20 percent, 25 percent, and 31 percent of our revenue for the years ended December 31, 2011, 2012 and, 2013, respectively.

Internet usage is subject to seasonal fluctuations, typically declining during customary summer vacation periods and increasing during the fourth quarter holiday period due to higher online retail activity. These seasonal patterns have affected, and we expect will continue to affect, our business and quarterly sequential revenue growth rates.

### MARKETING

Yahoo is one of the most recognized brands in the world. Our products, services, and content enable us to attract, retain, and engage users, advertisers, and publishers. Our marketing teams engage in each step of the development, deployment, and management of products and services, and in content design. Our marketing team will help shape our offerings to better market them to our potential and existing users.

### COMPETITION

We face significant competition from online media companies, social media and networking sites, traditional print and broadcast media, search engines, and various e-commerce sites. Our competitors include Google, Facebook, Microsoft, and AOL. Several of our competitors offer an integrated variety of Internet products, advertising services, technologies, online services and/or content in a manner similar to us that compete for the attention of our users, advertisers, and publishers. We also compete with these companies to obtain agreements with third parties to promote or distribute our services. In addition, we compete with social media and networking sites which are attracting an increasing share of users, users' online time and online advertising dollars.

We compete with advertising networks, exchanges, demand side platforms and other platforms, such as Google AdSense, DoubleClick Ad Exchange, AOL's Ad.com and Microsoft Media Network, as well as traditional media companies for a share of advertisers' marketing budgets and in the development of the tools and systems for managing and optimizing advertising campaigns.

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 and often have a competitive advantage due to dominant market share in their territories, greater local brand recognition, focus on a single market, familiarity with local tastes and preferences, or greater regulatory and operational flexibility.

Yahoo's competitive advantage centers on the fact that we make people's daily digital habits more entertaining—this includes daily activities like communicating, searching, reading and sharing information. We believe our principal competitive strengths include the usefulness, accessibility, integration, and personalization of the online services that we offer; the quality, personalization, and presentation of our search results; and the overall user experience on our leading premium content properties and other Yahoo Properties. Our principal competitive strengths relating to attracting advertisers and publishers are the reach, effectiveness, and efficiency of our marketing services as well as the creativity of the marketing solutions that we offer. "Reach" is the size of the audience and/or demographic that can be accessed through the Yahoo Network. "Effectiveness" for advertisers is the achievement of marketing objectives, which we support by developing campaigns, measuring the

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performance of these campaigns against their objectives, and optimizing their objectives across the Yahoo Network. “Effectiveness” for publishers is the monetization of their online audiences. “Efficiency” is the simplicity and ease of use of the services we offer advertisers and publishers.

Additional information regarding competition is included in Part I, Item 1A “Risk Factors” of this Annual Report on Form 10-K and is incorporated herein by reference.

### **INTELLECTUAL PROPERTY**

We create, own, and maintain a wide array of intellectual property assets that we believe are among our most valuable assets. Our intellectual property assets include patents and patent applications related to our innovations, products and services; trademarks related to our brands, products and services; copyrights in software and creative content; trade secrets; and other intellectual property rights and licenses of various kinds. We seek to protect our intellectual property assets through patents, copyrights, trade secrets, trademarks and laws of the U.S. and other countries, and through contractual provisions. We enter into confidentiality and invention assignment agreements with our employees and contractors, and utilize non-disclosure agreements with third parties with whom we conduct business in order to secure and protect our proprietary rights and to limit access to, and disclosure of, our proprietary information. We consider the Yahoo! trademark and our many related company brands to be among our most valuable assets, and we have registered these trademarks in the U.S. and other countries throughout the world and actively seek to protect them. We have licensed in the past, and expect that we may license in the future, certain of our technology and proprietary rights, such as trademark, patent, copyright, and trade secret rights, to third parties.

Additional information regarding certain risks related to our intellectual property is included in Part I, Item 1A “Risk Factors” of this Annual Report on Form 10-K and is incorporated herein by reference.

### **EMPLOYEES**

As of December 31, 2013, we had approximately 12,200 full-time employees and fixed term contractors. Our future success is substantially dependent on the performance of our senior management and key technical personnel, as well as our continuing ability to attract, maintain the caliber of, and retain highly qualified technical, executive, and managerial personnel. Additional information regarding certain risks related to our employees is included in Part I, Item 1A “Risk Factors” of this Annual Report on Form 10-K and is incorporated herein by reference.

### **AVAILABLE INFORMATION**

Our Website is located at <http://www.yahoo.com>. Our investor relations Website is located at <http://investor.yahoo.net>. We make available free of charge on our investor relations Website under “Financial Info” our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (“SEC”). The SEC maintains a Website that contains reports, proxy and information statements, and other information regarding our filings at <http://www.sec.gov>.

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### Item 1A. Risk Factors

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

We face significant competition from online media companies, social media and 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 increasingly used to communicate and share information, and which are attracting a substantial and increasing share of users, users' online time, and online advertising dollars.

A key element of our strategy is focusing on mobile products and mobile advertising formats, as well as increasing our revenue from mobile. A number of our competitors have devoted significant resources to the development of products and services for mobile devices. Currently our revenue from mobile is not material and our competitors 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, a number of 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, 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 twelve months ended December 31, 2013, 79 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 and making our new and existing products popular and distributable on mobile and other alternative devices and platforms;

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- 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 as we expand our operations in areas of desired growth, continue to develop and extend the Yahoo brand, fund product development, build or expand data centers, acquire additional office space, and continue to make talent acquisitions and to acquire and integrate complementary businesses and technologies. 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. Even though we have substantially completed the transition to Microsoft's platform, we still 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 need to continue to invest in and innovate on the mobile search experience.

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

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accurate anticipation of technology, market and consumer trends. If we are unable to provide innovative products and services which generate significant traffic to our Websites, our business could be harmed, causing our revenue to decline.

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

Under our Search Agreement with Microsoft, Microsoft is the exclusive algorithmic and paid search services provider on Yahoo Properties and non-exclusive provider of such services on Affiliate sites for the transitioned markets. Approximately 31 percent, 25 percent, and 20 percent of our revenue for 2013, 2012 and 2011, respectively, were attributable to the Search Agreement. Our business and operating results would be adversely affected by a significant decline in or loss of this revenue.

Implementation of our Search Agreement with Microsoft commenced on February 23, 2010. We have completed the transition of our algorithmic search platform to the Microsoft platform and have substantially completed transition of paid search.

In September 2013, the Company advised Microsoft that we were delaying the transition of paid search in Taiwan and Hong Kong. Microsoft disagreed with the delay and the parties engaged in litigation regarding the transition of these markets. The transition of paid search in Taiwan and Hong Kong was completed in December 2013; however, Microsoft could seek recovery of its costs and damages.

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

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

***As mobile advertising continues to evolve and people increasingly access our products via mobile devices rather than PCs, our financial results may be adversely impacted if our mobile offerings are not widely adopted by users, advertisers and device manufacturers or if we do not generate adequate revenue from our mobile offerings.***

The number of people who access the Internet through mobile devices rather than a PC, including mobile telephones, smartphones and tablets, is increasing and will likely continue to increase dramatically. Approximately half of our monthly users are now joining us on mobile. In addition, search queries are increasingly being undertaken through mobile devices. We expect our ability to grow advertising revenue will become increasingly dependent on our ability to generate revenue from ads displayed on mobile devices.

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A key element of our strategy is focusing on mobile devices and we expect to continue to devote significant resources to the creation and support of developing new and innovative mobile products and services. However, if our new mobile products and services, including new forms of Internet advertising for mobile devices, are not more attractive and successful in attracting and retaining users, advertisers and device manufacturers than those of our competitors and fail to generate and grow revenue, our operating and financial results will be adversely impacted.

To the extent that an access provider or device manufacturer enters into a distribution arrangement with one of our competitors, or as our competitors design, develop, or acquire control of alternative devices or their operating systems, we face an increased risk that our users will favor the services or properties of that competitor. We are dependent on the interoperability of our products and services with mobile operating systems we do not control. 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 or apps available in a readily-discoverable manner on their devices. If distributors impair access to or refuse to distribute our services or apps, then our user engagement and revenue could decline.

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

Our future success depends in part on our ability to aggregate compelling content and deliver that content through our online properties. We license from third parties much of the content and services on our online properties, such as news items, stock quotes, weather reports, video, and maps. We believe that users will increasingly demand high-quality content and services. 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 users increasingly access the Internet via mobile and other 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.

***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;

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- the incurrence of additional operating losses and operating 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 or to meet financial projections;
- 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.

***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 (including goodwill or assets acquired via acquisitions) include significant adverse changes in the business climate and actual or projected operating results (affecting our company as a whole or affecting any particular reporting unit) 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.

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### ***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. Further, we hedge a portion of our net investment in Yahoo Japan with currency forward contracts. If the Japanese yen appreciated at maturity beyond the forward contract execution rates, we would be required to settle the contract by making a cash payment which could be material and could adversely impact our cash flows and financial condition. See Part II, Item 7A—“Quantitative and Qualitative Disclosures About Market Risk” of this Annual Report.

### ***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.

### ***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,

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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 12—“Commitments and Contingencies” in the Notes to our consolidated financial statements.

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

***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, 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.

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We believe that these parties will continue to take steps such as seeking patent protection to protect these technologies. 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

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materials that give rise to copyright infringement. Portions of the Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third-party content. We rely on the protections provided by both the DMCA and the CDA in conducting our business, and may be adversely impacted by future legislation and future judicial decisions altering these safe harbors or if international jurisdictions refuse to apply similar protections.

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

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

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

In addition, various federal, state and foreign legislative or regulatory bodies may enact new or additional laws and regulations concerning privacy, data-retention and data-protection issues, including laws or regulations mandating disclosure to domestic or international law enforcement bodies, which could adversely impact our business, our brand or our reputation with users. For example, some countries are considering laws mandating that user data regarding users in their country be maintained in their country. Having to maintain local data centers in individual countries could increase our operating costs significantly. 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 and operating results.

***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. Security breaches or unauthorized

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access have resulted in and may in the future result in a combination of 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 have an adverse effect on our business. We take steps to prevent unauthorized access to our corporate systems, however, 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 triggering event, 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, malware, 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;

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- 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 volatility in emerging markets and global economic uncertainty;
- 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

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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.

***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.

***Certain of our metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business.***

We present key metrics such as unique users, number of Ads Sold, number of Paid Clicks, Price-per-Click and Price-per-Ad that are calculated using internal company data. We periodically review and refine our methodologies for monitoring, gathering, and calculating these metrics. Based on this process, from time to time we update our methodologies.

While our metrics are based on what we believe to be reasonable measurements and methodologies, there are inherent challenges in deriving our metrics across large online and mobile populations around the world. In addition, our user metrics may differ from estimates published by third parties or from similar metrics of our competitors due to differences in methodology.

If advertisers or publishers do not perceive our metrics to be accurate, or if we discover material inaccuracies in our metrics, it could negatively affect our reputation, business and financial results.

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***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, new devices, new 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, such as the changes we have made in response to the increased use of tablets and smartphones. 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.

***Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers may be able to block, degrade, or charge for access to certain of our products and services, which could lead to additional expenses and the loss of users and advertisers.***

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies, and government-owned service providers. Some of these providers have taken, or have stated that they may take, measures that could degrade, disrupt, or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. Such interference could result in a loss of existing users and advertisers, and increased costs, and could impair our ability to attract new users and advertisers, thereby harming our revenues and growth.

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### ***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 phone, tablet, 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 or may be unwilling to distribute Yahoo services.

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.

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 or allow users to opt out of 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 and non-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.

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***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.

***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 resources to provide a variety of premium enhancements to our 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 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.

***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. 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. For example, several jurisdictions have sought to increase revenues by imposing new taxes on internet advertising or increasing general business taxes.

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We earn a material amount of our operating income from outside the U.S. As of December 31, 2013, we had undistributed foreign earnings of approximately \$2.6 billion, principally related to Yahoo Japan. While we do not currently anticipate repatriating these earnings, any repatriation of funds in foreign jurisdictions to the U.S. could result in higher effective tax rates for us and subject us to significant additional U.S. income tax liabilities.

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 twelve months ended December 31 2013, the closing sale price of our common stock on the NASDAQ Global Select Market ranged from \$18.99 to \$40.85 per share and the closing sale price on February 14, 2014 was \$38.23 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 market equity valuation of Alibaba Group (including speculation regarding its potential initial public offering) and Yahoo Japan Corporation in which we have equity investments, including changes in equity valuation due to fluctuations in foreign currency exchange rates.

In addition, the stock market in general, and the market prices for companies in our industry, have experienced volatility that often has been unrelated to operating performance. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. A decrease in the market price of our common stock would likely adversely impact the trading price of the 0.00% Convertible Senior Notes due 2018 that we issued in November 2013 (the “Notes”). Volatility or a lack of positive performance in our stock price may also 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

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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 and the value of the \$1.4375 billion aggregate principal amount of the 0.00% Convertible Senior Notes we issued in November 2013 (“Notes”). 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.

Any of these provisions could, under certain circumstances, depress the market price of our common stock and the Notes.

### Risks Relating to the Notes

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.***

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefore, or pay cash with respect to Notes being converted if we elect not to issue shares, which could harm our reputation and affect the trading price of our common stock.

***The note hedge and warrant transactions may affect the value of the Notes and our common stock.***

In connection with the pricing of the Notes, we entered into note hedge transactions with the option counterparties. The note hedge transactions are generally expected to reduce the potential dilution upon conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal

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amount of converted Notes, as the case may be. We also entered into warrant transactions with the option counterparties. However, the warrant transactions could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants.

In connection with establishing their initial hedge of the note hedge and warrant transactions, the option counterparties or their respective affiliates have purchased shares of our common stock and/or entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricing of the Notes. In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes or following any repurchase of Notes by us on any fundamental repurchase date or otherwise). This activity could cause or avoid an increase or a decrease in the market price of our common stock or the Notes.

***Any adverse change in the rating of the Notes may cause their trading price to decline.***

While we did not seek a rating on the Notes, one rating service has rated the Notes. If that rating service announces its intention to put the Notes on credit watch or lowers its rating on the Notes below any rating initially assigned to the Notes, the trading price of the Notes could decline.

***The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.***

In May 2008, the Financial Accounting Standards Board, which we refer to as FASB, issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20. Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include the current period's amortization of the debt discount, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

**Item 1B. *Unresolved Staff Comments***

None.

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### **Item 2.**     *Properties*

Our headquarters is located in Sunnyvale, California and consists of owned space aggregating approximately one million square feet. We also lease office space in Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, the Philippines, South Korea, Singapore, Spain, Switzerland, Taiwan, the United Arab Emirates, the United Kingdom, and Vietnam. In the United States, we lease offices in various locations, including Atlanta, Boston, Champaign, Chicago, Dallas, Detroit, Hillsboro, the Los Angeles Area, Miami, New York, Omaha, San Diego, San Francisco, and Washington, D.C. Our data centers are operated in locations in the United States, Brazil, Europe, and Asia.

We believe that our existing facilities are adequate to meet current requirements, and that suitable additional or substitute space will be available as needed to accommodate any further physical expansion of operations and for any additional sales offices.

### **Item 3.**     *Legal Proceedings*

For a description of our material legal proceedings, see “Legal Contingencies” in Note 12—“Commitments and Contingencies” in the Notes to our consolidated financial statements, which is incorporated herein by reference.

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

Not applicable.

Part II

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information for Common Stock**

Yahoo! Inc. common stock is quoted on the NASDAQ Global Select Market under the symbol “YAHOO.” The following table sets forth the range of high and low per share sales prices as reported for each period indicated:

	2012		2013	
	High	Low	High	Low
First quarter	\$16.39	\$14.35	\$23.88	\$18.89
Second quarter	\$16.35	\$14.73	\$27.68	\$22.70
Third quarter	\$16.37	\$14.59	\$33.85	\$24.82
Fourth quarter	\$19.97	\$15.65	\$41.05	\$31.70

**Stockholders**

We had 9,551 stockholders of record as of February 14, 2014.

**Dividends**

We have not declared or paid any cash dividends on our common stock. We presently do not have plans to pay any cash dividends in the near future.

**Issuer Repurchases of Equity Securities**

Share repurchase activity during the three months ended December 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)(*)
October 1—October 31, 2013	927,886	\$ 33.46	927,886	\$ 293,338
November 1—November 30, 2013	2,969,629	\$ 35.22	2,969,629	\$ 5,188,754
December 1—December 31, 2013	2,453,458	\$ 38.98	2,453,458	\$ 5,093,110
Total	<u>6,350,973</u>	\$ 36.42	<u>6,350,973</u>	

(\*) The share repurchases in the three months ended December 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. In November 2013, our Board of Directors authorized an additional stock repurchase program with an authorized level of \$5 billion. The November 2013 program, according to its terms, will expire in December 2016. No purchases were made under the November 2013 program during the three months ended December 31, 2013. Repurchases under the 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.

See Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K for additional information regarding share repurchases. See also Note 13—“Stockholders’ Equity” in the Notes to our consolidated financial statements for additional information.

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### Recent Sales of Unregistered Securities

#### *Convertible Senior Notes*

On November 26, 2013, we completed an offering of \$1.25 billion aggregate principal amount of our 0.00% Convertible Senior Notes due 2018 (the “Notes”). We sold the Notes under a purchase agreement, dated November 20, 2013, with J.P. Morgan Securities LLC and Goldman, Sachs & Co., as representatives of the several initial purchasers named therein (collectively, the “Initial Purchasers”). We sold the Notes to the Initial Purchasers in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). We also granted the Initial Purchasers a 30-day over-allotment option to purchase additional Notes. On December 11, 2013 such option was exercised in full and accordingly, on December 16, 2013, we sold an additional \$187.5 million aggregate principal amount of Notes to the Initial Purchasers on the same terms and conditions. All of the Notes were issued under an indenture (the “Indenture”) dated November 26, 2013 between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We do not intend to file a shelf registration statement for the resale of the Notes or any common stock issuable upon conversion of the Notes.

The net proceeds from our sales of the Notes were approximately \$1.4 billion, after deducting the Initial Purchasers’ discount and the offering expenses payable by us.

Under the Indenture, the Notes are senior unsecured obligations of Yahoo! Inc., the Notes will not bear regular interest, and the principal amount of the Notes will not accrete. The Notes will mature on December 1, 2018, unless previously purchased or converted in accordance with their terms. The Notes are not redeemable prior to maturity, and no sinking fund is provided for the Notes.

The Notes will be convertible into shares of our common stock at an initial conversion rate of 18.7161 shares per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$53.43 per share), subject to adjustment upon the occurrence of certain events. The initial conversion price represents a premium of approximately 50% to the \$35.62 per share closing price of our common stock on November 20, 2013 (the date we entered into the purchase agreement). Upon conversion of the Notes, holders will receive cash, shares of our common stock, or a combination thereof, at our election.

Prior to September 1, 2018, the Notes will be convertible only upon the occurrence of certain events and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes. The conversion rate is subject to customary anti-dilution adjustments. Following certain corporate events described in the Indenture that occur prior to the maturity date, the conversion rate will be increased for a holder who elects to convert its Notes in connection with such corporate event in certain circumstances.

#### *Note Hedge and Warrant Transactions*

On November 20, 2013 and December 11, 2013, in connection with our issuances of the Notes, we entered into note hedge transactions with the Initial Purchasers (in such capacity, the “Option Counterparties”) to reduce the potential dilution with respect to our common stock upon conversion of the Notes or to offset any cash payment we are required to make in excess of the principal amount of converted Notes.

In these transactions, we paid \$206 million for call options giving us the right to purchase from the Option Counterparties, subject to customary anti-dilution adjustments, approximately 26.9 million shares of Yahoo’s common stock (which is equal to the number of shares that initially underlie the Notes), with a strike price of approximately \$53.43 per share. The Option Counterparties or their respective affiliates may enter into, or unwind, various over-the-counter derivatives and/or purchase or sell our common stock in open market and/or privately negotiated transactions prior to maturity of the Notes, including during any observation period for the settlement of conversions of Notes, or upon any repurchase of Notes by us, which could adversely impact the price of our common stock and of the Notes.

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Separately, we sold warrants to the Option Counterparties for \$125 million giving them the right to purchase from us, subject to customary anti-dilution adjustments, approximately 26.9 million shares of Yahoo's common stock, with a strike price of \$71.24 per share. We sold the warrants to the Option Counterparties in a private placement under Section 4(a)(2) of the Securities Act. The warrants will have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds the strike price of the warrants on or prior to the expiration date of the warrants.

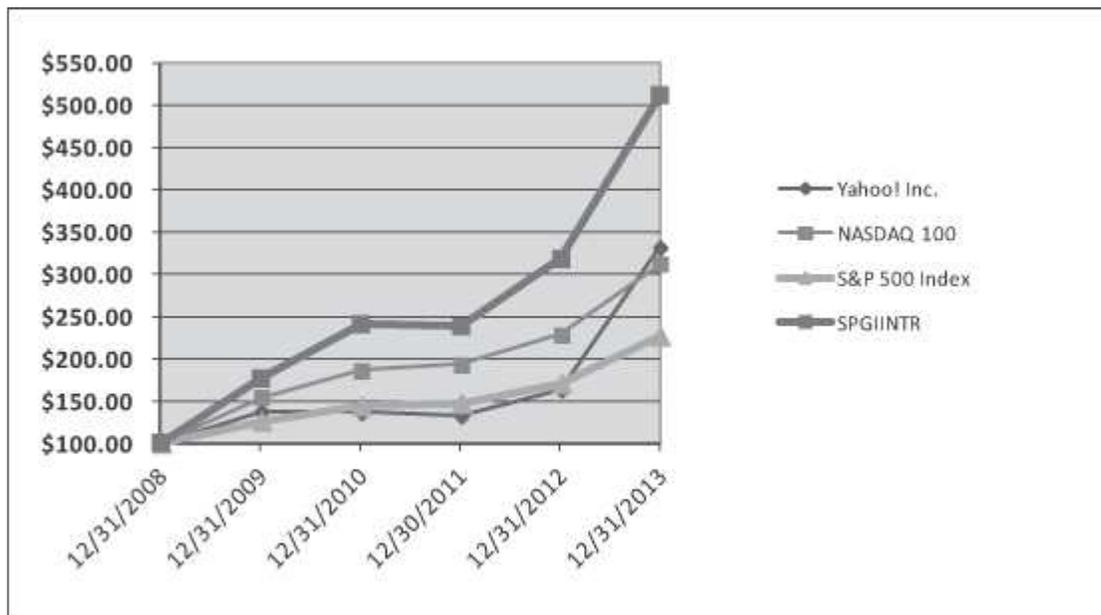
### Acquisition of Aviate

On December 23, 2013, we entered into a stock purchase agreement to acquire ThumbsUp Labs, Inc. ("Aviate"). The acquisition closed on December 24, 2013. As a part of the acquisition, we agreed to issue 277,284 shares of Yahoo common stock (valued at approximately \$11 million) to key employees of Aviate in private placements under Section 4(a)(2) of the Securities Act. One-fourth of the shares will be issued on the first anniversary of the closing of the acquisition, and the remaining shares will be issued in 36 equal monthly installments thereafter, subject to each recipient's continued employment with Yahoo through the issuance date.

### Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities under that section and shall not be deemed to be incorporated by reference into any filing of Yahoo! Inc. under the Securities Act or the Exchange Act.

The following graph compares, for the five-year period ended December 31, 2013, the cumulative total stockholder return for Yahoo's common stock, the NASDAQ 100 Index, the Standard & Poor's North American Technology-Internet Index (the "SPGIINTR"), and the Standard & Poor's 500 Stock Index (the "S&P 500 Index"). Measurement points are the last trading day of each of Yahoo's fiscal years ended December 31, 2009, December 31, 2010, December 31, 2011, December 31, 2012, and December 31, 2013. The graph assumes that \$100 was invested at the market close on December 31, 2008 in the common stock of Yahoo, the NASDAQ 100 Index, the SPGIINTR, and the S&P 500 Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.



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### Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Annual Report on Form 10-K. The consolidated statements of income data and the consolidated balance sheets data for the years ended, and as of, December 31, 2009, 2010, 2011, 2012, and 2013 are derived from our audited consolidated financial statements.

#### Consolidated Statements of Income Data:

	Years Ended December 31,				
	2009 <sup>(3)</sup>	2010 <sup>(4)</sup>	2011 <sup>(5)</sup>	2012 <sup>(6)</sup>	2013 <sup>(7)</sup>
	(in thousands, except per share amounts)				
Revenue	\$6,460,315	\$6,324,651	\$4,984,199	\$ 4,986,566	\$4,680,380
Total operating expenses	\$6,073,623	\$5,552,127	\$4,183,858	\$ 4,420,198	\$4,090,454
Income from operations <sup>(1)</sup>	\$ 386,692	\$ 772,524	\$ 800,341	\$ 566,368	\$ 589,926
Other income, net <sup>(2)</sup>	\$ 187,528	\$ 297,869	\$ 27,175	\$ 4,647,839	\$ 43,357
Provision for income taxes	\$ (219,321)	\$ (221,523)	\$ (241,767)	\$ (1,940,043)	\$ (153,392)
Earnings in equity interests	\$ 250,390	\$ 395,758	\$ 476,920	\$ 676,438	\$ 896,675
Net income attributable to Yahoo! Inc.	<u>\$ 597,992</u>	<u>\$1,231,663</u>	<u>\$1,048,827</u>	<u>\$ 3,945,479</u>	<u>\$1,366,281</u>
Net income attributable to Yahoo! Inc. common stockholders per share—basic	<u>\$ 0.43</u>	<u>\$ 0.91</u>	<u>\$ 0.82</u>	<u>\$ 3.31</u>	<u>\$ 1.30</u>
Net income attributable to Yahoo! Inc. common stockholders per share—diluted	<u>\$ 0.42</u>	<u>\$ 0.90</u>	<u>\$ 0.82</u>	<u>\$ 3.28</u>	<u>\$ 1.26</u>
Shares used in per share calculation—basic	<u>1,397,652</u>	<u>1,354,118</u>	<u>1,274,240</u>	<u>1,192,775</u>	<u>1,052,705</u>
Shares used in per share calculation—diluted	<u>1,415,658</u>	<u>1,364,612</u>	<u>1,282,282</u>	<u>1,202,906</u>	<u>1,070,811</u>

(1) Includes:

Stock-based compensation expense	\$ 438,087	\$ 223,478	\$ 203,958	\$ 224,365	\$ 278,220
Restructuring charges, net	\$ 126,901	\$ 57,957	\$ 24,420	\$ 236,170	\$ 3,766

(2) Includes:

Gain related to sale of Alibaba Group Shares	\$ —	\$ —	\$ —	\$ 4,603,322	\$ —
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(3) Our net income attributable to Yahoo! Inc. for the year ended December 31, 2009 included a pre-tax gain of \$67 million in connection with the sale of our Gmarket shares and a gain on the sale of our direct investment in Alibaba.com of \$98 million. In addition, in the year ended December 31, 2009, we recorded net restructuring charges of \$127 million related to our cost reduction initiatives. The tax impact on the items referred to above was \$20 million, and in the aggregate, these items had a net positive impact of \$18 million on net income attributable to Yahoo! Inc., or \$0.01 per both basic and diluted share, for the year ended December 31, 2009.

(4) Our revenue declined in 2010 due to the Search Agreement with Microsoft, which beginning during the fourth quarter of 2010 required a change in revenue presentation and a sharing of search revenue with Microsoft in transitioned markets. Our net income attributable to Yahoo! Inc. for the year ended December 31, 2010 included a pre-tax gain of \$66 million in connection with the sale of Zimbra, Inc. and a pre-tax gain on the sale of HotJobs of \$186 million. In addition, in the year ended December 31, 2010, we recorded net restructuring charges of \$58 million related to our cost reduction initiatives. Apart from the Search Agreement, the tax impact on the items referred to above was a \$10 million benefit, and in the aggregate, these items had a net positive impact of \$204 million on net income attributable to Yahoo! Inc., or \$0.15 per both basic and diluted share, for the year ended December 31, 2010. In addition, in the year ended

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December 31, 2010, we recorded \$43 million pre-tax for the reimbursement of transition costs incurred in 2009 related to the Search Agreement. See Note 19—“Search Agreement with Microsoft Corporation” in the Notes to our consolidated financial statements for additional information.

- (5) Our revenue declined in 2011 due to the Search Agreement with Microsoft, which beginning during the fourth quarter of 2010 required a change in revenue presentation and a sharing of search revenue with Microsoft in transitioned markets. Our net income attributable to Yahoo! Inc. for the year ended December 31, 2011 included a non-cash gain of \$25 million, net of tax, related to the dilution of our ownership interest in Alibaba Group and a non-cash loss of \$33 million related to impairments of assets held by Yahoo Japan. In addition, in the year ended December 31, 2011, we recorded net restructuring charges of \$24 million related to our cost reduction initiatives. Apart from the Search Agreement, the tax impact on the items referred to above was an \$8 million benefit, and these items had a net negative impact of \$24 million on net income attributable to Yahoo! Inc., or \$0.02 per both basic and diluted share, for the year ended December 31, 2011.
- (6) Our net income attributable to Yahoo! Inc. for the year ended December 31, 2012 included a pre-tax gain of approximately \$4.6 billion and an after-tax gain of \$2.8 billion related to our sale to Alibaba Group of 523 million ordinary shares of Alibaba Group (“Shares”). See Note 8—“Investments in Equity Interests” in the Notes to our consolidated financial statements for additional information. In addition, in the year ended December 31, 2012, we recorded net restructuring charges of \$236 million related to our cost reduction initiatives. In the aggregate, these items had a net positive impact of \$2.6 billion on net income attributable to Yahoo! Inc., or \$2.15 per basic share and \$2.13 per diluted share, for the year ended December 31, 2012.
- (7) Our net income attributable to Yahoo! Inc. for the year ended December 31, 2013 included pre-tax gains of approximately \$80 million related to sales of patents and a goodwill impairment charge of \$64 million. In the year ended December 31, 2013, we recorded net restructuring charges of \$4 million related to our cost reduction initiatives. The tax impact on the items referred to above was \$22 million, and in the aggregate, these items had a net negative impact of \$10 million on net income attributable to Yahoo! Inc., or \$0.01 per both basic and diluted share, for the year ended December 31, 2013.

### Consolidated Balance Sheets Data:

	2009	2010	December 31, 2011 (In thousands)	2012 <sup>(1)</sup>	2013 <sup>(2)</sup>
Cash and cash equivalents	\$ 1,275,430	\$ 1,526,427	\$ 1,562,390	\$ 2,667,778	\$ 2,077,590
Marketable securities	\$ 3,242,574	\$ 2,102,255	\$ 967,527	\$ 3,354,600	\$ 2,919,804
Alibaba Group Preference Shares	\$ —	\$ —	\$ —	\$ 816,261	\$ —
Working capital	\$ 2,877,044	\$ 2,719,676	\$ 2,245,175	\$ 4,362,481	\$ 3,685,545
Investments in equity interests	\$ 3,496,288	\$ 4,011,889	\$ 4,749,044	\$ 2,840,157	\$ 3,426,347
Total assets	\$14,936,030	\$14,928,104	\$14,782,786	\$17,103,253	\$16,804,959
Long-term liabilities	\$ 699,666	\$ 705,822	\$ 994,078	\$ 1,207,418	\$ 2,334,050
Total Yahoo! Inc. stockholders' equity	\$12,493,320	\$12,558,129	\$12,541,067	\$14,560,200	\$13,074,909

(1) During the year ended December 31, 2012, we received \$13.54 per Share, or approximately \$7.1 billion in total consideration, for the 523 million Shares we sold back to Alibaba Group. Approximately \$6.3 billion of the consideration was received in cash and \$800 million was received in Alibaba Group Preference Shares. We paid cash taxes of \$2.3 billion related to the transaction. See Note 8—“Investments in Equity Interests” in the Notes to our consolidated financial statements for additional information.

(2) During the year ended December 31, 2013, we received net proceeds of \$1.4 billion from the issuance of the Notes. See Note 11—“Convertible Notes” in the Notes to our consolidated financial statements for additional information.

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### Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

#### Forward-Looking Statements

*In addition to current and historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future operations, prospects, potential products, services, developments, and business strategies. These statements can, in some cases, be identified by the use of terms such as “may,” “will,” “should,” “could,” “would,” “intend,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “potential,” or “continue,” the negative of such terms, or other comparable terminology. This Annual Report on Form 10-K 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 changes in operating expenses;
- anticipated capital expenditures;
- expectations about our share repurchase activity;
- expectations about 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;
- expectations about the growth of, and the opportunities for monetization in, the mobile industry;
- projections and estimates with respect to our restructuring activities and changes to our organizational structure;
- expectations about the amount of unrecognized tax benefits, the outcome of tax assessment appeals, the adequacy of our existing tax reserves, future tax expenditures, and tax rates;
- expectations about positive cash flow generation and existing cash, cash equivalents, and investments being sufficient to meet normal operating requirements; and
- expectations regarding the outcome of legal proceedings in which we are involved, including the outcome of our efforts to sustain the reversal of 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. You are urged to carefully review the disclosures made concerning risks and uncertainties that may affect our business or operating results, which include, among others, those listed in Part 1, Item 1A “Risk Factors” of this Annual Report on Form 10-K. We do not intend, and undertake no obligation, to update or revise any of our forward-looking statements after the date of this Annual Report on Form 10-K to reflect new information, actual results or future events or circumstances.*

#### Overview

Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo,” the “Company,” “we,” or “us”) is a global technology company focused on making the world’s daily habits inspiring and entertaining. Our mission is driven by our commitment to creating highly personalized experiences that reach our users wherever they might be—on their mobile phone, tablet or desktop. Our more than 800 million monthly users connect to the things that matter most to them with beautiful, engaging experiences across Search, Communications, Digital Magazines and Video—some of which will be powered by Flickr and Tumblr.

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We create value for advertisers with a streamlined, simplified advertising technology stack that leverages Yahoo's data, reach and analytics to connect advertisers with their target audiences. For advertisers, the opportunity to be a part of users' daily habits across products and platforms is a powerful tool to engage audiences and build brand loyalty.

Advertisers can build their businesses through advertising to targeted audiences on our online properties and services ("Yahoo Properties") or through a distribution network of third party entities ("Affiliates") who integrate our advertising offerings into their Websites or other offerings ("Affiliate sites"; together with Yahoo Properties, the "Yahoo Network"). Our revenue is generated principally from display and search advertising.

We continue to 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;
- Critical Accounting Policies and Estimates; and
- Recent Accounting Pronouncements.

### 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 (used in) 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, and limitations specific to, each of these non-GAAP financial measures.

	Years Ended December 31,		
	2011	2012	2013
Revenue	\$4,984,199	\$4,986,566	\$4,680,380
Revenue ex-TAC	\$4,380,828	\$4,467,660	\$4,425,938
Income from operations <sup>(1)</sup>	\$ 800,341	\$ 566,368	\$ 589,926
Adjusted EBITDA	\$1,654,583	\$1,698,727	\$1,564,245
Net income attributable to Yahoo! Inc	\$1,048,827	\$3,945,479	\$1,366,281
Net cash provided by (used in) operating activities	\$1,323,806	\$ (281,554)	\$1,195,247
Free cash flow <sup>(2)</sup>	\$ 725,801	\$ (834,865)	\$ 786,465

(1) Includes:

Stock-based compensation expense	\$ 203,958	\$ 224,365	\$ 278,220
Restructuring charges, net	\$ 24,420	\$ 236,170	\$ 3,766

(2) Excluding the impact of the cash taxes paid of \$2.3 billion related to the Initial Repurchase described under "Significant Transactions" below, free cash flow for the year ended December 31, 2012 would have been \$1.4 billion.

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### Revenue ex-TAC (a non-GAAP financial measure)

	Years Ended December 31,			2011-2012	2012-2013
	2011	2012	2013	% Change	% Change
	(dollars in thousands)				
Revenue	\$4,984,199	\$4,986,566	\$4,680,380	—	(6)%
Less: TAC	603,371	518,906	254,442	(14)%	(51)%
Revenue ex-TAC	<u>\$4,380,828</u>	<u>\$4,467,660</u>	<u>\$4,425,938</u>	2%	(1)%

For the year ended December 31, 2013, revenue ex-TAC decreased \$42 million, or 1 percent, due to a decrease in display revenue ex-TAC partially offset by an increase in search revenue ex-TAC and other revenue ex-TAC.

For the year ended December 31, 2012, revenue ex-TAC increased \$87 million, or 2 percent, due to an increase in search revenue ex-TAC partially offset by a decline in display revenue ex-TAC.

### Adjusted EBITDA (a non-GAAP financial measure)

	Years Ended December 31,			2011-2012	2012-2013
	2011	2012	2013	% Change	% Change
	(dollars in thousands)				
Net income attributable to Yahoo! Inc.	\$1,048,827	\$ 3,945,479	\$1,366,281	N/M	(65)%
Costs associated with the Korea business and its closure	—	99,485	—	100%	(100)%
Deal-related costs related to the sale of Alibaba Group shares	—	6,500	—	100%	(100)%
Depreciation and amortization	625,864	649,267	628,778	4%	(3)%
Stock-based compensation expense	203,958	224,365	278,220	10%	24%
Goodwill impairment charge	—	—	63,555	—	100%
Restructuring charges, net, as adjusted <sup>(1)</sup>	24,420	152,742	3,766	N/M	(98)%
Other income, net	(27,175)	(4,647,839)	(43,357)	N/M	N/M
Provision for income taxes	241,767	1,940,043	153,392	N/M	N/M
Earnings in equity interests	(476,920)	(676,438)	(896,675)	42%	33%
Net income attributable to noncontrolling interests	13,842	5,123	10,285	(63)%	101%
Adjusted EBITDA	<u>\$1,654,583</u>	<u>\$ 1,698,727</u>	<u>\$1,564,245</u>	3%	(8)%
Percentage of revenue ex-TAC <sup>(2)(3)</sup>	<u>38%</u>	<u>38%</u>	<u>35%</u>		

N/M = Not Meaningful

<sup>(1)</sup> For the year ended December 31, 2012, this amount excludes the restructuring charges of \$83 million related to the Korea business and its closure, which charges are included in costs associated with the Korea business and its closure.

<sup>(2)</sup> Revenue ex-TAC is calculated as GAAP revenue less TAC.

<sup>(3)</sup> Net income attributable to Yahoo! Inc. as a percentage of GAAP revenue in 2011, 2012, and 2013 was 21 percent, 79 percent, and 29 percent, respectively.

For the year ended December 31, 2013, adjusted EBITDA decreased \$134 million, or 8 percent, compared to 2012, mainly due to a decline in revenue ex-TAC and an increase in global operating costs.

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For the year ended December 31, 2012, adjusted EBITDA increased \$44 million, or 3 percent, compared to 2011. Excluding the impact of the Initial Repurchase described under “Significant Transactions” below, such increase was primarily attributable to increased revenue in the Americas region and a decline in TAC in the EMEA region.

### Free Cash Flow (a non-GAAP financial measure)

	Years Ended December 31,		
	2011	2012	2013
		(dollars in thousands)	
Net cash provided by (used in) operating activities	\$1,323,806	\$(281,554)	\$1,195,247
Acquisition of property and equipment, net	(593,294)	(505,507)	(338,131)
Dividends received from equity investees	(75,391)	(83,648)	(135,058)
Excess tax benefits from stock-based awards	70,680	35,844	64,407
Free cash flow(*)	<u>\$ 725,801</u>	<u>\$(834,865)</u>	<u>\$ 786,465</u>

(\*) Excluding the impact of the cash taxes paid of \$2.3 billion related to the Initial Repurchase described under “Significant Transactions” below, free cash flow for the year ended December 31, 2012 would have been \$1.4 billion.

For the year ended December 31, 2013, free cash flow increased \$1.6 billion, compared to 2012. Excluding the impact of the cash taxes paid in 2012 of \$2.3 billion related to the Initial Repurchase described under “Significant Transactions” below, free cash flow decreased \$645 million in 2013, compared to 2012. The decline was primarily due to an upfront payment of \$550 million we received in 2012 from Alibaba Group Holding Limited (the “Alibaba Group”) in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement with Alibaba Group (the “TIPLA”), for which there were no similar payments in 2013. This was partially offset by a decrease in capital expenditures.

For the year ended December 31, 2012, free cash flow decreased \$1.6 billion, compared to 2011. Excluding the impact of the cash taxes paid of \$2.3 billion related to the Initial Repurchase described under “Significant Transactions” below, free cash flow increased \$705 million primarily due to the upfront payment of \$550 million from Alibaba Group in 2012 described above.

### Non-GAAP Financial Measures

**Revenue ex-TAC**. Revenue ex-TAC is a non-GAAP financial measure defined as GAAP revenue less traffic acquisition costs (“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 had not yet transitioned, revenue continued to be recorded on a gross (before TAC) basis, and TAC is recorded as a part of operating expenses.

We present revenue ex-TAC to provide investors a metric used by us for evaluation and decision-making purposes during the Microsoft transition and to provide investors with comparable revenue numbers when comparing periods preceding, during and following the transition period. A limitation of revenue ex-TAC is that it is a measure which we have defined for internal and investor purposes that may be unique to us, and therefore it may not enhance the comparability of our results to other companies in our industry who have similar business

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arrangements but address the impact of TAC differently. Management compensates for these limitations by also relying on the comparable GAAP financial measures of revenue and total operating expenses, which include TAC in non-transitioned markets.

*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.

We present adjusted EBITDA because the exclusion of certain gains, losses, and expenses facilitates comparisons of the operating performance of our Company on a period to period basis. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for results reported under GAAP. These limitations include: adjusted EBITDA does not reflect tax payments and such payments reflect a reduction in cash available to us; adjusted EBITDA does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses; adjusted EBITDA does not include stock-based compensation expense related to our workforce; adjusted EBITDA also excludes 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, and these items may represent a reduction or increase in cash available to us. Adjusted EBITDA is a measure that may be unique to us, and therefore it may not enhance the comparability of our results to other companies in our industry. Management compensates for these limitations by also relying on the comparable GAAP financial measure of net income attributable to Yahoo! Inc., which includes taxes, depreciation, amortization, stock-based compensation expense, other income, net (which includes interest), earnings in equity interests, net income attributable to noncontrolling interests and the other gains, losses and expenses that are excluded from adjusted EBITDA.

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

We consider free cash flow to be a liquidity measure which provides useful information to management and investors about the amount of cash generated by the business after the acquisition of property and equipment, which can then be used for strategic opportunities including, among others, investing in our business, making strategic acquisitions, strengthening the balance sheet, and repurchasing stock. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period. Management compensates for the limitation of free cash flow by also relying on the net change in cash and cash equivalents as presented in our consolidated statements of cash flows prepared in accordance with GAAP which incorporates all cash movements during the period.

## Significant Transactions

### *Acquisition of Tumblr*

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

### *Initial Repurchase of Alibaba Group Holding Limited Ordinary Shares*

See Note 8—“Investments in Equity Interests” in the Notes to our consolidated financial statements for information regarding the repurchase by Alibaba Group of 523 million of the 1,047 million ordinary shares of

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Alibaba Group (the “Shares”) we owned at the time (the “Initial Repurchase”) pursuant to the terms of a Share Repurchase and Preference Share Sale Agreement (as amended on September 11, 2012 and October 14, 2013, the “Repurchase Agreement”).

In September 2012, we received net cash proceeds of approximately \$4.3 billion after the payment of taxes and fees from the Initial Repurchase, which included the \$550 million TIPLA payment. We returned \$3.65 billion of these after-tax proceeds to shareholders.

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

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

### *Convertible Senior Notes*

In 2013, we completed the offering of \$1.4375 billion aggregate principal amount of our 0.00% Convertible Senior Notes due in 2018 (the “Notes”). The Notes were sold in a private placement under a purchase agreement, dated November 20, 2013, that we entered into with J.P. Morgan Securities LLC and Goldman, Sachs & Co., as representatives of the several initial purchasers named therein (collectively, the “Initial Purchasers”), for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). In connection with the issuance of the Notes, we entered into note hedge transactions with the Initial Purchasers (in such capacity, the “Option Counterparties”) to reduce the potential dilution with respect to our common stock upon conversion of the Notes or offset any cash payment we would be required to make in excess of the principal amount of converted Notes. For the year ended December 31, 2013, we used \$206 million to pay the cost of the privately negotiated note hedge transactions. Separately, we entered into privately negotiated warrant transactions with the Option Counterparties giving them the right to purchase Yahoo common stock from us. The warrant transactions will have a dilutive effect with respect to our common stock to the extent that the market price per share of our common stock exceeds the \$71.24 strike price of the warrants on or prior to the expiration date of the warrants. For the year ended December 31, 2013, we received \$125 million from the issuance of warrants.

Concurrent with the offering, we also used approximately \$87.5 million of the net proceeds from the sale of the Notes to repurchase approximately 2.5 million shares of our common stock. We expect to use the remainder of the net proceeds from the sale of the Notes for general corporate purposes, including, but not limited to, acquisitions or other strategic transactions, additional repurchases of common stock and working capital. For additional information see “Item 5—Recent Sales of Unregistered Securities” and Note 11—“Convertible Notes” in the Notes to our consolidated financial statements.

### *Search Agreement with Microsoft Corporation*

On December 4, 2009, we entered into a Search and Advertising Services and Sales Agreement, as amended, (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

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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 were to be 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. Under the Search Agreement, Yahoo is the exclusive worldwide relationship sales force for both companies' premium search advertisers. 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. Revenue under the Search Agreement represented approximately 20 percent, 25 percent, and 31 percent of our revenue for the years ended December 31, 2011, 2012 and, 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 based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. We record the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013, and in the second quarter of 2013, Microsoft extended the RPS Guarantee in the U.S. through March 2014. In June 2013, Microsoft and we agreed upon the RPS Guarantee payment amounts to be paid to us for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013. We also agreed to fixed quarterly payments in lieu of the RPS Guarantee in the U.S. for the quarters ending September 30, 2013, December 31, 2013 and March 31, 2014. In addition, we agreed to waive our right to receive any future RPS Guarantee payments in all other markets except Taiwan and Hong Kong. We do not expect the remaining quarterly payment from Microsoft and any RPS Guarantee payments for Taiwan and Hong Kong to have a material impact on our expected future revenue.

Under the Search Agreement, Microsoft agreed to reimburse us for certain transition costs up to an aggregate total of \$150 million during the first three years of the Search Agreement. During the third quarter of 2011, our cumulative transition costs exceeded Microsoft's \$150 million reimbursement cap under the Search Agreement. Transition costs we incurred in excess of the \$150 million reimbursement cap were not subject to reimbursement. Our results for the year ended December 31, 2011 reflect the final transition cost reimbursements from Microsoft under the Search Agreement of \$26 million.

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. By the end of 2012, we had completed the transition of paid search in India, most of the EMEA markets, and six markets in Latin America. By the end of 2013, we had substantially completed the transition of paid search, including the transition of paid search in Taiwan and Hong Kong.

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From February 23, 2010 until the applicable services were fully transitioned to Microsoft in all markets, Microsoft was required under the Search Agreement to reimburse us for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. Our results reflect search operating cost reimbursements from Microsoft under the Search Agreement of \$49 million, \$67 million, and \$212 million for the years ended December 31, 2013, 2012, and 2011, respectively.

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 years ended December 31, 2012 and 2013, the total reimbursements not yet received from Microsoft of \$5 million were classified as part of prepaid expenses and other current assets on our consolidated balance sheets as of December 31, 2012 and 2013.

See Note 19—“Search Agreement with Microsoft Corporation” in the Notes to our consolidated financial statements for additional information.

## Results of Operations

	Years Ended December 31,			2011-2012	2012-2013
	2011	2012	2013	% Change	% Change
	(dollars in thousands)				
Revenue for groups of similar services:					
Display					
Yahoo Properties	\$1,998,312	\$1,930,234	\$1,744,130	(3)%	(10)%
Affiliate sites	161,997	212,584	205,700	31%	(3)%
Total Display revenue	<u>\$2,160,309</u>	<u>\$2,142,818</u>	<u>\$1,949,830</u>	(1)%	(9)%
Search					
Yahoo Properties	\$1,056,053	\$1,206,209	\$1,371,134	14%	14%
Affiliate sites	797,057	679,651	370,657	(15)%	(45)%
Total Search revenue	<u>\$1,853,110</u>	<u>\$1,885,860</u>	<u>\$1,741,791</u>	2%	(8)%
Other					
Total revenue	<u>\$ 970,780</u>	<u>\$ 957,888</u>	<u>\$ 988,759</u>	(1)%	3%
Total revenue	<u>\$4,984,199</u>	<u>\$4,986,566</u>	<u>\$4,680,380</u>	—	(6)%
Cost of revenue—TAC	603,371	518,906	254,442	(14)%	(51)%
Cost of revenue—other	983,626	1,101,660	1,094,938	12%	(1)%
Sales and marketing	1,122,193	1,101,572	1,130,820	(2)%	3%
Product development	919,368	885,824	1,008,487	(4)%	14%
General and administrative	497,288	540,247	569,555	9%	5%
Amortization of intangibles	33,592	35,819	44,841	7%	25%
Gains on sales of patents	—	—	(79,950)	—	100%
Goodwill impairment charge	—	—	63,555	—	100%
Restructuring charges, net	24,420	236,170	3,766	N/M	(98)%
Total operating expenses	<u>\$4,183,858</u>	<u>\$4,420,198</u>	<u>\$4,090,454</u>	6%	(7)%
Income from operations	<u>\$ 800,341</u>	<u>\$ 566,368</u>	<u>\$ 589,926</u>	(29)%	4%
Includes:					
Stock-based compensation expense	\$ 203,958	\$ 224,365	\$ 278,220	10%	24%
Costs associated with the Korea business and its closure	\$ —	\$ 99,485	\$ —	100%	(100)%

N/M = Not Meaningful

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

	Years Ended December 31,		
	2011	2012	2013
	(dollars in thousands)		
Revenue for groups of similar services:			
Display			
Yahoo Properties	40%	39%	37%
Affiliate sites	3%	4%	5%
Total Display revenue	<u>43%</u>	<u>43%</u>	<u>42%</u>
Search			
Yahoo Properties	21%	24%	29%
Affiliate sites	16%	14%	8%
Total Search revenue	<u>37%</u>	<u>38%</u>	<u>37%</u>
Other	20%	19%	21%
Total revenue	100%	100%	100%
Cost of revenue—TAC	12%	10%	6%
Cost of revenue—other	20%	22%	23%
Sales and marketing	23%	22%	24%
Product development	18%	18%	22%
General and administrative	10%	11%	12%
Amortization of intangibles	1%	1%	1%
Gains on sales of patents	—	—	(2)%
Goodwill impairment charge	—	—	1%
Restructuring charges, net	—	5%	—
Total operating expenses	<u>84%</u>	<u>89%</u>	<u>87%</u>
Income from operations	<u>16%</u>	<u>11%</u>	<u>13%</u>
Includes:			
Stock-based compensation expense	4%	4%	6%
Costs associated with the Korea business and its closure	—	2%	—

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### 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.

	Years Ended December 31,			2011-2012	2012-2013
	2011	2012	2013	% Change	% Change
(dollars in thousands)					
<b>Revenue by segment:</b>					
Americas	\$3,302,989	\$3,461,633	\$3,481,502	5%	1%
EMEA	629,383	472,061	385,186	(25)%	(18)%
Asia Pacific	1,051,827	1,052,872	813,692	—	(23)%
Total revenue	\$4,984,199	\$4,986,566	\$4,680,380	—	(6)%
<b>TAC by segment:</b>					
Americas	\$ 160,110	\$ 182,511	\$ 158,974	14%	(13)%
EMEA	221,916	114,230	42,915	(49)%	(62)%
Asia Pacific	221,345	222,165	52,553	—	(76)%
Total TAC	\$ 603,371	\$ 518,906	\$ 254,442	(14)%	(51)%
<b>Revenue ex-TAC by segment:</b>					
Americas	\$3,142,879	\$3,279,122	\$3,322,528	4%	1%
EMEA	407,467	357,831	342,271	(12)%	(4)%
Asia Pacific	830,482	830,707	761,139	—	(8)%
Total revenue ex-TAC	\$4,380,828	\$4,467,660	\$4,425,938	2%	(1)%
<b>Direct costs by segment <sup>(1)</sup>:</b>					
Americas	696,103	733,316	747,684	5%	2%
EMEA	165,750	161,990	165,719	(2)%	2%
Asia Pacific	225,417	224,114	197,619	(1)%	(12)%
Global operating costs <sup>(2)(3)</sup>	1,638,975	1,672,070	1,830,621	2%	9%
Depreciation and amortization	625,864	649,267	628,778	4%	(3)%
Stock-based compensation expense	203,958	224,365	278,220	10%	24%
Gains on sales of patents	—	—	(79,950)	—	100%
Goodwill impairment charge	—	—	63,555	—	100%
Restructuring charges, net	24,420	236,170	3,766	N/M	(98)%
Income from operations	\$ 800,341	\$ 566,368	\$ 589,926	(29)%	4%

N/M = Not Meaningful

<sup>(1)</sup> 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. Beginning in 2012, marketing and customer experience costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

<sup>(2)</sup> 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. Prior to 2012, marketing and customer experience costs were managed on a global basis and included as global operating costs. Prior period amounts have been revised to conform to the current presentation.

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- (3) The net cost reimbursements from Microsoft pursuant to the Search Agreement are primarily included in global operating costs. Operating costs and expenses consist of cost of revenue—TAC; cost of revenue—other; sales and marketing, product development; general and administrative; amortization of intangible assets; and restructuring charges, net. 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.

### *Revenue*

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

With the significant platform shift to mobile devices, including smartphones and tablets, we have increased our strategic focus on mobile products and mobile ad formats. We have hired engineering and technical talent to help us accelerate our efforts in mobile development, and introduced new mobile apps and refreshed the user experience on mobile across a number of Yahoo Properties, including News, Sports and Finance. We are seeing an increase in the number of our daily and monthly mobile users as a result of these product improvements. The monetization of these mobile products is driven primarily through advertisements and we are committed to continuing to develop and deliver innovative ad formats on mobile. While we see a significant opportunity for monetization on mobile, during 2013 and at present our revenue from mobile is not material.

### *Display Revenue*

Display revenue is generated from the display of graphical and non-graphical advertisements (“display advertising”). We earn revenue from guaranteed or “premium” display advertising by delivering advertisements according to advertisers’ specified criteria, such as number of impressions during a fixed period on a specific placement. Also, we earn revenue from non-guaranteed or “non-premium” display advertising by delivering advertisements on a preemptible basis.

We recognize revenue from display advertising on Yahoo Properties and Affiliate sites as impressions are delivered. Impressions are delivered when a sold advertisement appears in pages viewed by users. Arrangements for these services generally have terms of up to one year. For display advertising on Affiliate sites, we pay TAC to Affiliates for the revenue generated from the display of these advertisements on the Affiliate sites. The display revenue derived from these arrangements that involve traffic supplied by Affiliates is reported on a gross basis (before deducting the TAC paid to Affiliates) as we are the primary obligor to the advertisers who are the customers of the display advertising service.

Display revenue for the year ended December 31, 2013 decreased by 9 percent, compared to 2012. This decrease was primarily attributable to a decline in number of ads that we sold on a premium basis on Yahoo Properties in the Americas region.

Display revenue for the year ended December 31, 2012 decreased by 1 percent, compared to 2011. This decrease can be attributed to a decline in display revenue on Yahoo Properties in the EMEA region.

### *Search Revenue*

Search revenue is generated from clicks on text-based links to advertisers’ Websites that appear primarily on search results pages (“search advertising”). We recognize revenue from search advertising on Yahoo Properties

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and Affiliate sites. Search revenue is recognized based on Paid Clicks. A Paid Click occurs when an end-user clicks on a sponsored listing on Yahoo Properties or Affiliate sites for which an advertiser pays on a per click basis. Under the Search Agreement with Microsoft, in transitioned markets we report as revenue our 88 percent revenue share as we are not the primary obligor in the arrangement with the advertisers. See “Significant Transactions—Search Agreement with Microsoft Corporation” above for a description of our Search Agreement with Microsoft. In non-transitioned markets, we paid Affiliates TAC for the revenue generated from the search advertisements on the Affiliates’ Websites. The revenue derived from these arrangements was reported on a gross basis (before deducting the TAC paid to Affiliates), as we were the primary obligor to the advertisers in non-transitioned markets and we recorded the related revenue as it was earned. We also generate search revenue from a revenue sharing arrangement with Yahoo Japan for search technology and services.

Search revenue for the year ended December 31, 2013 decreased by 8 percent compared to 2012. Search revenue decreased primarily due to declines in Affiliate revenue in the Asia Pacific region resulting from the closure of our Korea business, and declines in Affiliate revenue in the EMEA region due to the required change in revenue presentation for transitioned markets from a gross (before TAC) to a net (after TAC) basis. This was partially offset by increased search revenue in the Americas region, which resulted from an increase in sponsored searches on Yahoo Properties and higher revenue per search due to improved ad formats.

Search revenue for the year ended December 31, 2012 increased by 2 percent compared to 2011. Search revenue increased due to increased search revenue in the Americas region which resulted from an increase in sponsored searches on Yahoo Properties, as well as higher revenue per search. The increase was partially offset by decreased search revenue in the EMEA region and other markets due to the required change in revenue presentation for transitioned markets from a gross to a net (after TAC) basis.

### *Other Revenue*

Other revenue includes listings-based services revenue, transaction revenue, royalties, and fees revenue. Listings-based services revenue is generated from a variety of consumer and business listings-based services, including classified advertising. We recognize listings-based services revenue when the services are performed. Transaction revenue is generated from facilitating commercial transactions through Yahoo Properties, principally from Yahoo Small Business, Yahoo Travel, and Yahoo Shopping. We recognize transaction revenue when there is evidence that qualifying transactions have occurred. We also receive royalties from joint venture partners that are recognized when earned. Fees revenue consists of revenue generated from a variety of consumer and business fee-based services as well as services for small businesses. We recognize fees revenue when the services are performed.

Other revenue for the year ended December 31, 2013 increased by 3 percent, compared to 2012. The increase was primarily due to increased royalty revenue resulting from the amended TIPLA agreement with Alibaba Group. This was partially offset by a decrease in listings-based revenue in the Americas region.

Other revenue for the year ended December 31, 2012 decreased by 1 percent, compared to 2011. There was a decrease in fees revenue from certain of our broadband access partnerships and a decline in listings revenue in the Americas region. This decrease was partially offset by an increase in the Americas region due to new and amended partner deals, as well as an increase in royalty revenue resulting from the amended TIPLA agreement.

### *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.

“Ads Sold” is defined as display ad impressions for paying advertisers on Yahoo Properties. “Price-per-Ad” is defined as display revenue from Yahoo Properties divided by our total number of Ads Sold. Our price and

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volume metrics for display are based on display revenue which we report on a gross basis (before TAC). Our price and volume metrics for display exclude both the number of Ads Sold and the related revenue for certain regions where we did not retain historical information in a manner that would support period-to-period comparison on these metrics. The countries and regions included in our display metrics are: the United States, the United Kingdom, France, Germany, Spain, Italy, Taiwan, Hong Kong, Southeast Asia, and India.

“Paid Clicks” are defined as clicks by end-users on sponsored search listings 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 total number of Paid Clicks. Our price and volume metrics for search are based on gross search revenue (before TAC) in all markets in which we operate.

We periodically review, refine and update our methodologies for monitoring, gathering, and counting numbers of Ads Sold and Paid Clicks and for calculating Price-per-Click and Price-per-Ad.

Commencing in the third quarter of 2013, we made three updates to our methodologies. First, we now include the impressions and revenue associated with our new stream ad units, which are display ads that appear in the content streams viewed by users, in our display price and volume metrics (Ads Sold and Price-per-Ad). Second, to provide metrics that are more consistent with our historical revenue trends, the revenue and volume associated with other display advertisements sold on a price-per-click basis have been excluded from our search price and volume metrics (Paid Clicks and Price-per-Click) and they will continue to be excluded from our display price and volume metrics. Finally, the Microsoft RPS Guarantee has been excluded from the calculation of Price-per-Click. Due to the closure of the Korea business in the fourth quarter of 2012, “Ads Sold,” “Paid Clicks,” “Price-per-Ad,” and “Price-per-Click,” as presented below, exclude the Korea market for all periods presented. Prior period amounts have been updated to conform to the current presentation.

### *Display Metrics*

For the year ended December 31, 2013, number of Ads Sold decreased 1 percent and Price-per-Ad decreased 7 percent, compared to 2012. The decrease in number of Ads Sold year-over-year was attributable to a decline in premium Ads Sold, which was partially offset by growth in non-premium advertising as a result of stream ad units. The decrease in Price-per-Ad year-over-year was due to a shift in the mix of ads sold towards lower monetizing stream ad units.

For the year ended December 31, 2012, number of Ads Sold decreased 10 percent and Price-per-Ad increased 8 percent, compared to 2011. The decrease in number of Ads Sold year-over-year was attributable to a decline in number of Ads Sold on Yahoo Properties in the Americas and Asia Pacific regions. The increase in Price-per-Ad was due to a change in the mix of our ads sold.

### *Search Metrics*

For the year ended December 31, 2013, Paid Clicks increased 19 percent and Price-per-Click decreased 4 percent, compared to 2012. The increase in Paid Clicks was attributable to improved ad formats on Yahoo Search, increased mobile traffic, and increased Affiliate traffic in the Americas region. The increase in Affiliate traffic was driven by incremental traffic in Latin America. The decrease in Price-per-Click was primarily due to a higher mix of traffic in lower monetizing geographic regions and traffic quality improvement initiatives conducted by Yahoo, which lowered Price-per-Click.

For the year ended December 31, 2012, Paid Clicks and Price-per-Click increased 8 percent and 2 percent, respectively, compared to 2011. The increase in Paid Clicks was primarily attributable to the optimization of the user interface. The increase in Price-per-Click was due to a change in the mix of Paid Clicks on our sponsored listings.

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### *Revenue ex-TAC by Segment*

#### *Americas*

Americas revenue ex-TAC for the year ended December 31, 2013 increased \$43 million, or 1 percent, compared to 2012. The increase in Americas revenue ex-TAC was primarily attributable to an increase in search revenue ex-TAC of \$148 million and fees revenue of \$87 million. The increase in search revenue ex-TAC was attributable to an increase in sponsored searches on Yahoo Properties and higher revenue per search due to improved ad formats. The increase in fees revenue was primarily due to increased royalty revenue resulting from the amended TIPLA agreement with Alibaba Group. This was partially offset by a decline in display revenue ex-TAC of \$142 million due to declines in the number of Ads Sold on a premium basis on Yahoo Properties, and a decline in listings revenue of \$50 million.

Americas revenue ex-TAC for the year ended December 31, 2012 increased \$136 million, or 4 percent, compared to 2011. The year-over-year increase in Americas revenue ex-TAC was primarily attributable to increased search revenue ex-TAC from increases in sponsored search on Yahoo Properties, which was partially offset by a decline in display revenue ex-TAC.

Revenue ex-TAC in the Americas accounted for approximately 75 percent of total revenue ex-TAC for the year ended December 31, 2013, compared to 73 percent in 2012 and 72 percent in 2011.

#### *EMEA*

EMEA revenue ex-TAC for the year ended December 31, 2013 decreased \$16 million, or 4 percent, compared to 2012, due to declines in display revenue ex-TAC on Yahoo Properties driven by a decrease in premium advertising primarily related to Mail.

EMEA revenue ex-TAC for the year ended December 31, 2012 decreased \$50 million, or 12 percent, compared to 2011. 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 also declined due to a decrease in premium advertising related to a decline in supply which was partially offset by increased pricing.

Revenue ex-TAC in EMEA accounted for approximately 8 percent of total revenue ex-TAC for the year ended December 31, 2013, compared to 8 percent in 2012 and 9 percent in 2011.

#### *Asia Pacific*

Asia Pacific revenue ex-TAC for the year ended December 31, 2013 decreased \$70 million, or 8 percent compared to 2012. The decline was primarily attributable to a decrease in revenue ex-TAC related to the closure of our Korea business of \$63 million and unfavorable foreign exchange rate fluctuations.

Asia Pacific revenue ex-TAC for the year ended December 31, 2012 was flat compared to 2011 due to an increase in display revenue ex-TAC offset by a decline in search revenue ex-TAC.

Revenue ex-TAC in Asia Pacific accounted for approximately 17 percent of total revenue ex-TAC for the year ended December 31, 2013, compared to 19 percent for both 2012 and 2011.

### *Direct Costs by Segment*

#### *Americas*

For the year ended December 31, 2013, direct costs attributable to the Americas segment increased \$14 million, or 2 percent, compared to 2012. The increase in direct costs was primarily due to increases in marketing expenses

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of \$25 million and content costs of \$5 million. The increase in marketing expenses was primarily due to advertising campaigns to generate additional traffic on Yahoo Shopping, Mail, Autos and Screen, as well as our On the Road with Yahoo marketing campaign and our Fantasy Football television advertising campaign. There were no similar campaigns in 2012. The increase in marketing expenses and content costs was partially offset by declines in compensation costs of \$9 million and bandwidth and other cost of revenue of \$6 million.

For the year ended December 31, 2012, direct costs attributable to the Americas segment increased \$37 million, or 5 percent, compared to 2011. The increase in direct costs was primarily due to higher compensation of \$44 million and content costs of \$35 million partially offset by lower marketing costs of \$33 million and bandwidth and other cost of revenue of \$7 million.

Direct costs attributable to the Americas segment represented approximately 23 percent of Americas revenue ex-TAC for the year ended December 31, 2013 compared to 22 percent for both 2012 and 2011.

### *EMEA*

For the year ended December 31, 2013, direct costs attributable to the EMEA segment increased \$4 million, or 2 percent, compared to 2012. The increase in direct costs was primarily attributable to an increase in content costs and marketing expenses of \$6 million partially offset by a \$3 million decrease in compensation costs and bandwidth and other cost of revenue.

For the year ended December 31, 2012, direct costs attributable to the EMEA segment decreased \$4 million, or 2 percent, compared to 2011. The decline was primarily due to decreased compensation costs of \$3 million and marketing expenses of \$2 million in the region. This was partially offset by increased content costs of \$2 million in the region.

Direct costs attributable to the EMEA segment represented approximately 48 percent of EMEA revenue ex-TAC for the year ended December 31, 2013, compared to 45 percent and 41 percent in 2012 and 2011, respectively.

### *Asia Pacific*

For year ended December 31, 2013, direct costs attributable to the Asia Pacific segment decreased \$26 million, or 12 percent, compared to 2012. The decrease was primarily attributable to a \$15 million decline in compensation costs which resulted from reduced headcount primarily related to the closure of our Korea business, a \$6 million decline in content costs, and a \$10 million decline in outsourced service provider expenses and other expenses. This overall decrease was partially offset by an increase of \$9 million in bandwidth and other cost of revenue in the region.

For year ended December 31, 2012, direct costs attributable to the Asia Pacific segment decreased \$1 million, or 1 percent, compared to 2011. The decrease was primarily due to decreased marketing expenses offset by higher bandwidth and other cost of revenue.

Direct costs attributable to the Asia Pacific segment represented approximately 26 percent of Asia Pacific revenue ex-TAC for the year ended December 31, 2013, compared to 27 percent for both 2012 and 2011.

## ***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

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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 year ended December 31, 2013 decreased \$264 million, or 51 percent, compared to 2012. The decrease for the year ended December 31, 2013, compared to 2012, was primarily attributable to declines in the Asia Pacific, EMEA and Americas regions of \$170 million, \$71 million and \$23 million, respectively. The decline was due to (i) the closure of our Korea business in the Asia Pacific region, (ii) the required change in revenue presentation for additional transitioned markets from a gross (before TAC) to a net (after TAC) basis in the EMEA region, and (iii) a decline in display revenue in the Americas region.

TAC for the year ended December 31, 2012 decreased \$84 million, or 14 percent, compared to 2011. The decrease for the year ended December 31, 2012, compared to 2011, was primarily attributable to the required change in the presentation of revenue from a gross (before TAC) to a net (after TAC) basis in EMEA associated with the transition of paid search in the EMEA region to Microsoft's search platform. This decline was partially offset by an increase in display TAC in the Americas region resulting from an acquisition we completed in the fourth quarter of 2011.

TAC represented approximately 6 percent of GAAP revenue for the year ended December 31, 2013, compared to 10 percent and 12 percent in 2012 and 2011, respectively. The decrease in TAC as a percentage of GAAP revenue in 2013, as compared to 2012, is due to the closure of our Korea business in the Asia Pacific region and the transition of paid search to Microsoft.

### *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 developed technology and patents. Cost of revenue—other also includes costs for Yahoo's technology platforms and infrastructure, including depreciation expense and other operating costs, directly related to revenue generating activities.

Cost of revenue—other decreased \$7 million, or 1 percent, for the year ended December 31, 2013, compared to 2012. The decrease for the year ended December 31, 2013, compared to 2012, was primarily due to a decline in amortization of developed technology and patents of \$18 million partially offset by an increase in content costs of \$11 million.

Cost of revenue—other increased \$118 million, or 12 percent, for the year ended December 31, 2012, compared to 2011. The increase for the year ended December 31, 2012, compared to 2011, was primarily attributable to increases of \$67 million in bandwidth costs, \$38 million in content costs, and \$10 million in incremental depreciation of server equipment.

Cost of revenue—other represented approximately 23 percent of GAAP revenue for the year ended December 31, 2013, compared to 22 percent and 20 percent in 2012 and 2011, respectively.

### *Sales and Marketing*

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

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Sales and marketing expenses for the year ended December 31, 2013 increased \$29 million, or 3 percent, as compared to 2012. The year-over-year increase was primarily due to an increase in marketing expenses of \$31 million and stock-based compensation expenses of \$20 million. This was offset by a decline in other compensation costs of \$25 million. The increase in marketing expenses was primarily due to advertising campaigns to generate additional traffic on Yahoo Shopping, Mail, Autos and Screen, as well as our On the Road with Yahoo marketing campaign and our Fantasy Football television advertising campaign, for which there were no similar campaigns in 2012. The increase in stock based compensation in the sales and marketing function was due to an increase in the number of awards granted at a higher fair value, including performance-based awards. The decline in other compensation costs in the sales and marketing function was primarily due to a decline in average headcount year-over-year.

Sales and marketing expenses for the year ended December 31, 2012 decreased \$21 million, or 2 percent, as compared to 2011. The year-over-year decrease was primarily due to a decline in marketing and public relations expenses as well as a decline in third-party service provider expenses. This was offset by higher salaries of \$29 million and higher stock-based compensation expense of \$17 million in the sales and marketing function. The increase in salaries was due to higher sales commissions. The increase in stock-based compensation expense was due primarily to increased award grants and vesting accelerations upon executive terminations.

Sales and marketing expenses represented approximately 24 percent of GAAP revenue for the year ended December 31, 2013, compared to 22 percent and 23 percent in 2012 and 2011, respectively.

### *Product Development*

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

Product development expenses for the year ended December 31, 2013 increased \$123 million, or 14 percent, as compared to 2012. For the year ended December 31, 2013, the increase was primarily attributable to a decline in capitalizable projects of \$65 million, as well as an increase in facilities and equipment expense of \$24 million, stock based compensation expense of \$9 million, salaries of \$11 million due to an increase in headcount in the function, and travel and entertainment expense of \$6 million. The increase in stock based compensation in the product development function was due to an increase in the number of awards granted at a higher fair value.

Product development expenses for the year ended December 31, 2012 decreased \$34 million, or 4 percent, as compared to 2011. For the year ended December 31, 2012, the decline was primarily attributable to a decline in salaries of \$22 million and a decline in stock based compensation expense of \$6 million in the product development function as a result of reduced headcount related to the Q2'12 Restructuring Plan described below.

Product development expenses represented approximately 22 percent of GAAP revenue for the year ended December 31, 2013, compared to 18 percent for both 2012 and 2011.

### *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 year ended December 31, 2013 increased \$29 million, or 5 percent, as compared to 2012. The increase in expenses in the general and administrative function was due to increases in facilities and equipment expense of \$20 million due to investments in office space and our global employee

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experience, salaries of \$13 million due to an increase in headcount in the function, and stock-based compensation expense of \$20 million due to an increase in the number of awards granted at a higher fair value, including performance-based awards. This was partially offset by a decline of \$20 million in legal costs.

General and administrative expenses for the year ended December 31, 2012 increased \$43 million, or 9 percent, as compared to 2011. The increase in the general and administrative function was due to increases of \$16 million in professional services expense, \$19 million in legal costs associated with the closure of our Korea business, and \$12 million in stock-based compensation expense primarily due to vesting accelerations upon executive terminations.

General and administrative expenses represented approximately 12 percent of GAAP revenue for the year ended December 31, 2013, compared to 11 percent and 10 percent in 2012 and 2011, respectively.

### *Amortization of Intangibles*

We have purchased, and expect to continue purchasing, assets and/or businesses, which may include the purchase of intangible assets. Intangible assets includes customer, affiliate, and advertiser-related relationships and tradenames, trademarks and domain names. Amortization of developed technology and patents is included in the cost of revenue—other, and not in amortization of intangibles.

Amortization of intangibles for the year ended December 31, 2013 increased \$9 million, or 25 percent, as compared to 2012. The year-over-year increase in amortization of intangibles from 2012 to 2013 was primarily driven by incremental amortization from acquisitions completed in 2013, partially offset by a decrease in amortization of intangibles driven by fully amortized assets acquired in prior years.

Amortization of intangibles for the year ended December 31, 2012 increased \$2 million, or 7 percent, as compared to 2011. The year-over-year increase in amortization of intangibles from 2011 to 2012 was primarily driven by the inclusion of intangibles related to an acquisition in the fourth quarter of 2011. This is offset by a decrease in amortization expense for fully amortized assets acquired in prior years.

Amortization of intangibles represented approximately 1 percent of GAAP revenue for the years ended December 31, 2013, 2012, and 2011.

### *Gains on Sales of Patents*

For the year ended December 31, 2013, we sold certain patents and recorded gains on sales of patents of approximately \$80 million. The gains on sales of patents were primarily related to a patent sale agreement with a wholly-owned affiliate of Alibaba Group entered into during the fourth quarter of 2013 for \$70 million.

### *Goodwill Impairment Charge*

We conducted our annual goodwill impairment test as of October 31, 2013 and determined that the fair values of our reporting units, with the exception of the Middle East reporting unit, exceeded their carrying values and therefore goodwill in those reporting units was not impaired. We concluded that the carrying value of the Middle East reporting unit exceeded its fair value and recorded a goodwill impairment charge of approximately \$64 million. See Note 5—“Goodwill” in the Notes to our consolidated financial statements for additional information.

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### Restructuring Charges, Net

For the years ended December 31, 2011, 2012, and 2013, restructuring charges, net was comprised of the following (dollars in thousands):

	Year Ended December 31,		Year Ended December 31, 2012		
	2011		Restructuring		Total
	Restructuring		Q2'12	Q4'12	
	Plans Prior to	2012	Restructuring	Korea Business	
Employee severance pay and related costs	\$ 12,965	\$ 1,169	\$ 96,537	\$ 4,998	\$102,704
Non-cancelable lease, contract terminations, and other charges	10,251	8,462	9,541	8,996	26,999
Other non-cash charges, net	990	—	40,462	69,434	109,896
Sub-total before accelerations (reversals) of stock-based compensation expense	24,206	9,631	146,540	83,428	239,599
Accelerations (reversals) of stock-based compensation expense	214	—	(3,429)	—	(3,429)
Restructuring charges, net	<u>\$ 24,420</u>	<u>\$ 9,631</u>	<u>\$ 143,111</u>	<u>\$ 83,428</u>	<u>\$236,170</u>
			Year Ended December 31, 2013		
	Restructuring		Q2'12	Q4'12	Q4'13
	Plans Prior to	2012	Restructuring	Korea Business	Restructuring
			Plan	Closure	Plan
Employee severance pay and related costs	\$ (459)	\$ (15,401)	\$ (103)	\$ 5,144	\$ (10,819)
Non-cancelable lease, contract terminations, and other charges	13,894	164	(20)	—	14,038
Other non-cash charges	—	—	547	—	547
Restructuring charges (reversal), net	<u>\$ 13,435</u>	<u>\$ (15,237)</u>	<u>\$ 424</u>	<u>\$ 5,144</u>	<u>\$ 3,766</u>

*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 year ended December 31, 2011, we incurred total pre-tax cash charges of \$23 million in severance, facility and other related costs, net of reversal for adjustments to original estimates totaling \$12 million. In addition to the pre-tax cash charges, we recorded a non-cash charge of \$1 million related to asset impairment. Of the \$24 million in restructuring charges, net recorded in the year ended December 31, 2011, \$22 million related to the Americas segment, \$1 million related to the EMEA segment and \$1 million related to the Asia Pacific segment. During the year ended December 31, 2012, we recorded total pre-tax cash charges of \$10 million in severance, facility and other related costs, net of reversal for adjustments to original estimates totaling \$5 million. The majority of the \$10 million in restructuring charges, net recorded in the year ended December 31, 2012, related to the Americas segment.

During the year ended December 31, 2013, we incurred total pre-tax cash charges of \$13 million in facility and other related costs, net of reversal for adjustments to original estimates totaling \$1 million. Of the \$13 million recorded for the year ended December 31, 2013, \$8 million related to the Americas segment and \$5 million related to the EMEA segment.

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As of December 31, 2013, the aggregate outstanding restructuring liability related to the Restructuring Plans Prior to 2012 was \$22 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 year ended December 31, 2012, we recorded total pre-tax cash charges of \$139 million in severance and facility related costs and \$40 million in non-cash facility and other asset impairment charges. The total pre-tax charges were offset by changes to original estimates of \$33 million in severance related costs recognized throughout 2012, primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates and a \$3 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the \$143 million in restructuring charges, net recorded in the year ended December 31, 2012, \$93 million related to the Americas segment, \$46 million related to the EMEA segment and \$4 million related to Asia Pacific segment.

During the year ended December 31, 2013, we recorded total pre-tax cash charges of \$7 million in severance, facility and other related costs, which were offset by a credit of \$22 million for severance-related reversals due to adjustments to original estimates as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the \$15 million credit in restructuring charges, net, recorded in the year ended December 31, 2013, \$7 million related to the Americas segment, \$7 million related to the EMEA segment, and \$1 million related to the Asia Pacific segment.

As of December 31, 2013, the aggregate outstanding restructuring liability related to the Q2'12 Restructuring Plan was \$3 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 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 year ended December 31, 2012, we incurred total pre-tax cash charges of \$13 million in severance and contract termination costs. In addition to the pre-tax cash charges, we recorded a non-cash charge of \$86 million related to goodwill and other asset impairments and a non-cash credit of approximately \$16 million related to the reversal of previously recorded cumulative foreign currency translation adjustments. As a result, we recorded a net \$83 million in restructuring charges, which all related to the Asia Pacific segment, for the year ended December 31, 2012.

During the year ended December 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 December 31, 2013, the aggregate outstanding restructuring liability related to the Q4'12 Korea Business Closure was less than \$1 million, most of which relates to contract termination costs that we expect will be substantially paid by the first quarter of 2014.

*Q4'13 Restructuring Plan.* During the fourth quarter of 2013, we started the process of closing our Cairo, Egypt and Rolle, Switzerland offices, as part of our continued efforts to streamline our operations and focus our resources. During the year ended December 31, 2013, we recorded total pre-tax cash charges of \$5 million in severance and other related costs, which all related to the EMEA segment.

As of December 31, 2013, the aggregate outstanding restructuring liability related to the Q4'13 Restructuring Plan was \$5 million for severance and related costs that we expect to pay by the third quarter of 2014.

See Note 15—"Restructuring charges, net" in the Notes to our consolidated financial statements for additional information.

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### Other Income, Net

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

	Years Ended December 31,			2011-2012	2012-2013
	2011	2012	2013	Dollar Change	Dollar Change
Interest, dividend, and investment income	\$18,920	\$ 41,673	\$ 57,544	\$ 22,753	\$ 15,871
Gain related to the sale of Alibaba Group Shares	—	4,603,322	—	4,603,322	(4,603,322)
Interest expense	(9,473)	(9,297)	(14,319)	176	(5,022)
Other	17,728	12,141	132	(5,587)	(12,009)
Total other income, net	<u>\$27,175</u>	<u>\$4,647,839</u>	<u>\$ 43,357</u>	<u>\$ 4,620,664</u>	<u>\$(4,604,482)</u>

Interest, dividend, and investment income consists of income earned from cash in bank accounts, investments made in marketable securities and money market funds, and dividend income on the Alibaba Group Preference Shares prior to the redemption of such shares in May 2013.

For the year ended December 31, 2012, we recorded a pre-tax gain of approximately \$4.6 billion related to the sale to Alibaba Group of the Shares. See Note 8—“Investments in Equity Interests” in the Notes to our consolidated financial statements for additional information.

Interest expense is related to the Notes and capital lease obligations for buildings and data centers.

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

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

### Income Taxes

The provision for income taxes for the year ended December 31, 2013 differs from the amount computed by applying the federal statutory income tax rate to income before provision for income taxes and earnings in equity interests as follows (dollars in thousands):

	Years Ended December 31,					
	2011	(*)	2012	(*)	2013	(*)
Income tax at the U.S. federal statutory rate of 35 percent	\$289,630	35%	\$1,824,973	35%	\$221,648	35%
State income taxes, net of federal benefit	4,627	1%	237,637	5%	23,000	4%
Stock-based compensation expense	20,021	2%	19,946	—	16,015	3%
Research tax credits	(10,499)	(1)%	—	—	(18,036)	(3)%
Effect of non-U.S. operations	(49,781)	(6)%	(138,078)	(3)%	(47,968)	(8)%
Settlement with tax authorities	(14,685)	(2)%	(4,711)	—	(46,943)	(7)%
Remeasurement of prior year tax positions	—	—	—	—	(24,246)	(4)%
Acquisition related non-deductible expenses	—	—	1,894	—	9,296	1%
Goodwill impairment charge	—	—	—	—	22,244	3%
Other	2,454	—	(1,618)	—	(1,618)	—
Provision for income taxes	<u>\$241,767</u>	<u>29%</u>	<u>\$1,940,043</u>	<u>37%</u>	<u>\$153,392</u>	<u>24%</u>

(\*) Percent of income before income taxes and earnings in equity interests.

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Significant variances year-over-year as shown above are further explained as follows:

- 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 retroactively extending the credit for amounts paid or incurred after December 31, 2011 and before January 1, 2014. As such, the provision for income taxes for the year ended December 31, 2013 reflects the benefit of both the 2012 and 2013 federal research and development tax credits.
- In 2012, in connection with a review of our cash position and anticipated cash needs for investment in our core business, including potential acquisitions, capital expenditures and stock repurchases, we made a one-time distribution of cash from certain of our consolidated foreign subsidiaries resulting in an overall net benefit for the year ended December 31, 2012 of approximately \$117 million. The benefit is primarily due to excess foreign tax credits. Of the \$117 million, \$102 million is included above within “effect of non-U.S. operations.” In 2013, “effect of non-U.S. operations” includes an additional benefit of \$36 million due to more excess foreign tax credits becoming available as certain tax matters were resolved with various tax authorities during the year.
- In 2013, we settled the IRS income tax examination for the 2005 and 2006 returns resulting in a benefit of approximately \$54 million.

The U.S. Department of the Treasury issued final regulations on the deduction and capitalization of expenditures related to tangible property for income tax purposes. These regulations apply to our tax year beginning on January 1, 2014. Based on our assessment as of December 31, 2013, these regulations will not have a material impact on our consolidated financial position, results of operations, or cash flows.

As of December 31, 2013, we do not anticipate repatriation of our remaining undistributed foreign earnings of approximately \$2.6 billion. Those earnings are principally related to Yahoo Japan. If these earnings were to be repatriated in the future, we may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated.

As of December 31, 2013, our federal 2009 and 2010 income tax returns are currently under IRS examination. Furthermore, our California 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 2012.

It is difficult to predict when these examinations will be settled or what their final outcomes will be. 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. Our gross amount of unrecognized tax benefits as of December 31, 2013 is \$695 million, of which \$606 million is recorded on the consolidated balance sheets.

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

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

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### *Earnings in Equity Interests*

Earnings in equity interests for the year ended December 31, 2013 were approximately \$897 million, compared to \$676 million and \$477 million for 2012 and 2011, respectively.

Earnings in equity interests increased during the year ended December 31, 2013 compared to 2012 primarily due to continued improved financial performance for Alibaba Group.

Earnings in equity interests increased during the year ended December 31, 2012 compared to 2011 due to Yahoo Japan and Alibaba Group's continued improved financial performance in the year ended December 31, 2012 despite the reduction of our ownership interest in Alibaba Group to approximately 24 percent in the fourth quarter of 2012.

We record our share of the results of earnings in equity interests, one quarter in arrears, within earnings in equity interests in the consolidated statements of income. See Note 8—"Investments in Equity Interests" in the Notes to our consolidated financial statements for additional information.

### *Noncontrolling Interests*

Noncontrolling interests represent the noncontrolling holders' percentage share of income or losses from the subsidiaries in which we hold a majority, but less than 100 percent, ownership interest and the results of which are consolidated in our consolidated financial statements. Noncontrolling interests were approximately \$10 million in 2013, compared to \$5 million in 2012 and \$14 million in 2011. Noncontrolling interests recorded in 2013, 2012, and 2011 were related to the Yahoo!7 venture in Australia.

### **Liquidity and Capital Resources**

As of and for each of the years ended December 31 (dollars in thousands):

	<u>2012</u>	<u>2013</u>
Cash and cash equivalents	\$2,667,778	\$2,077,590
Short-term marketable securities	1,516,175	1,330,304
Long-term marketable securities	1,838,425	1,589,500
Total cash, cash equivalents, and marketable securities	<u>\$6,022,378</u>	<u>\$4,997,394</u>
Percentage of total assets	<u>35%</u>	<u>30%</u>

<b>Cash Flow Highlights</b>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net cash provided by (used in) operating activities	\$ 1,323,806	\$ (281,554)	\$ 1,195,247
Net cash provided by (used in) investing activities	\$ 202,362	\$ 3,362,044	\$ (23,221)
Net cash used in financing activities	\$(1,455,958)	\$(1,979,457)	\$(1,743,884)

Our operating activities for 2011, 2012, and 2013 have generated adequate cash to meet our operating needs.

As of December 31, 2013, we had cash, cash equivalents, and marketable securities totaling \$5 billion, compared to \$6 billion as of December 31, 2012. During the year ended December 31, 2013, we received net proceeds of \$1.4 billion from the issuance of the Notes and net proceeds of \$290 million from the settlement of derivative hedge contracts. This was offset by the repurchase of approximately 129 million shares of our outstanding common stock for \$3.3 billion during the year ended December 31, 2013.

As of December 31, 2012, we had cash, cash equivalents, and marketable securities totaling \$6.0 billion, compared to \$2.5 billion as of December 31, 2011. The increase was due to cash proceeds, net of fees, of \$6.2 billion received from the sale of Alibaba Group Shares and \$550 million from the TIPLA payment. This was

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partially offset by the repurchase of approximately 126 million shares of our outstanding common stock for \$2.2 billion during the year ended December 31, 2012 and cash taxes paid of \$2.3 billion in 2012 related to the sale of Alibaba Group Shares. After the payment of taxes and fees, net cash proceeds from the Initial Repurchase and the \$550 million TIPLA payment were approximately \$4.3 billion.

Our foreign subsidiaries held \$593 million of our total \$5 billion of cash and cash equivalents and marketable securities as of December 31, 2013. During the year ended December 31, 2012, we recorded the tax effect of a one-time distribution of earnings from certain foreign subsidiaries. We made a one-time repatriation of foreign earnings and return of basis of foreign subsidiaries of \$962 million from certain of our consolidated foreign subsidiaries in 2012. The cumulative earnings remaining in our consolidated foreign subsidiaries, if repatriated to the U.S., under current law, would be subject to the U.S. income taxes with an adjustment for foreign tax credits. For the earnings that are considered indefinitely reinvested outside the U.S., we do not anticipate a need to repatriate these earnings for use in our U.S. operations.

On October 19, 2012, we entered into a credit agreement (the “Credit Agreement”) with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time, which was scheduled to mature on October 18, 2013. On October 10, 2013, we entered into Amendment No. 1 to the Credit Agreement, which extended the termination date of the Credit Agreement from October 18, 2013 to October 9, 2014. During the three months ended September 30, 2013, we borrowed \$150 million under the Credit Agreement and subsequently repaid the amount within the same period. As of December 31, 2013, we were in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding. See Note 10—“Credit Agreement” in the Notes to our consolidated financial statements for additional information regarding our Credit Agreement.

We invest excess cash predominantly in marketable securities, money market funds, and time deposits that are liquid, highly rated, and the majority of which have effective maturities of less than one year. Our marketable securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. Realized gains or losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are reported in other income, net. The fair value for securities is determined based on quoted market prices of the historical underlying security or from readily available pricing sources for the identical underlying securities that may not be actively traded as of the valuation date. As of December 31, 2013, certain of our marketable securities had a fair value below cost due primarily to the changes in market rates of interest and yields on these securities. We evaluate these investments periodically for possible other-than-temporary impairment. We have no current requirement or intent to sell these securities. We expect to recover up to (or beyond) the initial cost of the investment.

We currently hedge a portion of our net investment in Yahoo Japan with forward contracts to reduce the risk that our investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. The forward contracts are required to be settled in cash and the amount of cash payment we receive or could be required to pay upon settlement could be material. In 2013, we received \$304 million in cash settlement of certain foreign exchange forward contracts designated as net investment hedges reducing the outstanding notional amount to \$1.3 billion.

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

We expect to generate positive cash flows from operations in 2014. We use cash generated by operations as our primary source of liquidity, since we believe that internally generated cash flows are sufficient to support our business operations and capital expenditures. We believe that existing cash, cash equivalents, and investments in marketable securities, together with any cash generated from operations, proceeds from the issuance of the Notes, and borrowings under the Credit Agreement, will be sufficient to meet normal operating requirements including capital expenditures for the next twelve months.

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See Note 2—“Investments and Fair Value Measurements” in the Notes to our consolidated financial statements for additional information.

### *Cash Flow Changes*

Cash provided by operating activities is driven by our net income, adjusted for non-cash items, working capital changes and dividends received from equity investees. Non-cash adjustments include depreciation, amortization of intangible assets, accretion of convertible notes discount, stock-based compensation expense, non-cash restructuring charges, non-cash goodwill impairment charges, tax benefits from stock-based awards, excess tax benefits from stock-based awards, deferred income taxes, and earnings in equity interests. For the year ended December 31, 2013, operating activities provided \$1.2 billion in cash. We generated adjusted EBITDA of \$1.6 billion and received dividends of \$135 million, which were partially offset by changes in working capital: accrued expenses and other liabilities decreased \$99 million, accounts payable decreased \$8 million, and deferred revenue decreased \$150 million, partially offset by a decrease in accounts receivable of \$26 million and a decrease in prepaid expenses and other of \$27 million. We had a net use of cash in the year ended December 31, 2012 primarily due to a cash tax payment of \$2.3 billion related to the sale of Alibaba Group Shares. Offsetting this use, we generated adjusted EBITDA of \$1.7 billion, received a payment from Alibaba Group of \$550 million in satisfaction of certain future royalty payments, and received dividends from Yahoo Japan of \$84 million. For the year end December 31, 2011, operating activities provided \$1.3 billion in cash. We generated adjusted EBITDA of \$1.7 billion and received dividends of \$75 million, which was partially offset by changes in working capital: accrued expenses and other liabilities decreased \$290 million, deferred revenue decreased \$74 million, partially offset by a decrease in accounts receivable of \$38 million and a decrease in prepaid expenses and other of \$98 million.

Cash provided by (used in) investing activities is primarily attributable to sales and maturities of marketable securities, sales of other assets, including our strategic investments, acquisitions, purchases of marketable securities, capital expenditures, and purchases of intangible assets. During the year ended December 31, 2013, the \$23 million used in investing activities was due to purchases of marketable securities of \$3.2 billion, \$338 million used for capital expenditures, \$1.2 billion used for acquisitions, \$3 million used for purchases of intangible assets, and \$2 million used for other investing activities, net offset by net proceeds from sales and maturities of marketable securities of \$3.6 billion, \$800 million received from the redemption of the Alibaba Group Preference Shares, \$80 million from sales of patents, and \$290 million from the settlement of foreign exchange contracts (including the settlement of certain foreign exchange forward contracts designated as net investment hedges). During the year ended December 31, 2012, the \$3.4 billion provided by investing activities was due to cash proceeds, net of fees, of \$6.2 billion received from our sale of Alibaba Group Shares and proceeds from the sale of investments and other investing activities of \$26 million. This was partially offset by \$2.4 billion utilized for net purchases of marketable securities, \$506 million used from capital expenditures, \$6 million used for acquisitions, and \$4 million used for the purchase of intangible assets. During the year ended December 31, 2011, the \$202 million provided by investing activities was due to net proceeds from sales, maturities, and purchases of marketable securities of \$1.1 billion, and proceeds from sale of investments of \$21 million. This was partially offset by \$593 million used from capital expenditures, \$324 million used for acquisitions, \$12 million used for the purchase of intangible assets, and \$7 million used for other investing activities.

Cash used in financing activities is driven by stock repurchases offset by employee stock option exercises and employee stock purchases. During the year ended December 31, 2013, the \$1.7 billion used in financing activities was due to \$3.3 billion used for the repurchase of 129 million shares of common stock at an average price of \$25.95 per share, \$206 million used to purchase note hedges, and \$149 million used for tax withholding payments related to net share settlements of restricted stock units and other financing activities. This use of cash was partially offset by \$1.4 billion in cash proceeds from issuance of the Notes, \$125 million in cash proceeds from the issuance of warrants, \$353 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 \$64 million. During the year ended December 31, 2012, the \$2 billion used in financing

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activities was due to \$2.2 billion used for the repurchase of 126 million shares of our common stock at an average price of \$17.20 per share, \$61 million for tax withholding payments related to net share settlements of restricted stock units, and \$5 million for other financing activities. This use of cash was partially offset by \$218 million in cash proceeds 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 \$36 million. During the year ended December 31, 2011, the \$1.5 billion used in financing activities was due to \$1.6 billion used for the repurchase of 110 million shares of our common stock at an average price of \$14.75 per share, \$45 million for tax withholding payments related to net share settlements of restricted stock units, and \$19 million for other financing activities. This use of cash was partially offset by \$156 million in cash proceeds 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 \$71 million.

In 2013, 2012, and 2011, \$64 million, \$36 million, and \$71 million, respectively, of excess tax benefits from stock-based awards for options exercised in current and prior periods were included as a source of cash flows from financing activities. These excess tax benefits represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised in current and prior periods. We have accumulated excess tax deductions relating to stock options exercised prior to January 1, 2006 available to reduce income taxes otherwise payable. To the extent such deductions reduce income taxes payable in the current year, they are reported as financing activities in the consolidated statements of cash flows. See Note 14—“Employee Benefits” in the Notes to our consolidated financial statements for additional information.

### *Stock Repurchases*

In June 2010, the Board authorized a stock repurchase program allowing us to repurchase up to \$3 billion of our outstanding shares of common stock from time to time. That repurchase program, which by its terms would have expired in June 2013, was exhausted during the third quarter of 2012. In May 2012, the Board authorized a stock repurchase program allowing us to repurchase up to an additional \$5 billion of our outstanding shares of common stock from time to time (this amount includes the \$3.65 billion we committed to return to our shareholders from the Initial Repurchase proceeds). The May 2012 repurchase program, according to its terms, will expire in June 2015. In November 2013, the Board authorized a stock repurchase program allowing us to repurchase up to an additional \$5 billion of our outstanding shares of common stock from time to time. The November 2013 repurchase program, according to its terms, will expire in December 2016. 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 year ended December 31, 2013, we repurchased approximately 129 million shares of our common stock under the May 2012 stock repurchase program at an average price of \$25.95 per share for a total of approximately \$3.3 billion. These repurchases included the repurchase of 40 million shares of our common stock beneficially owned by Third Point LLC on July 25, 2013. These shares were repurchased pursuant to a Purchase Agreement entered into on July 22, 2013, prior to the market opening for trading in Yahoo stock, at \$29.11 per share, which was the closing price of our common stock on July 19, 2013. The total purchase price for these shares was \$1.2 billion. The repurchase transaction was funded primarily with cash as well as borrowings of \$150 million under our Credit Agreement that have been repaid.

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### Repurchase Capacity under Approved Programs

	June 2010	May 2012	November 2013	
	<u>Program</u>	<u>Program</u>	<u>Program</u>	<u>Total</u>
	(dollars in millions)			
January 1, 2011	\$ 2,224	\$ —	\$ —	\$ 2,224
Total 2011 Repurchases	(1,619)	—	—	(1,619)
December 31, 2011	<u>\$ 605</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 605</u>
Authorized Share Repurchase amount under May 2012 Program	—	5,000	—	5,000
Total 2012 Repurchases	(605)	(1,562)	—	(2,167)
December 31, 2012	<u>\$ —</u>	<u>\$ 3,438</u>	<u>\$ —</u>	<u>\$ 3,438</u>
Authorized Share Repurchase amount under November 2013 Program	—	—	5,000	5,000
Total 2013 Repurchases	—	(3,345)	—	(3,345)
December 31, 2013	<u>\$ —</u>	<u>\$ 93</u>	<u>\$ 5,000</u>	<u>\$ 5,093</u>

### Capital Expenditures

Capital expenditures are generally comprised of purchases of computer hardware, software, server equipment, furniture and fixtures, real estate, and capitalized software and labor.

Capital expenditures, net were \$593 million in 2011, \$506 million in 2012, and \$338 million in 2013. Capital expenditures declined \$168 million in 2013, as compared to 2012, due to a decline in spending and capitalizable projects as well as purchases in late 2012 which fulfilled certain purchasing needs for 2013. This was partially offset by incremental data center construction costs. Capital expenditures declined \$87 million in 2012, as compared to 2011, due to a decline in data center construction costs and workplace construction, which was partially offset by incremental hardware spend.

We expect capital expenditures, net to increase in 2014 from the amount recorded in 2013 as a result of increased investment initiatives.

### Contractual Obligations and Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of December 31, 2013 (dollars in millions):

	Payments Due by Period				
	Total	Due in 2014	Due in 2015-2016	Due in 2017-2018	Thereafter
Convertible notes <sup>(1)</sup>	\$1,438	\$ —	\$ —	\$ 1,438	\$ —
Operating lease obligations <sup>(2)(3)</sup>	532	141	178	91	122
Capital lease obligation	58	15	21	18	4
Affiliate commitments <sup>(4)</sup>	24	13	11	—	—
Non-cancelable obligations <sup>(5)</sup>	198	101	84	13	—
Intellectual property rights <sup>(6)</sup>	25	5	10	5	5
Uncertain tax positions, including interest and penalties <sup>(7)</sup>	675	—	—	—	675
Total contractual obligations	<u>\$2,950</u>	<u>\$275</u>	<u>\$ 304</u>	<u>\$ 1,565</u>	<u>\$ 806</u>

<sup>(1)</sup> During the year end December 31, 2013, we completed an offering of the Notes, which are due in 2018. The amount above represents the principal balance to be repaid. See Note 11—“Convertible Notes” in the Notes to our consolidated financial statements for additional information.

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- (2) We have entered into various non-cancelable operating lease agreements for our offices throughout the Americas, EMEA, and Asia Pacific regions with original lease periods up to 12 years, expiring between 2013 and 2025. See Note 12—“Commitments and Contingencies” in the Notes to our consolidated financial statements for additional information.
- (3) In May 2013, we entered into a 12 year operating lease agreement for four floors of the former New York Times building in New York City with a total expected minimum lease commitment of \$125 million. We have the option to renew the lease for an additional five years. The lease requires monthly payments of approximately \$1 million starting in July 2015 through June 2025; however, rent expense will be recorded over the lease term commensurate with the right to control the space which began in July 2013.
- (4) We are obligated to make minimum payments under contracts to provide sponsored search and/or display advertising services to our Affiliates, which represent TAC.
- (5) We are obligated to make payments under various arrangements with vendors and other business partners, principally for marketing, bandwidth, and content arrangements.
- (6) We are committed to make certain payments under various intellectual property arrangements.
- (7) As of December 31, 2013, unrecognized tax benefits and potential interest and penalties resulted in accrued liabilities of \$675 million, classified as deferred and other long-term tax liabilities, net on our consolidated balance sheets. As of December 31, 2013, the settlement period for the \$675 million income tax liabilities cannot be determined. See Note 16—“Income Taxes” in the Notes to our consolidated financial statements for additional information.

*Other Commitments.* 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 consolidated financial statements.

### *Off Balance Sheet Arrangements*

As of December 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. Accordingly we are not exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships. In addition, we identified no variable interests currently held in entities for which we are the primary beneficiary. In addition, as of December 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.

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### Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these 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, the results of which form the basis for making judgments about, among other things, 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 consolidated financial statements. We believe that the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Management has discussed the development and selection of these critical accounting estimates with the Audit and Finance Committee (the “Audit Committee”) of our Board, and the Audit Committee has reviewed the disclosure below. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our consolidated financial statements.

*Revenue Recognition.* Our revenue is generated from display and search advertising, and other sources. Display advertising revenue is generated from the display of graphical and non-graphical advertisements and search advertising revenue is generated from clicks on text-based links to advertisers’ Websites that appear primarily on search results pages, and from revenue sharing arrangements with partners for search technology and services. Other revenue consists of listings-based services revenue, transaction revenue, and fees revenue. While the majority of our revenue transactions contain standard business terms and conditions, there are certain transactions that contain contract-specific business terms and conditions. In addition, we enter into certain sales transactions that involve multiple elements (arrangements with more than one deliverable). We also enter into arrangements to purchase goods and/or services from certain customers. As a result, significant contract interpretation is sometimes required to determine the appropriate accounting for these transactions including: (1) whether an arrangement exists; (2) whether fees are fixed or determinable; (3) how the arrangement consideration should be allocated among potential multiple elements; (4) establishing selling prices for deliverables considering multiple factors; (5) when to recognize revenue on the deliverables; (6) whether all elements of the arrangement have been delivered; (7) whether the arrangement should be reported gross as a principal versus net as an agent; (8) whether we receive a separately identifiable benefit from the purchase arrangements with certain customers for which we can reasonably estimate fair value; and (9) whether the consideration received from a vendor should be characterized as revenue or a reimbursement of costs incurred. In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

*Income Taxes.* Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. See Note 16—“Income Taxes” in the Notes to our consolidated financial statements for additional information. We establish liabilities for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when we believe that certain positions might be challenged despite our belief that our tax return positions are in accordance with applicable tax laws. We adjust these liabilities in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation, developments in case law or interactions with the tax authorities. To the extent

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that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of liability provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties.

We record a valuation allowance against certain of our deferred income tax assets if it is more likely than not that those assets will not be realized. In evaluating our ability to realize our deferred income tax assets we consider all available positive and negative evidence, including our operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction by jurisdiction basis. In the event we were to determine that we would be able to realize these deferred income tax assets in the future, we would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

*Goodwill.* Goodwill is not amortized but is evaluated for impairment annually or whenever we identify certain triggering events or circumstances that would more likely than not reduce the estimated fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, regulatory changes, loss of key personnel and reporting unit and macro-economic factors. Goodwill is tested for impairment at the reporting unit level, which is one level below our operating segments.

We identified U.S. & Canada, Latin America, and Tumblr as the reporting units below the Americas operating segment; Europe and Middle East as the reporting units below the EMEA operating segment; and Taiwan, Hong Kong, Australia & New Zealand, India & South East Asia as the reporting units below the Asia Pacific operating segment. These operating segments are the same as our reportable segments.

We test for goodwill impairment as of October 31 each year. To test for impairment, we first use a qualitative approach to determine whether it is more likely than not the estimated fair value of a reporting unit is less than its carrying amount. If, after completing the qualitative assessment we determine that it is more likely than not that the estimated fair value is greater than the carrying value, then we conclude that no impairment exists, and the two-step goodwill impairment test is not required. If the two-step quantitative test is required, the first step of the quantitative test involves comparing the estimated fair value of our reporting units to their carrying values, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step of the quantitative test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

In 2013, for the U.S. & Canada, Latin America, Tumblr, Taiwan, Hong Kong, and Australia & New Zealand reporting units, we performed the qualitative assessment. We took into consideration events and circumstances that would impact the fair value of these reporting units, including reporting unit, industry, and macro-economic factors. Reporting unit factors that were considered included the results of the most recent impairment test, financial performance in the current year, and changes to the reporting unit's carrying value. For industry factors, we considered growth projections, market share, and transactions within the industry. Macroeconomic factors over the past year did not negatively impact the qualitative assessment for these reporting units. Therefore, based on the qualitative assessment, we concluded the two-step impairment test was unnecessary, and no goodwill impairment charge was required for 2013 for these reporting units.

For 2013, a quantitative assessment was performed for Europe, India & Southeast Asia, and Middle East reporting units. The fair values of these reporting units were estimated using an average of a market approach and an income approach as this combination is deemed to be the most indicative of our estimated fair value in an orderly transaction between market participants and is consistent with the methodology used for the goodwill impairment test in prior years. In addition, we ensure that the fair values estimated under these two approaches are comparable with each other. Under the market approach, we utilize publicly-traded comparable company information to determine revenue and earnings multiples that are used to value our reporting units adjusted for an

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estimated control premium. Under the income approach, we determine fair value based on estimated future cash flows of each reporting unit discounted by an estimated weighted-average cost of capital, reflecting the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including selection of market comparables, estimated future cash flows, and discount rates.

These components are discussed below:

- ***Market comparables***

We select comparable companies in the specific regions in which these reporting units operate based on similarity of type of business, primarily those involved in online advertising, relative size, financial profile, and other characteristics of those companies compared to these reporting units. Trailing and forward revenue and earnings multiples derived from these comparable companies are applied to financial metrics of these reporting units to determine their estimated fair values, adjusted for an estimated control premium.

- ***Estimated future cash flows***

We base cash flow projections for each reporting unit using a forecast of cash flows and a terminal value based on the Perpetuity Growth Model. The forecast and related assumptions were derived from the most recent annual financial forecast for which the planning process commenced in our fourth quarter. Key assumptions in estimating future cash flows include, among other items, revenue and operating expense growth rates, terminal value growth rate, and capital expenditure and working capital levels.

- ***Discount rates***

We employ a Weighted Average Cost of Capital (“WACC”) approach to determine the discount rates used in our cash flow projections. The determination of the discount rates for each reporting unit includes factors such as the risk-free rate of return and the return an outside investor would expect to earn based on the overall level of inherent risk. The determination of expected returns includes consideration of the beta (a measure of volatility) of traded securities of comparable companies and risk premiums of reporting units based on international cost of capital methods.

The components above require us to make assumptions about the timing and amount of future cash flows, growth rates and discount rates. Significant management judgment is involved in determining these estimates and assumptions, and actual results may differ from those used in valuations. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit which could trigger future impairment. To facilitate a better understanding of how these valuations are determined, a discussion of our significant assumptions is provided below.

Discount rate assumptions for these reporting units take into account our assessment of the risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We also review marketplace data to assess the reasonableness of our computation of our overall weighted average cost of capital and, when available, the discount rates utilized for each of these reporting units.

In determining the fair value of (1) the Europe reporting unit, (2) the India & Southeast Asia reporting unit, and (3) the Middle East reporting unit, we used the following assumptions:

- Expected cash flows underlying our business plans for the periods 2014 through 2024.
- Cash flows beyond 2024 are projected to grow at a perpetual growth rate.
- In order to risk adjust the cash flow projections in determining fair value, we utilized discount rates of approximately 11 percent to 15 percent for each of these reporting units.

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Based on our quantitative assessment, we determined the estimated fair value exceeded the carrying value for the Europe reporting unit and the India & Southeast Asia reporting unit. Therefore, no goodwill impairment charge was required for 2013.

For the quantitative analysis performed for the Middle East reporting unit, the carrying value exceeded the estimated fair value. The second step of the goodwill impairment test required us to fair value all assets and liabilities of our Middle East reporting unit to determine the implied fair value of this reporting unit's goodwill. We compared the implied fair value of the reporting unit's goodwill to its carrying value. This test resulted in a non-cash goodwill impairment charge of \$64 million for the year ended December 31, 2013.

See Note 5—"Goodwill" in the Notes to our consolidated financial statements for additional information.

*Long-lived Assets.* We amortize long-lived assets over their estimated useful lives. Identifiable long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted future cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value. Fair value is determined based on the lowest level of identifiable estimated future cash flows using discount rates determined by our management to be commensurate with the risk inherent in our business model. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many factors. Different assumptions and judgments could materially affect estimated future cash flows relating to our long-lived assets which could trigger impairment. No impairments of long-lived assets were identified during any of the periods presented.

*Investments in Equity Interests.* We account for investments in the common stock of entities in which we have the ability to exercise significant influence but do not own a majority equity interest or otherwise control using the equity method. In accounting for these investments we record our proportionate share of the entities' net income or loss, one quarter in arrears.

We review our investments in equity interests for impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as the stock prices of public companies in which we have an equity investment, current economic and market conditions, the operating performance of the companies, including current earnings trends and forecasted cash flows, and other company and industry specific information. The fair value determination, particularly for investments in privately-held companies, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments and the determination of whether any identified impairment is other-than-temporary.

*Stock-Based Compensation Expense.* We recognize stock-based compensation expense net of an estimated forfeiture rate and therefore only recognize compensation expense for those shares expected to vest over the service period of the award. Calculating stock-based compensation expense requires the input of highly subjective assumptions, including the expected term of the stock-based options, stock price volatility, and the pre-vesting award forfeiture rate. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We estimate the volatility of our common stock on the date of grant based on the implied volatility of publicly traded options on our common stock, with a term of one year or greater. We believe that implied volatility calculated based on actively traded options on our common stock is a better indicator of expected volatility and future stock price trends than historical volatility.

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Therefore, expected volatility for the year ended December 31, 2013 was based on a market-based implied volatility. The assumptions used in calculating the fair value of stock-based awards represent our best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected pre-vesting award forfeiture rate, as well as the probability that performance conditions that affect the vesting of certain awards will be achieved, and recognize expense only for those shares expected to vest. Performance conditions are estimated and monitored throughout the year. We estimate this forfeiture rate based on historical experience of our stock-based awards that are granted and cancelled before vesting. If our actual forfeiture rate is materially different from our original estimates, the stock-based compensation expense could be significantly different from what we have recorded in the current period. Changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the effect of adjusting the forfeiture rate for all current and previously recognized expense for unvested awards is recognized in the period the forfeiture estimate is changed. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment will be made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in our consolidated financial statements. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment will be made to lower the estimated forfeiture rate, which will result in an increase to the expense recognized in our consolidated financial statements. See Note 14—“Employee Benefits” in the Notes to our consolidated financial statements for additional information.

### Recent Accounting Pronouncements

See Note 1—“The Company and Summary of Significant Accounting Policies” in the Notes to our consolidated financial statements, which is incorporated herein by reference.

### Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

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

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

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

In 2013, we issued \$1.4375 billion of Notes due 2018. We carry the Notes at face value less unamortized discount on our balance sheet. The fair value of the Notes changes when the market price of our stock fluctuates.

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 \$15 million and \$33 million decrease in the fair value of our available-for-sale debt securities as of December 31, 2013 and 2012, respectively.

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### Foreign Currency Exposure

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 consolidated cash flows and results of operations. Counterparties to our derivative contracts are all major institutions.

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

We had net realized and unrealized foreign currency transaction losses of \$6 million for the year ended December 31, 2013. We had net realized and unrealized foreign currency transaction losses of \$1 million and gains of \$9 million for the years ended December 31, 2012 and 2011, respectively.

We categorize our foreign currency exposure as follows: (1) net investment, (2) cash flow, (3) balance sheet, (4) forecasted revenue and (5) translation.

*Net Investment Exposure.* We hedge, on an after-tax basis, a portion of our net investment in Yahoo Japan with forward contracts to reduce the risk that the carrying value of our investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. At inception, the forward contracts had maturities ranging from 9 to 15 months. If the Japanese yen appreciates at maturity from the forward contract execution rates, the forward contracts will require us to pay a cash settlement, which may be material. If the Japanese yen depreciates at maturity from the forward contract execution rates, we will receive a cash settlement, which may be material. We apply net investment hedge accounting and expect the hedges to be effective, allowing changes in fair value of the derivative instrument to be recorded in accumulated other comprehensive income on our consolidated balance sheets. The notional amounts of the foreign currency forward contracts related to our net investment hedge were \$3 billion and \$1.3 billion as of December 31, 2012 and 2013, respectively. The fair values of the foreign currency forward contracts were a \$3 million asset and a \$209 million asset as of December 31, 2012 and 2013, respectively, and were included in prepaid expenses and other current assets on our consolidated balance sheets. Pre-tax gains of \$3 million and \$510 million were recorded for the year ended December 31, 2012 and December 31, 2013, respectively, and were included in accumulated other comprehensive income on our consolidated balance sheets. We received \$304 million in cash for settlement of certain foreign currency forward contracts during the year ended December 31, 2013. We did not enter into any net investment hedges in the year ended December 31, 2011.

*Cash Flow Exposure.* We have entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through July 31, 2014. For derivatives designated as cash flow hedges, the effective portion of the unrealized gains or losses on these forward contracts is recorded in accumulated other comprehensive income on our consolidated balance sheets and reclassified into revenue on the consolidated statements of income when the underlying hedged revenue is recognized. If the cash flow hedges were to become ineffective, the ineffective portion would be immediately recorded in other income, net on our consolidated statements of income. The cash flow hedges were considered to be effective as of December 31, 2013. The total notional amount of the foreign currency forward contracts was \$56 million as of December 31, 2013. The fair value of the foreign currency forward contracts was a \$4 million asset as of December 31, 2013, which was included in prepaid expenses and other current assets on our consolidated balance sheets. A pre-tax net gain of \$2 million was recorded as of December 31, 2013, which was included in accumulated other comprehensive income on our consolidated balance sheets. For year ended December 31, 2013, we recorded gains of \$2 million, net of tax, for cash flow hedges, which were recorded in revenue in the consolidated statements of income. We received \$2 million in cash for settlement of certain foreign currency forward contracts during the year ended December 31, 2013. We did not enter into any cash flow hedges in the years ended December 31, 2012 and 2011.

*Balance Sheet Exposure.* We hedge certain of 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

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by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities, including intercompany transactions, which are denominated in foreign currencies. We recognize balance sheet derivative instruments as either an asset or a liability on our consolidated balance sheets at fair value. Changes in the fair value of these derivatives are recorded in other income, net on our 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 \$393 million as of December 31, 2012 and 2013, respectively. As of December 31, 2012, the fair value of the foreign currency forward contracts was a \$5 million liability, which was included in accrued expenses and other current liabilities on our consolidated balance sheets. As of December 31, 2013, the fair value of the foreign currency forward contracts was a less than \$1 million net liability; the contracts' fair value was included in accrued expenses and other current liabilities and prepaid expenses and other current assets on our consolidated balance sheets. A loss of \$3 million, a gain of \$4 million, and a loss of \$12 million were recorded for the years ended December 31, 2011, 2012, and 2013, respectively, and were included in other income, net on our consolidated statements of income. We received \$7 million and paid \$17 million in cash for settlement of certain foreign currency forward contracts during the years ended December 31, 2012 and 2013, respectively.

*Forecasted Revenue Exposure.* On October 2, 2013, we began hedging a portion of the forecasted revenue of international subsidiaries where the functional currencies are the Euro, Australian dollar and British pound. This program attempts to reduce the risk that our revenue denominated in these currencies will be adversely affected by foreign currency exchange rate fluctuations. These derivatives are economic hedges and as such do not qualify for hedge accounting. We recognize these derivative instruments as either assets or liabilities on our consolidated balance sheets at fair value. Changes in the fair value of these derivatives are recorded as a component of revenue in our consolidated statements of income and were not material for the year ended December 31, 2013. We did not have any derivative contracts related to the forecasted revenue hedge outstanding as of December 31, 2013. We did not enter into any forecasted revenue hedges in the years ended December 31, 2012 and 2011.

*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.

A Value-at-Risk ("VaR") sensitivity analysis was performed on all of our foreign currency derivative positions as of December 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 \$12 million and \$28 million on the notional value of the net investment hedges at December 31, 2013 and 2012, respectively. The maximum one-day loss in fair value is less than \$1 million on the notional value of our cash flow hedges at December 31, 2013. There were no cash flow hedges outstanding at December 31, 2012. The maximum one-day loss in fair value is \$2 million on the notional value of our balance sheet hedges at December 31, 2013 compared to a \$3 million loss and a \$1 million loss at December 31, 2012 and 2011, respectively.

Actual future gains and losses associated with our derivative positions may differ materially from the sensitivity analysis performed as of December 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.

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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 year ended December 31, 2012, revenue ex-TAC for the Americas segment for the year ended December 31, 2013 would have been higher than we reported by \$7 million; revenue ex-TAC for the EMEA segment would have been lower than we reported by \$4 million; and revenue ex-TAC for the Asia Pacific segment would have been higher than we reported by \$37 million. Using the foreign currency exchange rates from the year ended December 31, 2012, direct costs for the Americas segment for the year ended December 31, 2013 would have been higher than we reported by \$3 million; direct costs for the EMEA segment would have been lower than we reported by \$2 million; and direct costs for the Asia Pacific segment would have been higher than we reported by \$3 million.

### Investment Exposure

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

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

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Yahoo! Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Yahoo! Inc. and its subsidiaries at December 31, 2012 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 28, 2014

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**Yahoo! Inc.**  
**Consolidated Balance Sheets**

	December 31,	
	2012	2013
	(in thousands, except par values)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,667,778	\$ 2,077,590
Short-term marketable securities	1,516,175	1,330,304
Accounts receivable, net of allowance of \$32,635 and \$35,549 as of December 31, 2012 and 2013, respectively	1,008,448	979,559
Prepaid expenses and other current assets	460,312	638,404
<b>Total current assets</b>	<b>5,652,713</b>	<b>5,025,857</b>
Long-term marketable securities	1,838,425	1,589,500
Alibaba Group Preference Shares	816,261	—
Property and equipment, net	1,685,845	1,488,518
Goodwill	3,826,749	4,679,648
Intangible assets, net	153,973	417,808
Other long-term assets	289,130	177,281
Investments in equity interests	2,840,157	3,426,347
<b>Total assets</b>	<b>\$17,103,253</b>	<b>\$16,804,959</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 184,831	\$ 138,031
Accrued expenses and other current liabilities	808,475	907,782
Deferred revenue	296,926	294,499
<b>Total current liabilities</b>	<b>1,290,232</b>	<b>1,340,312</b>
Convertible notes	—	1,110,585
Long-term deferred revenue	407,560	258,904
Capital lease and other long-term liabilities	124,587	116,605
Deferred and other long-term tax liabilities, net	675,271	847,956
<b>Total liabilities</b>	<b>2,497,650</b>	<b>3,674,362</b>
Commitments and contingencies (Note 12)	—	—
Yahoo! Inc. stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued or outstanding	—	—
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 1,019,812 shares issued and 1,014,338 shares outstanding as of December 31, 2013	1,187	1,015
Additional paid-in capital	9,563,348	8,688,304
Treasury stock at cost, 74,583 shares as of December 31, 2012, and 5,474 shares as of December 31, 2013	(1,368,043)	(200,228)
Retained earnings	5,792,459	4,267,429
Accumulated other comprehensive income	571,249	318,389
<b>Total Yahoo! Inc. stockholders' equity</b>	<b>14,560,200</b>	<b>13,074,909</b>
Noncontrolling interests	45,403	55,688
<b>Total equity</b>	<b>14,605,603</b>	<b>13,130,597</b>
<b>Total liabilities and equity</b>	<b>\$17,103,253</b>	<b>\$16,804,959</b>

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

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**Yahoo! Inc.**  
**Consolidated Statements of Income**

	Years Ended December 31,		
	2011	2012	2013
	(in thousands, except per share amounts)		
Revenue	\$4,984,199	\$ 4,986,566	\$4,680,380
Operating expenses:			
Cost of revenue—traffic acquisition costs	603,371	518,906	254,442
Cost of revenue—other	983,626	1,101,660	1,094,938
Sales and marketing	1,122,193	1,101,572	1,130,820
Product development	919,368	885,824	1,008,487
General and administrative	497,288	540,247	569,555
Amortization of intangibles	33,592	35,819	44,841
Gains on sales of patents	—	—	(79,950)
Goodwill impairment charge	—	—	63,555
Restructuring charges, net	24,420	236,170	3,766
Total operating expenses	<u>4,183,858</u>	<u>4,420,198</u>	<u>4,090,454</u>
Income from operations	800,341	566,368	589,926
Other income, net	27,175	4,647,839	43,357
Income before income taxes and earnings in equity interests	827,516	5,214,207	633,283
Provision for income taxes	(241,767)	(1,940,043)	(153,392)
Earnings in equity interests	476,920	676,438	896,675
Net income	1,062,669	3,950,602	1,376,566
Less: Net income attributable to noncontrolling interests	(13,842)	(5,123)	(10,285)
Net income attributable to Yahoo! Inc.	<u>\$1,048,827</u>	<u>\$ 3,945,479</u>	<u>\$1,366,281</u>
Net income attributable to Yahoo! Inc. common stockholders per share—basic	<u>\$ 0.82</u>	<u>\$ 3.31</u>	<u>\$ 1.30</u>
Net income attributable to Yahoo! Inc. common stockholders per share—diluted	<u>\$ 0.82</u>	<u>\$ 3.28</u>	<u>\$ 1.26</u>
Shares used in per share calculation—basic	<u>1,274,240</u>	<u>1,192,775</u>	<u>1,052,705</u>
Shares used in per share calculation—diluted	<u>1,282,282</u>	<u>1,202,906</u>	<u>1,070,811</u>
Stock-based compensation expense by function:			
Cost of revenue—other	\$ 12,017	\$ 10,078	\$ 15,545
Sales and marketing	65,176	82,115	101,852
Product development	80,668	74,284	83,396
General and administrative	46,097	57,888	77,427
Restructuring expense accelerations (reversals), net	214	(3,429)	—

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

**Yahoo! Inc.**  
**Consolidated Statements of Comprehensive Income**

	Years Ended December 31,		
	2011	2012 (in thousands)	2013
<b>Comprehensive income</b>			
Net income	\$1,062,669	\$3,950,602	\$1,376,566
Available-for-sale securities:			
Unrealized (losses) gains on available-for-sale securities, net of taxes of \$8,518, \$(86), and \$(1,724) for 2011, 2012, and 2013, respectively	(17,244)	7,571	6,776
Reclassification adjustment for realized losses (gains) on available-for-sale securities included in net income, net of taxes of \$(648), \$(5,197), and \$479 for 2011, 2012, and 2013, respectively	972	9,088	(796)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(16,272)	16,659	5,980
Foreign currency translation adjustments (“CTA”):			
Foreign CTA gains (losses), net of taxes of \$101, \$(143), and \$496 for 2011, 2012, and 2013, respectively	209,887	(9,334)	(577,711)
Net investment hedge CTA gains (losses), net of taxes of \$0 for both of 2011 and 2012 and \$(193) million for 2013	—	3,241	317,459
Reclassification adjustment for CTA, net of taxes of \$0, \$68 million, and \$0 for 2011, 2012, and 2013 respectively	—	(137,186)	—
Net foreign CTA gains (losses), net of tax	209,887	(143,279)	(260,252)
Cash flow hedges:			
Unrealized gains (losses) on cash flow hedges, net of taxes of \$0 for both of 2011 and 2012, and \$(1,199) for 2013	—	—	3,492
Reclassification adjustment for realized (gains) losses on cash flow hedges, net of taxes of \$0 for both of 2011 and 2012, and \$575 for 2013	—	—	(2,080)
Net change in unrealized gains (losses) on cash flow hedges, net of tax	—	—	1,412
Other comprehensive income (loss)	193,615	(126,620)	(252,860)
Comprehensive income	1,256,284	3,823,982	1,123,706
Less: Comprehensive income attributable to noncontrolling interests	(13,842)	(5,123)	(10,285)
Comprehensive income attributable to Yahoo! Inc.	<u>\$1,242,442</u>	<u>\$3,818,859</u>	<u>\$1,113,421</u>

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

**Yahoo! Inc.**  
**Consolidated Statements of Stockholders' Equity**

	Years Ended December 31,		
	2011	2012 (in thousands)	2013
<b>Common stock</b>			
Balance, beginning of year	\$ 1,306	\$ 1,242	\$ 1,187
Common stock issued	18	24	26
Common stock retired	(82)	(79)	(198)
Balance, end of year	<u>1,242</u>	<u>1,187</u>	<u>1,015</u>
<b>Additional paid-in capital</b>			
Balance, beginning of year	10,109,913	9,825,899	9,563,348
Common stock and stock-based awards issued	156,211	218,349	353,241
Stock-based compensation expense	226,270	244,653	294,408
Tax benefits (detriments) from stock-based awards	33,497	(31,440)	49,061
Tax withholdings related to net share settlements of restricted stock awards	(44,593)	(60,939)	(139,815)
Retirement of treasury stock	(643,401)	(630,639)	(1,620,704)
Equity component of convertible senior notes, net	—	—	268,084
Purchase of note hedges	—	—	(205,706)
Issuance of warrants	—	—	124,775
Other	(11,998)	(2,535)	1,612
Balance, end of year	<u>9,825,899</u>	<u>9,563,348</u>	<u>8,688,304</u>
<b>Treasury stock</b>			
Balance, beginning of year	—	(416,237)	(1,368,043)
Repurchases of common stock	(1,618,741)	(2,167,841)	(3,344,396)
Tax withholdings related to net share settlements of restricted stock awards	(168)	—	—
Retirement of treasury stock	1,202,672	1,216,035	4,512,211
Balance, end of year	<u>(416,237)</u>	<u>(1,368,043)</u>	<u>(200,228)</u>
<b>Retained earnings</b>			
Balance, beginning of year	1,942,656	2,432,294	5,792,459
Net income attributable to Yahoo! Inc.	1,048,827	3,945,479	1,366,281
Retirement of treasury stock	(559,189)	(585,314)	(2,891,311)
Balance, end of year	<u>2,432,294</u>	<u>5,792,459</u>	<u>4,267,429</u>
<b>Accumulated other comprehensive income</b>			
Balance, beginning of year	504,254	697,869	571,249
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(16,272)	16,659	5,980
Net change in unrealized gains on cash flow hedges, net of tax	—	—	1,412
Foreign currency translation adjustments, net of tax	209,887	(143,279)	(260,252)
Balance, end of year	<u>697,869</u>	<u>571,249</u>	<u>318,389</u>
Total Yahoo! Inc. stockholders' equity	<u>\$12,541,067</u>	<u>\$14,560,200</u>	<u>\$13,074,909</u>

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

**Yahoo! Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**(Continued)**

	Years Ended December 31,		
	2011	2012	2013
	Number of Outstanding Shares		
	(in thousands)		
<b>Common stock</b>			
Balance, beginning of year	1,308,836	1,217,481	1,115,233
Common stock and restricted stock issued	18,371	23,773	26,401
Restricted stock issued under compensation arrangements	—	—	1,567
Repurchases of common stock	(109,716)	(126,021)	(128,863)
Tax withholdings related to net share settlements of restricted stock awards	(10)	—	—
Balance, end of year	<u>1,217,481</u>	<u>1,115,233</u>	<u>1,014,338</u>

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

**Yahoo! Inc.**  
**Consolidated Statements of Cash Flows**

	Years Ended December 31,		
	2011	2012 (in thousands)	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 1,062,669	\$ 3,950,602	\$ 1,376,566
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	530,516	549,235	532,485
Amortization of intangible assets	117,723	105,366	96,518
Accretion of convertible notes discount	—	—	4,846
Stock-based compensation expense, net	204,172	220,936	278,220
Gains from sales of patents	—	—	(79,950)
Goodwill impairment charge	—	—	63,555
Restructuring charges	990	109,896	547
Gain from sale of Alibaba Group Shares	—	(4,603,322)	—
Loss (gain) from sales of investments, assets, and other, net	4,405	(11,840)	22,397
Earnings in equity interests	(476,920)	(676,438)	(896,675)
Dividend income related to Alibaba Group Preference Shares	—	(20,000)	(35,726)
Tax benefits (detriments) from stock-based awards	33,497	(31,440)	49,061
Excess tax benefits from stock-based awards	(70,680)	(35,844)	(64,407)
Deferred income taxes	70,392	(769,320)	(84,302)
Dividends received from equity investees	75,391	83,648	135,058
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	38,100	34,752	26,199
Prepaid expenses and other	97,849	78,529	27,401
Accounts payable	(316)	12,747	(7,764)
Accrued expenses and other liabilities	(290,070)	255,799	(98,853)
Deferred revenue	(73,912)	465,140	(149,929)
Net cash provided by (used in) operating activities	<u>1,323,806</u>	<u>(281,554)</u>	<u>1,195,247</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisition of property and equipment, net	(593,294)	(505,507)	(338,131)
Purchases of marketable securities	(1,708,530)	(3,520,327)	(3,223,190)
Proceeds from sales of marketable securities	1,508,948	741,947	2,871,834
Proceeds from maturities of marketable securities	1,316,197	381,403	748,915
Proceeds related to sale of Alibaba Group Shares, net	—	6,247,728	—
Proceeds related to the redemption of Alibaba Group Preference Shares	—	—	800,000
Acquisitions, net of cash acquired	(323,830)	(5,716)	(1,247,544)
Purchases of intangible assets	(11,819)	(3,799)	(2,500)
Proceeds from the sale of investments	21,271	26,132	181
Proceeds from the settlement of derivative hedge contracts	—	17,898	312,266
Payments for the settlement of derivative hedge contracts	—	(11,141)	(22,708)
Proceeds from sales of patents	—	—	79,950
Other investing activities, net	(6,581)	(6,574)	(2,294)
Net cash provided by (used in) investing activities	<u>202,362</u>	<u>3,362,044</u>	<u>(23,221)</u>

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

**Yahoo! Inc.**  
**Consolidated Statements of Cash Flows**  
**(Continued)**

	Years Ended December 31,		
	2011	2012 (in thousands)	2013
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	\$ 156,226	\$ 218,371	\$ 353,267
Repurchases of common stock	(1,618,741)	(2,167,841)	(3,344,396)
Proceeds from issuance of convertible notes	—	—	1,412,344
Payments for note hedges	—	—	(205,706)
Proceeds from issuance of warrants	—	—	124,775
Excess tax benefits from stock-based awards	70,680	35,844	64,407
Tax withholdings related to net share settlements of restricted stock awards and restricted stock units	(44,761)	(60,939)	(139,815)
Proceeds from credit facility borrowings	—	—	150,000
Repayment of credit facility borrowings	—	—	(150,000)
Other financing activities, net	(19,362)	(4,892)	(8,760)
Net cash used in financing activities	(1,455,958)	(1,979,457)	(1,743,884)
Effect of exchange rate changes on cash and cash equivalents	(34,247)	4,355	(18,330)
Net change in cash and cash equivalents	35,963	1,105,388	(590,188)
Cash and cash equivalents at beginning of year	1,526,427	1,562,390	2,667,778
Cash and cash equivalents at end of year	<u>\$ 1,562,390</u>	<u>\$ 2,667,778</u>	<u>\$ 2,077,590</u>

See Note 8—“Investments in Equity Interests” for information about the non-cash proceeds of \$800 million in Alibaba Group Preference Shares.

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

Yahoo! Inc.

Notes to Consolidated Financial Statements

**Note 1 THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*The Company.* Yahoo! Inc., together with its consolidated subsidiaries (“Yahoo” or the “Company”) is a global technology company focused on making the world’s daily habits inspiring and entertaining. The Company’s mission is driven by its commitment to creating highly personalized experiences that reach the Company’s users wherever they might be—on their mobile phone, tablet or desktop. Yahoo’s more than 800 million monthly users connect to the things that matter most to them with beautiful, engaging experiences across Search, Communications, Digital Magazines and Video—some of which will be powered by Flickr and Tumblr.

The Company creates value for advertisers with a streamlined, simplified advertising technology stack that leverages Yahoo’s data, reach and analytics to connect advertisers with their target audiences. For advertisers, the opportunity to be a part of users’ daily habits across products and platforms is a powerful tool to engage audiences and build brand loyalty.

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 (“Affiliate sites”; together with Yahoo Properties, the “Yahoo Network”). The Company manages and measures its business geographically, principally in the Americas, EMEA (Europe, Middle East, and Africa) and Asia Pacific.

*Basis of Presentation.* The 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 consolidated balance sheets. The Company has included the results of operations of acquired companies from the date of acquisition. Certain prior period amounts have been reclassified to conform to the current period presentation

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.

*Concentration of Risk.* Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents, marketable securities, accounts receivable, and derivative financial instruments. The primary focus of the Company’s investment strategy is to preserve capital and meet liquidity requirements. A large portion of the Company’s cash is managed by external managers within the guidelines of the Company’s investment policy. The Company’s investment policy addresses the level of credit exposure by limiting the concentration in any one corporate issuer or sector and establishing a minimum allowable credit rating. To manage the risk exposure, the Company maintains its portfolio of cash and cash equivalents and short-term and long-term investments in a variety of fixed income securities, including U.S. and foreign government, agency, municipal and highly rated corporate debt obligations and money market funds. The Company’s derivative instruments, including the note hedge transactions, expose the Company to credit risk to the extent that its counterparties may be unable to meet the terms of the agreements. The Company seeks to

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mitigate this risk by limiting its counterparties to major financial institutions and by spreading the risk across several major financial institutions. In addition, the potential risk of loss with any one counterparty resulting from this type of credit risk is monitored on an ongoing basis. See “Note 9—Derivative Instruments” for additional information related to the Company’s derivative instruments. Accounts receivable are typically unsecured and are derived from revenue earned from customers. The Company performs ongoing credit evaluations of its customers and maintains allowances for potential credit losses. Historically, such losses have been within management’s expectations. As of December 31, 2012 and 2013, no one customer accounted for 10 percent or more of the accounts receivable balance and no one customer accounted for 10 percent or more of the Company’s revenue for 2011, 2012, or 2013. See Note 19 “Search Agreement with Microsoft Corporation” for revenue under the Company’s Search and Advertising Services and Sales Agreement (the “Search Agreement”) with Microsoft Corporation (“Microsoft”).

*Comprehensive Income.* Comprehensive income consists of two components, net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders’ equity but are excluded from net income. The Company’s other comprehensive income consists of foreign currency translation adjustments from those subsidiaries or equity method investments where the local currency is the functional currency, unrealized gains and losses on marketable securities classified as available-for-sale, unrealized gains and losses on cash flow hedges, net changes in fair value of derivative instruments related to our net investment hedges, as well as the Company’s share of its equity investees’ other comprehensive income.

*Foreign Currency.* The functional currency of the Company’s international subsidiaries is evaluated on a case-by-case basis and is often the local currency. The financial statements of these subsidiaries are translated into U.S. dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for the period for revenue and expenses. Translation gains (losses) are recorded in accumulated other comprehensive income (loss) as a component of stockholders’ equity. In addition, the Company records translation gains (losses) related to its foreign equity method investments in accumulated other comprehensive income (loss). The Company records foreign currency transaction gains and losses, realized and unrealized and measurement of local currencies of foreign subsidiaries where the foreign currency is different from the local currency in other income, net in the consolidated statements of income. The Company recorded \$9 million of net gains in 2011, and \$1 million and \$6 million of net losses in 2012 and 2013, respectively.

*Cash and Cash Equivalents, Short- and Long-Term Marketable Securities.* The Company invests its excess cash in money market funds, time deposits, and liquid debt instruments of the U.S. and foreign governments and their agencies, U.S. municipalities, and high-credit corporate issuers which are classified as marketable securities and cash equivalents. All investments with an original maturity of three months or less are considered cash equivalents. Investments with maturities of less than 12 months from the balance sheet date are classified as current assets, which are available for use to fund current operations. Investments with maturities greater than 12 months from the balance sheet date are classified as long-term assets.

Operating cash deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate its credit risk by spreading such risk across multiple counterparties and monitoring the risk profiles of these counterparties.

The Company’s marketable securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income (loss). Realized gains or losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are reported in other income, net. The Company evaluates the investments periodically for possible other-than-temporary impairment. A decline of fair value below amortized costs of debt securities is considered an other-than-temporary impairment if the Company has the intent to sell the security or it is more likely than not that the

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Company will be required to sell the security before recovery of the entire amortized cost basis. In those instances, an impairment charge equal to the difference between the fair value and the amortized cost basis is recognized in earnings. Regardless of the Company's intent or requirement to sell a debt security, an impairment is considered other-than-temporary if the Company does not expect to recover the entire amortized cost basis; in those instances, a credit loss equal to the difference between the present value of the cash flows expected to be collected based on credit risk and the amortized cost basis of the debt security is recognized in earnings. The Company has no current requirement or intent to sell a material portion of debt securities as of December 31, 2013. The Company expects to recover up to (or beyond) the initial cost of investment for securities held. In computing realized gains and losses on available-for-sale securities, the Company determines cost based on amounts paid, including direct costs such as commissions to acquire the security, using the specific identification method. During the years ended December 31, 2011, 2012 and 2013, gross realized gains and losses on available-for-sale debt and equity securities were not material.

*Allowance for Doubtful Accounts.* The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, the credit quality of its customers, current economic conditions, and other factors that may affect customers' ability to pay to determine the level of allowance required.

*Derivative Financial Instruments.* The Company uses derivative financial instruments, primarily foreign currency forward contracts, to mitigate certain foreign currency exposures. The Company hedges, on an after-tax basis, a portion of its net investment in Yahoo Japan. The Company has designated these foreign currency forward contracts as net investment hedges, which are accounted for in accordance with ASC 815 "Derivatives and Hedging" ("ASC 815"). The effective portion of changes in fair value is recorded in accumulated other comprehensive income on the Company's consolidated balance sheet and any ineffective portion is recorded in other income, net on the Company's consolidated statements of income. The Company expects the net investment hedges to be effective, on an after-tax basis, as described in ASC 815 and effectiveness will be assessed each quarter. Should any portion of the net investment hedge become ineffective, the ineffective portion will be reclassified to other income, net on the Company's consolidated statements of income. The fair values of the net investment hedges are determined using quoted observable inputs. Gains and losses reported in accumulated other comprehensive income will not be reclassified into earnings until a sale of the Company's underlying investment.

For derivatives designated as cash flow hedges, the effective portion of the unrealized gains or losses on these forward contracts is recorded in accumulated other comprehensive income on the Company's consolidated balance sheets and reclassified into revenue on the consolidated statements of income when the underlying hedged revenue is recognized. If the cash flow hedges were to become ineffective, the ineffective portion would be immediately recorded in other income, net on the Company's consolidated statements of income.

The Company hedges certain of its net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that its earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These balance sheet hedges are used to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currency. Changes in the fair value of these derivatives are recorded in other income, net on the Company's consolidated statements of income. The fair values of the balance sheet hedges are determined using quoted observable inputs.

In October 2013, the Company began hedging a portion of the forecasted revenue of certain international subsidiaries whose functional currencies are not the U.S dollar. This program attempts to reduce the risk that the Company's revenue denominated in these currencies will be adversely affected by foreign currency exchange rate fluctuations. These derivatives are economic hedges and as such do not qualify for hedge accounting. Changes in the fair value of these derivatives are recorded as a component of revenue in the Company's consolidated statements of income.

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The Company recognizes all derivative instruments as other assets or liabilities on the Company's consolidated balance sheets at fair value. See Note 9—"Derivative Financial Instruments" for a full description of the Company's derivative financial instrument activities and related accounting.

*Property and Equipment.* Buildings are stated at cost and depreciated using the straight-line method over the estimated useful lives of 25 years. Leasehold improvements are amortized over the lesser of their expected useful lives and the remaining lease term. Computers and equipment and furniture and fixtures are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, generally three to five years.

Property and equipment to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of any impairment loss for long-lived assets that management expects to hold and use is based on the excess of the carrying value of the asset over its fair value. No impairments of such assets were identified during any of the periods presented.

*Capitalized Software and Labor.* The Company capitalized certain software and labor costs totaling approximately \$192 million, \$180 million, and \$130 million during 2011, 2012, and 2013, respectively. The estimated useful life of costs capitalized is evaluated for each specific project and ranges from one to three years. During 2011, 2012, and 2013, the amortization of capitalized costs totaled approximately \$114 million, \$142 million, and \$175 million, respectively. Capitalized software and labor costs are included in property and equipment, net. Included in the capitalized amounts above are \$22 million, \$24 million, and \$16 million, respectively, of stock-based compensation expense in the years ended December 31, 2011, 2012, and 2013.

*Goodwill.* Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment on an annual basis and more frequently if impairment indicators are present. The Company's reporting units are one level below the operating segments level. If the reporting unit does not pass the qualitative assessment, then the reporting unit's carrying value is compared to its fair value. The fair values of the reporting units are estimated using an average of a market approach and an income approach as this combination is deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. The income approach uses expected future operating results and failure to achieve these expected results may cause a future impairment of goodwill at the reporting unit. If the carrying value of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value. The Company conducted its annual goodwill impairment test as of October 31, 2013 and determined that the fair values of its reporting units, with the exception of the Middle East reporting unit, exceeded their carrying values and therefore goodwill in those reporting units was not impaired. The Company concluded that the carrying value of the Middle East reporting unit exceeded its fair value and recorded a goodwill impairment charge of approximately \$64 million in the quarter ended December 31, 2013. See Note 5—"Goodwill" for additional information.

*Intangible Assets.* Intangible assets are carried at cost and amortized over their estimated useful lives, generally on a straight-line basis over one to eight years as the pattern of use is ratable. The Company reviews identifiable amortizable intangible assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Determination of recoverability is based on the lowest level of identifiable estimated undiscounted cash flows resulting from use of the asset and its eventual disposition. Measurement of any impairment loss is based on the excess of the carrying value of the asset over its fair value.

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For the year ended December 31, 2013, the Company sold certain patents and recorded gains on sales of patents of approximately \$80 million. The gains on sales of patents were primarily related to a patent sale agreement with a wholly-owned affiliate of Alibaba Group entered into during the fourth quarter of 2013 for \$70 million.

*Investments in Equity Interests.* Investments in the common stock of 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 consolidated balance sheets. The Company records its share of the results of these companies one quarter in arrears within earnings in equity interests on the consolidated statements of income. The Company reviews its investments for other-than-temporary impairment whenever events or changes in business circumstances indicate that the carrying value of the investment may not be fully recoverable. Investments identified as having an indication of impairment are subject to further analysis to determine if the impairment is other-than-temporary and this analysis requires estimating the fair value of the investment. The determination of fair value of the investment involves considering factors such as the stock prices of public companies in which the Company has an equity investment, current economic and market conditions, the operating performance of the companies including current earnings trends and forecasted cash flows, and other company and industry specific information.

*Operating and Capital Leases.* The Company leases office space and data centers under operating leases and certain data center equipment under a capital lease agreement with original lease periods up to 12 years. Assets acquired under capital leases are amortized over the remaining lease term. Certain of the lease agreements contain rent holidays and rent escalation provisions. For purposes of recognizing these lease incentives on a straight-line basis over the term of the lease, the Company uses the date that the Company has the right to control the asset to begin amortization. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the period of straight-line recognition. For each of the years ended December 31, 2011, 2012 and 2013, the Company expensed \$5 million of interest, which approximates the cash payments made for interest. As of December 31, 2012 and 2013, the Company had net lease obligations included in capital lease and other long-term liabilities in the consolidated balance sheets of \$37 million and \$44 million, respectively.

*Income Taxes.* Deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the currently enacted tax rates and laws. The Company records a valuation allowance against particular deferred income tax assets if it is more likely than not that those assets will not be realized. The provision for income taxes comprises the Company's current tax liability and change in deferred income tax assets and liabilities.

Significant judgment is required in evaluating the Company's uncertain tax positions and determining its provision for income taxes. The Company establishes liabilities for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These liabilities are established when the Company believes that certain positions might be challenged despite its belief that its tax return positions are in accordance with applicable tax laws. The Company adjusts these liabilities in light of changing facts and circumstances, such as the closing of a tax audit, new tax legislation, developments in case law or interactions with the tax authorities. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effect of changes to liabilities for tax-related uncertainties that are considered appropriate, as well as the related net interest and penalties. Income taxes paid, net of refunds received, were \$96 million, \$2.3 billion, and \$208 million in the years ended December 31, 2011, 2012, and 2013, respectively. Interest paid was not material in any of the years presented. See Note 16—"Income Taxes" for additional information.

*Revenue Recognition.* Revenue is generated from several offerings including the display of graphical and non-graphical advertisements ("display advertising"), clicks on text-based links to advertisers' Websites that appear primarily on search results pages ("search advertising"), and other sources. For revenue arrangements with multiple deliverables, the consideration is allocated based on the relative selling price for each deliverable. The

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selling price for each arrangement deliverable can be established based on vendor specific objective evidence (“VSOE”) or third-party evidence (“TPE”) if VSOE is not available. An estimate of selling price (“ESP”) is used if neither VSOE nor TPE is available.

The Company recognizes revenue from display advertising on Yahoo Properties and Affiliate sites as impressions are delivered. Impressions are delivered when a sold advertisement appears in pages viewed by users. Arrangements for these services generally have terms of up to one year and in some cases the terms may be up to three years. For display advertising on Affiliate sites, the Company pays Affiliates for the revenue generated from the display of these advertisements on the Affiliate sites. Traffic acquisition costs (“TAC”) are payments made to third-party entities that have integrated the Company’s advertising offerings into their Websites or other offerings and payments made to companies that direct consumer and business traffic to Yahoo Properties. The display revenue derived from these arrangements that involve traffic supplied by Affiliates is reported gross of the TAC paid to Affiliates as the Company is the primary obligor to the advertisers who are the customers of the display advertising service.

From time-to-time, the Company may offer customized display advertising solutions to advertisers. These customized display advertising solutions combine the Company’s standard display advertising with customized content, customer insights, and campaign analysis. Due to the unique nature of these products, the Company may not be able to establish selling prices based on historical stand-alone sales or third-party evidence; therefore, the Company may use its best estimate to establish selling prices. The Company establishes best estimates within a range of selling prices considering multiple factors including, but not limited to, class of advertiser, size of transaction, seasonality, margin objectives, observed pricing trends, available online inventory, industry pricing strategies, and market conditions. The Company believes the use of the best estimates of selling price allows revenue recognition in a manner consistent with the underlying economics of the transaction.

The Company recognizes revenue from search advertising on Yahoo Properties and Affiliate sites. Search revenue is recognized based on Paid Clicks. A Paid Click occurs when an end-user clicks on a sponsored listing on Yahoo Properties and Affiliate sites for which an advertiser pays on a per click basis. The Company’s Search Agreement with Microsoft 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. In transitioned markets, the Company reports as revenue the 88 percent share of revenue generated from Microsoft’s services on Yahoo Properties and Affiliate sites, as the Company is not the primary obligor in the arrangement with the advertisers. See Note 19—“Search Agreement with Microsoft Corporation” for a description of the Search Agreement with Microsoft.

In non-transitioned markets, the Company paid Affiliates TAC for the revenue generated from the search advertisements on the Affiliates’ Websites. The revenue derived from these arrangements was reported on a gross basis (before deducting the TAC paid to Affiliates), as the Company continued to be the primary obligor to the advertisers. The Company also generates search revenue from a revenue sharing arrangement with Yahoo Japan for search technology and services and records the related revenue as it is earned.

Other revenue includes listings-based services revenue, transaction revenue, royalties, and fees revenue. Listings-based services revenue is generated from a variety of consumer and business listings-based services, including classified advertising such as Yahoo Autos and other services. The Company recognizes listings-based services revenue when the services are performed. Transaction revenue is generated from facilitating commercial transactions through Yahoo Properties, principally from Yahoo Small Business, Yahoo Travel, and Yahoo Shopping. The Company recognizes transaction revenue when there is evidence that qualifying transactions have occurred. We also receive royalties from joint venture partners that are recognized when earned. Fees revenue consists of revenue generated from a variety of consumer and business fee-based services as well as services for small businesses. The Company recognizes fees revenue when the services are performed.

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In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collectability of the related fee is reasonably assured. The Company's arrangements generally do not include a provision for cancellation, termination, or refunds that would significantly impact revenue recognition.

The Company accounts for cash consideration given to customers, for which it does not receive a separately identifiable benefit and cannot reasonably estimate fair value, as a reduction of revenue.

Current deferred revenue is comprised of contractual billings in excess of recognized revenue and payments received in advance of revenue recognition. Long-term deferred revenue includes amounts received for which revenue will not be earned within the next 12 months.

*TAC.* TAC consists of payments made to third-party entities that have integrated the Company's advertising offerings into their Websites or other offerings and payments made to companies that direct consumer and business traffic to Yahoo Properties. The Company enters 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 the Company's revenue or based on a certain metric, such as the number of searches or paid clicks. The Company expenses, as cost of revenue, TAC under two different methods. Agreements with fixed payments are expensed ratably over the term the fixed payment covers. 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.

*Product Development.* Product development expenses consist primarily of compensation-related expenses (including stock-based compensation expense) incurred for research and development, the development of, enhancements to, and maintenance and operation of Yahoo Properties, advertising products, technology platforms, and infrastructure. Depreciation expense, third-party technology and development expense, and other operating costs are also included in product development.

*Advertising Costs.* Advertising production costs are recorded as expense the first time an advertisement appears. Costs of advertising are recorded as expense as advertising space or airtime is used. All other advertising costs are expensed as incurred. Advertising expense totaled approximately \$148 million, \$103 million, and \$128 million for 2011, 2012, and 2013, respectively.

*Restructuring Charges.* The Company has developed and implemented restructuring initiatives to improve efficiencies across the organization, reduce operating expenses, and better align its resources to market conditions. As a result of these plans, the Company has recorded restructuring charges comprised principally of employee severance and associated termination costs related to the reduction of its workforce, office closures, losses on subleases, and contract termination costs. Liabilities for costs associated with an exit or disposal activity are recognized when the liability is incurred, as opposed to when management commits to an exit plan. In addition, (i) liabilities associated with exit and disposal activities are measured at fair value; (ii) one-time termination benefits are expensed at the date the entity notifies the employee, unless the employee must provide future service, in which case the benefits are expensed ratably over the future service period; and (iii) costs to terminate a contract before the end of its term are recognized when the entity terminates the contract in accordance with the contract terms. In addition, a portion of the Company's restructuring costs related to international employees are recognized when the amount of such termination benefits becomes estimable and payment is probable.

These restructuring initiatives require management to make estimates in several areas including: (i) expenses for severance and other employee separation costs; (ii) realizable values of assets made redundant, obsolete, or excessive; and (iii) the ability to generate sublease income and to terminate lease obligations at the estimated amounts.

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*Stock-Based Compensation Expense.* The Company recognizes stock-based compensation expense, net of an estimated forfeiture rate and therefore only recognizes compensation costs for those shares expected to vest over the service period of the award. Stock-based awards are valued based on the grant date fair value of these awards; the Company records stock-based compensation expense on a straight-line basis over the requisite service period, generally one to four years.

Calculating stock-based compensation expense related to stock options requires the input of highly subjective assumptions, including the expected term of the stock options, stock price volatility, and the pre-vesting forfeiture rate of stock awards. The Company estimates the expected life of options granted based on historical exercise patterns, which the Company believes are representative of future behavior. The Company estimates the volatility of its common stock on the date of grant based on the implied volatility of publicly traded options on its common stock, with a term of one year or greater. The Company believes that implied volatility calculated based on actively traded options on its common stock is a better indicator of expected volatility and future stock price trends than historical volatility. The assumptions used in calculating the fair value of stock-based awards represent the Company's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected pre-vesting award forfeiture rate, as well as the probability that performance conditions that affect the vesting of certain awards will be achieved, and only recognizes expense for those shares expected to vest. The Company estimates the forfeiture rate based on historical experience of the Company's stock-based awards that are granted and cancelled before vesting. See Note 14—"Employee Benefits" for additional information.

The Company uses the "with and without" approach in determining the order in which tax attributes are utilized. As a result, the Company recognizes a tax benefit from stock-based awards in additional paid-in capital only if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized. When tax deductions from stock-based awards are less than the cumulative book compensation expense, the tax effect of the resulting difference ("shortfall") is charged first to additional paid-in capital, to the extent of the Company's pool of windfall tax benefits, with any remainder recognized in income tax expense. The Company determined that it had a sufficient windfall pool available through the end of 2013 to absorb any shortfalls. In addition, the Company accounts for the indirect effects of stock-based awards on other tax attributes, such as the research tax credit, through the consolidated statements of income.

### **Recent Accounting Pronouncements.**

In 2013, the Financial Accounting Standards Board ("FASB") issued new accounting guidance clarifying the accounting for the release of a cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2013. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In 2013, the FASB issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

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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	Gross Unrealized	Estimated Fair Value
		Gains	Losses	
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 and other marketable securities	230	—	(33)	197
Alibaba Group Preference Shares	816,261	—	—	816,261
Total investments in available-for-sale securities	<u>\$4,169,176</u>	<u>\$ 2,582</u>	<u>\$ (700)</u>	<u>\$4,171,058</u>

	December 31, 2013			
	Gross Amortized Costs	Gross Unrealized	Gross Unrealized	Estimated Fair Value
		Gains	Losses	
Government and agency securities	\$ 538,397	\$ 65	\$ (101)	\$ 538,361
Corporate debt securities, commercial paper, and bank certificates of deposit	2,380,134	2,525	(1,216)	2,381,443
Corporate equity and other marketable securities	230	153	—	383
Total investments in available-for-sale securities	<u>\$2,918,761</u>	<u>\$ 2,743</u>	<u>\$ (1,317)</u>	<u>\$2,920,187</u>

	December 31,	
	2012	2013
Reported as:		
Short-term marketable securities	\$1,516,175	\$1,330,304
Long-term marketable securities	1,838,425	1,589,500
Alibaba Group Preference Shares	816,261	—
Other assets	197	383
Total	<u>\$4,171,058</u>	<u>\$2,920,187</u>

Available-for-sale securities included in cash and cash equivalents on the consolidated balance sheets are not included in the table above as the gross unrealized gains and losses were immaterial for both 2012 and 2013 as the carrying value approximates fair value because of the short maturity of those instruments.

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

	December 31,	
	2012	2013
Due within one year	\$1,516,175	\$1,330,304
Due after one year through five years	1,838,425	1,589,500
Total available-for-sale marketable securities	<u>\$3,354,600</u>	<u>\$2,919,804</u>

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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	<u>\$894,268</u>	<u>\$ (700)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$894,268</u>	<u>\$ (700)</u>

	December 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	\$263,514	\$ (101)	\$ —	\$ —	\$263,514	\$ (101)
Corporate debt securities, commercial paper, and bank certificates of deposit	696,950	(1,214)	3,833	(2)	700,783	(1,216)
Total investments in available-for-sale securities	<u>\$960,464</u>	<u>\$ (1,315)</u>	<u>\$ 3,833</u>	<u>\$ (2)</u>	<u>\$964,297</u>	<u>\$ (1,317)</u>

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 preference shares. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Fixed income securities may have their fair market value adversely impacted due to a deterioration of the credit quality of the issuer. The longer the term of the securities, the more susceptible they are to changes in market rates. Investments are reviewed periodically to identify possible other-than-temporary impairment. The Company has no current requirement or intent to sell these securities. The Company expects to recover up to (or beyond) the initial cost of investment for securities held.

The Company's investment in the Alibaba Group Preference Shares was presented as an asset carried at fair value on the Company's consolidated balance sheets as of December 31, 2012. As of December 31, 2012, the total carrying and fair value of the Alibaba Group Preference Shares was \$822 million, which included \$6 million of accrued dividend income recorded within prepaid expenses and other current assets and \$16 million of accrued dividend income recorded as part of the carrying value of the Alibaba Group Preference Shares. For the years ended December 31, 2012 and 2013, the Company recorded approximately \$23 million and \$36 million, respectively, in dividend income related to the Alibaba Group Preference Shares within other income, net on the consolidated statements of income. On May 16, 2013, Alibaba Group Holding Limited ("Alibaba Group") exercised its right to redeem the Alibaba Group Preference Shares for \$846 million in cash. The cash received represented the redemption value, which included the stated value of \$800 million plus accrued dividends of \$46 million.

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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):

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

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, 2013 (in thousands):

Assets	Fair Value Measurements at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
Money market funds <sup>(1)</sup>	\$936,438	\$ —	\$ —	\$ 936,438
Available-for-sale securities:				
Government and agency securities <sup>(1)</sup>	—	876,197	—	876,197
Commercial paper and bank certificates of deposit <sup>(1)</sup>	—	472,080	—	472,080
Corporate debt securities <sup>(1)</sup>	—	2,059,159	—	2,059,159
Time deposits	—	84,443	—	84,443
Corporate equity securities <sup>(2)</sup>	370	—	—	370
Foreign currency derivative contracts <sup>(3)</sup>	—	214,041	—	214,041
Financial assets at fair value	\$936,808	\$3,705,920	\$ —	\$4,642,728
<b>Liabilities</b>				
Foreign currency derivative contracts <sup>(3)</sup>	—	(1,401)	—	(1,401)
Total financial assets and liabilities at fair value	<u>\$936,808</u>	<u>\$3,704,519</u>	<u>\$ —</u>	<u>\$4,641,327</u>

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

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

<sup>(3)</sup> Foreign currency derivative contracts are classified as part of either other current assets or other current liabilities in the 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 \$1.8 billion, including contracts designated as net investment hedges of \$1.3 billion, as of December 31, 2013.

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The amount of cash and cash equivalents as of December 31, 2012 and 2013 includes \$597 million and \$569 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 using quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices, e.g., interest rates and yield curves. The Company utilizes a pricing service to assist in obtaining fair value pricing for the majority of this investment portfolio. The Company classified its investment in the Alibaba Group Preference Shares within Level 3 because it was valued using significant unobservable inputs. To estimate the fair value as of December 31, 2012, the Company performed benchmarking by comparing the terms and conditions of the Alibaba Group Preference Shares to dividend rates, subordination terms, and credit ratings of those of similar type instruments. The Company conducts reviews on a quarterly basis to verify pricing, assess liquidity, and to determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

### *Convertible Senior Notes*

In 2013, the Company issued \$1.4375 billion aggregate principal amount of 0.00% Convertible Senior Notes due 2018 (the "Notes"). The Notes are carried at their original issuance value, net of unamortized debt discount, and are not marked to market each period. The approximate fair value of the Notes as of December 31, 2013 was \$1.1 billion. The fair value of the Notes was estimated on the basis of quoted market prices observable in the market and is considered Level 2 in the fair value hierarchy. See Note 11—"Convertible Notes" for additional information related to the Notes.

### *Goodwill*

The inputs used to measure the estimated fair value of goodwill are classified as a Level 3 fair value measurement due to the significance of unobservable inputs using company-specific information. The valuation methodology used to estimate the fair value of goodwill is discussed in Note 1—"Goodwill".

### *Activity between Levels of the Fair Value Hierarchy*

During the years ended December 31, 2012 and 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**

### *Prepaid Expenses and Other Current Assets*

As of December 31, prepaid expenses and other current assets consisted of the following (in thousands):

	<u>2012</u>	<u>2013</u>
Prepaid expenses	\$ 74,268	\$103,100
Deferred income taxes	249,936	218,486
Foreign currency forward contract assets	5,008	214,041
Other receivables non-trade	36,740	37,404
Other	94,360	65,373
Total prepaid expenses and other current assets	<u>\$460,312</u>	<u>\$638,404</u>

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### Property and Equipment, Net

As of December 31, property and equipment, net consisted of the following (in thousands):

	<u>2012</u>	<u>2013</u>
Land	\$ 213,838	\$ 213,838
Buildings	639,658	697,874
Leasehold improvements	304,440	279,052
Computers and equipment <sup>(1)</sup>	2,040,381	1,512,860
Capitalized software and labor	595,366	766,368
Furniture and fixtures	75,559	61,280
Assets not yet in use	81,979	80,830
	<u>3,951,221</u>	<u>3,612,102</u>
Less: accumulated depreciation and amortization <sup>(2)</sup>	<u>(2,265,376)</u>	<u>(2,123,584)</u>
Total property and equipment, net	<u>\$ 1,685,845</u>	<u>\$ 1,488,518</u>

<sup>(1)</sup> Includes data center equipment acquired under a capital lease of approximately \$37 million and \$44 million as of December 31, 2012 and 2013, respectively.

<sup>(2)</sup> Includes \$20 million and \$33 million of accumulated depreciation, and \$6 million and \$12 million of accumulated amortization related to the capital lease as of December 31, 2012 and 2013, respectively.

### Other Long-Term Assets

As of December 31, other long-term assets consisted of the following (in thousands):

	<u>2012</u>	<u>2013</u>
Deferred income taxes	\$139,183	\$ 23,222
Investments in privately-held companies	27,022	25,077
Other	122,925	128,982
Total other long-term assets	<u>\$289,130</u>	<u>\$177,281</u>

### Accrued Expenses and Other Current Liabilities

As of December 31, accrued expenses and other current liabilities consisted of the following (in thousands):

	<u>2012</u>	<u>2013</u>
Accrued content, connection, traffic acquisition, and other costs	\$116,951	\$119,431
Deferred income taxes	200	(10)
Accrued compensation and related expenses	337,727	343,392
Accrued taxes payable	10,619	107,033
Accrued professional service expenses	67,736	69,869
Accrued sales and marketing related expenses	11,988	17,744
Accrued restructuring costs	58,718	21,764
Current liability for uncertain tax contingencies	30,484	—
Other	174,052	228,559
Total accrued expenses and other current liabilities	<u>\$808,475</u>	<u>\$907,782</u>

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### *Deferred and Other Long-Term Tax Liabilities, Net*

As of December 31, deferred and other long-term tax liabilities, net consisted of the following (in thousands):

	<u>2012</u>	<u>2013</u>
Deferred income taxes	\$ 11,310	\$172,491
Long-term liability for uncertain tax contingencies(*)	663,961	675,465
Total deferred and other long-term tax liabilities, net	<u>\$675,271</u>	<u>\$847,956</u>

(\*) Includes interest and penalties.

### *Accumulated Other Comprehensive Income*

As of December 31, the components of accumulated other comprehensive income were as follows (in thousands):

	<u>2012</u>	<u>2013</u>
Unrealized gains on available-for-sale securities, net of tax	\$ 9,121	\$ 15,101
Unrealized gains on cash flow hedges, net of tax	—	1,412
Foreign currency translation, net of tax	562,128	301,876
Accumulated other comprehensive income	<u>\$571,249</u>	<u>\$318,389</u>

### *Noncontrolling Interests*

As of December 31, noncontrolling interests were as follows (in thousands):

	<u>2012</u>	<u>2013</u>
Beginning noncontrolling interests	\$40,280	\$45,403
Net income attributable to noncontrolling interests	5,123	10,285
Ending noncontrolling interests	<u>\$45,403</u>	<u>\$55,688</u>

### *Other Income, Net*

Other income, net for 2011, 2012, and 2013 were as follows (in thousands):

	<u>Years Ended December 31,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Interest, dividend, and investment income	\$18,920	\$ 41,673	\$ 57,544
Gain related to the sale of Alibaba Group Shares	—	4,603,322	—
Interest expense	(9,473)	(9,297)	(14,319)
Other	17,728	12,141	132
Total other income, net	<u>\$27,175</u>	<u>\$4,647,839</u>	<u>\$ 43,357</u>

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

In September 2012, the Company recorded a pre-tax gain of approximately \$4.6 billion related to the sale to Alibaba Group of Alibaba Group ordinary shares. See Note 8—"Investments in Equity Interests" for additional information.

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Interest expense is related to the Notes and capital lease obligations for buildings and data centers.

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

### Reclassifications Out of Accumulated Other Comprehensive Income

Reclassifications out of accumulated other comprehensive income for the period ended December 31, 2012 were as follows (in thousands):

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Income
Realized losses on available-for-sale securities, net of tax	\$ 9,088	Yahoo!'s share of earnings in equity method investments and Other income, net
Foreign currency translation adjustments ("CTA"):		
Korea business closure CTA reclassification	\$ (16,208)	Restructuring charges net
Alibaba Group Initial Repurchase related CTA reclassification, net of \$68 million in tax	(120,978)	Other income, net
Total foreign currency translation adjustments, net of tax	<u>\$ (137,186)</u>	
Total reclassifications for the period	<u>\$ (128,098)</u>	

Reclassifications out of accumulated other comprehensive income for the period ended December 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 cash flow hedges, net of tax	\$ (2,080)	Revenue
Realized gains on available-for-sale securities, net of tax	(796)	Other income, net
Total reclassifications for the period	<u>\$ (2,876)</u>	

### Note 4 ACQUISITIONS

The following table summarizes acquisitions (including business combinations and asset acquisitions) completed during the three years ended December 31, 2013 (in millions):

	Purchase Price	Goodwill	Amortizable Intangibles
2011			
interclick	\$ 259	\$ 172	\$ 79
Other acquisitions	\$ 72	\$ 49	\$ 26
2012			
All acquisitions	\$ 7	\$ 5	\$ —
2013			
Tumblr	\$ 990	\$ 752	\$ 263
Other acquisitions	\$ 279	\$ 186	\$ 76

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### Transactions completed in 2011

*interclick*. On December 14, 2011, the Company completed the acquisition of *interclick*, inc. (“*interclick*”) through an all cash tender offer for all outstanding shares of common stock of *interclick* at \$9.00 per share. With *interclick*, the Company acquired innovative data targeting capabilities, optimization technologies and new premium supply, as well as a team experienced in selling audiences across disparate sources of pooled supply. The purchase price exceeded the fair value of the net tangible and identifiable intangible assets acquired and, as a result, the Company recorded goodwill in connection with this transaction. Under the terms of the agreement, the Company acquired all of the equity interests (including all outstanding options) in *interclick*. *interclick* stockholders and vested option holders were paid in cash, and outstanding *interclick* unvested options and restricted stock awards were assumed. Assumed options are exercisable for shares of Yahoo common stock.

The total purchase price of \$259 million consisted of cash consideration. In connection with the acquisition, the Company issued stock-based awards valued at \$9 million which is being recognized as stock-based compensation expense as the awards vest over a period of up to 4 years.

The allocation of the purchase price of the assets acquired and liabilities assumed based on their fair values was as follows (in thousands):

Cash acquired	\$ 4,369
Other tangible assets acquired	71,711
Amortizable intangible assets:	
Customer contracts and related relationships	42,700
Developed technology and patents	35,600
Trade name, trademark, and domain name	600
Goodwill	171,641
Total assets acquired	326,621
Liabilities assumed	(68,120)
Total	<u>\$258,501</u>

The amortizable intangible assets have useful lives not exceeding six years and a weighted average useful life of five years. No amounts have been allocated to in-process research and development and \$172 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. The goodwill recorded in connection with this acquisition is included in the Americas segment.

*Other Acquisitions—Business Combinations*. During the year ended December 31, 2011, the Company acquired three other companies, which were accounted for as business combinations. The total purchase price for these acquisitions was \$72 million. The total cash consideration of \$72 million less cash acquired of \$3 million resulted in a net cash outlay of \$69 million. Of the total purchase price, \$49 million was allocated to goodwill, \$26 million to amortizable intangible assets, \$3 million to cash acquired, and \$6 million to net assumed liabilities. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and is not deductible for tax purposes.

### Transactions completed in 2012

*All Acquisitions—Business Combinations*. During the year ended December 31, 2012, the Company acquired two companies, which were accounted for as business combinations. The total purchase price for these acquisitions was \$7 million. The total cash consideration of \$7 million less cash acquired of \$1 million resulted in a net cash outlay of \$6 million. Of the total purchase price, \$5 million was allocated to goodwill, \$1 million to tangible assets and \$1 million to cash acquired. 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.

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### Transactions completed in 2013

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

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

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

Cash and marketable securities acquired	\$ 16,587
Other tangible assets acquired	73,780
Amortizable intangible assets:	
Developed technology	23,700
Customer contracts and related relationships	182,400
Trade name	56,500
Goodwill	751,765
Total assets acquired	1,104,732
Liabilities assumed	(114,521)
Total	<u>\$ 990,211</u>

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

The amortizable intangible assets have useful lives not exceeding 6 years and a weighted average useful life of 6 years. No amounts have been allocated to in-process research and development and \$752 million has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and is not deductible for tax purposes. This acquisition brings a community of users to the Yahoo Network by deploying Yahoo’s personalization technology and search infrastructure to deliver relevant content to the Tumblr user base.

*Other Acquisitions—Business Combinations.* During the year ended December 31, 2013, the Company acquired 25 other companies, which were accounted for as business combinations. The total aggregate purchase price for these other acquisitions was \$279 million. The total cash consideration of \$279 million less cash acquired of \$2 million resulted in a net cash outlay of \$277 million. The allocation of the purchase price of the assets and liabilities assumed based on their estimated fair values was \$76 million to amortizable intangible assets, \$19 million to in-process research and development, \$2 million to cash acquired, \$33 million to other tangible assets, \$37 million to assumed liabilities, and the remainder of \$186 million 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.

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The Company's business combinations completed during the years ended December 31, 2011, 2012, and 2013 did not have a material impact on the Company's consolidated financial statements, and therefore pro forma disclosures have not been presented.

### Note 5 GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2013 were as follows (in thousands):

	Americas <sup>(1)</sup>	EMEA <sup>(2)</sup>	Asia Pacific <sup>(3)</sup>	Total
Net balance as of January 1, 2012	\$2,866,365	\$581,523	\$ 452,864	\$3,900,752
Acquisitions	5,616	—	—	5,616
Korea goodwill write-off	—	—	(85,642)	(85,642)
Foreign currency translation adjustments	(1,950)	12,090	(4,117)	6,023
Net balance as of December 31, 2012	<u>\$2,870,031</u>	<u>\$593,613</u>	<u>\$ 363,105</u>	<u>\$3,826,749</u>
Acquisitions	934,135	1,567	1,921	937,623
Goodwill impairment charge	—	(63,555)	—	(63,555)
Foreign currency translation adjustments	(1,832)	15,231	(34,568)	(21,169)
Net balance as of December 31, 2013	<u>\$3,802,334</u>	<u>\$546,856</u>	<u>\$ 330,458</u>	<u>\$4,679,648</u>

- (1) Gross goodwill balances for the Americas segment were \$2.9 billion as of January 1, 2012 and \$3.8 billion as of December 31, 2013.
- (2) Gross goodwill balances for the EMEA segment were \$1.1 billion as of both January 1, 2012 and December 31, 2013. The EMEA segment includes accumulated impairment losses of \$488 million as of January 1, 2012, and \$551 million as of December 31, 2013.
- (3) Gross goodwill balances for the Asia Pacific ("APAC") segment were \$517 million as of January 1, 2012 and \$480 million as of December 31, 2013. The APAC segment includes accumulated impairment losses of \$64 million as of January 1, 2012 and \$150 million as of December 31, 2013.

As a result of the annual goodwill impairment test, the Company concluded that the carrying value of the Middle East reporting unit, included in the EMEA reportable segment, exceeded its fair value. As required by the second step of the impairment test, the Company performed an allocation of the fair value to all the assets and liabilities of the reporting unit, including identifiable intangible assets, based on their estimated fair values, to determine the implied fair value of goodwill. Accordingly, the Company recorded a goodwill impairment charge of approximately \$64 million during the quarter ended December 31, 2013 for the difference between the carrying value of the goodwill in the reporting unit and its implied fair value with goodwill remaining of \$77 million. The impairment resulted from reductions in the Company's actual and projected operating results and estimated future cash flows that resulted from a decline in business conditions in the Middle East during the latter half of 2013.

The estimated fair values of the Company's other reporting units exceeded their estimated carrying values and therefore goodwill in those reporting units was not impaired.

### Note 6 INTANGIBLE ASSETS, NET

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

	December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization(*)	Net
Customer, affiliate, and advertiser related relationships	\$ 162,389	\$ (99,996)	\$ 62,393
Developed technology and patents	270,485	(198,851)	71,634
Trade names, trademarks, and domain names	50,382	(30,436)	19,946
Total intangible assets, net	<u>\$ 483,256</u>	<u>\$ (329,283)</u>	<u>\$153,973</u>

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	December 31, 2013		
	Gross Carrying	Accumulated	
	Amount	Amortization (*)	Net
Customer, affiliate, and advertiser related relationships	\$ 293,612	\$ (87,794)	\$205,818
Developed technology and patents	261,435	(120,936)	140,499
Trade names, trademarks, and domain names	107,381	(35,890)	71,491
Total intangible assets, net	<u>\$ 662,428</u>	<u>\$ (244,620)</u>	<u>\$417,808</u>

(\*) Cumulative foreign currency translation adjustments, reflecting movement in the currencies of the underlying entities, increased total intangible assets by approximately \$19 million as of both December 31, 2012 and 2013.

The intangible assets have estimated useful lives as follows:

- Customer, affiliate, and advertiser related relationships—two to eight years;
- Developed technology and patents—one year to eight years; and
- Trade names, trademarks, and domain names—one year to an indefinite life.

The Company recognized amortization expense of intangible assets of approximately \$118 million, \$105 million, and \$97 million for 2011, 2012, and 2013, respectively, including \$84 million, \$70 million, and \$52 million, respectively, included in cost of revenue-other. Based on the current amount of intangibles subject to amortization, the estimated amortization expense for each of the succeeding years is as follows: 2014: \$107 million; 2015: \$85 million; 2016: \$60 million; 2017: \$55 million; 2018: \$43 million; and cumulatively thereafter: \$51 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 awards granted under the Company's 1995 Stock Plan and restricted stock units granted under the Company's 1996 Directors' Stock Plan (the "Directors' Plan")). Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares are calculated using the treasury stock method and consist of unvested restricted stock and shares underlying unvested restricted stock units, the incremental common shares issuable upon the exercise of stock options, and shares to be purchased under the Company's 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.

For 2011, 2012, and 2013, potentially dilutive securities representing approximately 56 million, 39 million, and 10 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share for these periods because their effect would have been anti-dilutive.

The Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion of the Notes. The Company's intent is to settle the principal amount of the Notes in cash upon conversion. As a result, upon conversion of the Notes, only the amounts payable in excess of the principal amounts of the Notes are considered in diluted earnings per share under the treasury stock method.

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

	Years Ended December 31,		
	2011	2012	2013
<b>Basic:</b>			
Numerator:			
Net income attributable to Yahoo! Inc.	\$1,048,827	\$3,945,479	\$1,366,281
Less: Net income allocated to participating securities	(15)	(56)	(28)
Net income attributable to Yahoo! Inc. common stockholders—basic	<u>\$1,048,812</u>	<u>\$3,945,423</u>	<u>\$1,366,253</u>
Denominator:			
Weighted average common shares	<u>1,274,240</u>	<u>1,192,775</u>	<u>1,052,705</u>
Net income attributable to Yahoo! Inc. common stockholders per share—basic	<u>\$ 0.82</u>	<u>\$ 3.31</u>	<u>\$ 1.30</u>
<b>Diluted:</b>			
Numerator:			
Net income attributable to Yahoo! Inc.	\$1,048,827	\$3,945,479	\$1,366,281
Less: Net income allocated to participating securities	(14)	(55)	(28)
Less: Effect of dilutive securities issued by equity investees	(2,698)	(4,920)	(16,656)
Net income attributable to Yahoo! Inc. common stockholders—diluted	<u>\$1,046,115</u>	<u>\$3,940,504</u>	<u>\$1,349,597</u>
Denominator:			
Denominator for basic calculation	1,274,240	1,192,775	1,052,705
Weighted average effect of Yahoo! Inc. dilutive securities:			
Restricted stock and restricted stock units	5,347	8,403	14,097
Stock options and employee stock purchase plan	2,695	1,728	4,009
Denominator for diluted calculation	<u>1,282,282</u>	<u>1,202,906</u>	<u>1,070,811</u>
Net income attributable to Yahoo! Inc. common stockholders per share—diluted	<u>\$ 0.82</u>	<u>\$ 3.28</u>	<u>\$ 1.26</u>

### Note 8 INVESTMENTS IN EQUITY INTERESTS

As of December 31, investments in equity interests consisted of the following (dollars in thousands):

	2012	2012 Percent Ownership	2013	2013 Percent Ownership
Alibaba Group	\$ 276,389	24%	\$1,018,126	24%
Yahoo Japan	2,555,717	35%	2,399,590	35%
Other	8,051	24%	8,631	19%
Total	<u>\$2,840,157</u>		<u>\$3,426,347</u>	

*Equity Investment in Alibaba Group.* On October 23, 2005, the Company acquired approximately 46 percent of the outstanding common stock of the Alibaba Group, which represented approximately 40 percent on a fully diluted basis, in exchange for \$1.0 billion in cash, the contribution of the Company's China-based businesses ("Yahoo China"), and direct transaction costs of \$8 million. Another investor in Alibaba Group is Softbank Corp., a Japanese corporation ("Softbank"). Alibaba Group is a privately-held company.

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The Company's initial purchase price was based on acquiring a 40 percent equity interest in Alibaba Group on a fully diluted basis; however, the Company acquired a 46 percent interest based on outstanding shares. In allocating the initial excess of the carrying value of the investment in Alibaba Group over its proportionate share of the net assets of Alibaba Group, the Company allocated a portion of the excess to goodwill to account for the estimated reductions in the carrying value of the investment in Alibaba that may occur as the Company's equity interest is diluted to 40 percent based on specific events anticipated at the time. As of both December 31, 2012 and 2013, the Company's ownership interest in Alibaba Group was approximately 24 percent as a result of the Initial Repurchase described below.

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 investments in equity interests on the Company's consolidated balance sheets.

The Company's accounting policy is to record its share of the results of Alibaba Group one quarter in arrears, within earnings in equity interests in the consolidated statements of income. As of December 31, 2013, the excess of carrying value of the Company's investment in Alibaba Group and the Company's proportionate share of the net assets of Alibaba Group is largely attributable to goodwill.

The Company entered into a patent sale agreement with a wholly-owned affiliate of Alibaba Group during the fourth quarter of 2013 pursuant to which the Company sold certain patents for aggregate consideration of \$70 million. The gain on sale of these patents is recorded as a part of gains on sales of patents in the consolidated statements of income.

*Framework Agreement with Alibaba Group regarding Alipay.* Alibaba Group restructured the ownership of Alipay.com Co., Ltd. ("Alipay") and deconsolidated Alipay in the first quarter of 2011. The impact of the deconsolidation of Alipay was not material to the Company's financial statements. On July 29, 2011, the Company entered into a Framework Agreement (the "Framework Agreement") with Alibaba Group, Softbank, Alipay, APN Ltd., a company organized under the laws of the Cayman Islands ("IPCo"), Zhejiang Alibaba E-Commerce Co., Ltd., a limited liability company organized under the laws of the People's Republic of China ("HoldCo"), Jack Ma Yun, Joseph C. Tsai and certain security holders of Alipay or HoldCo as joinder parties. The Framework Agreement establishes the ongoing financial and other arrangements between Alibaba Group and Alipay. The transactions under the Framework Agreement closed on December 14, 2011.

Pursuant to the terms of the Framework Agreement and related documents: (1) Alibaba Group will receive certain payments ("Liquidity Event Payment") upon a liquidity event related to Alipay, such as an initial public offering or sale of Alipay; (2) Alibaba Group received a non-interest bearing promissory note in the principal amount of \$500 million with a seven year maturity, subject to earlier prepayment or acceleration (the "IPCo Promissory Note"); (3) upon payment in full of the Liquidity Event Payment certain assets used in the Alipay business that were retained by Alibaba Group will be transferred to Alipay; (4) Alibaba Group and Alipay entered into a long-term agreement pursuant to which Alibaba Group will receive payment processing services on preferential terms from Alipay and its subsidiaries; and (5) Alibaba Group licensed to Alipay certain intellectual property and technology and performs certain software technology services for Alipay and in return Alipay pays to Alibaba Group a royalty and software technology services fee.

The royalty and software technology services fee and the payment processing services fees discussed above approximate the estimated fair values of such services and are recognized in Alibaba Group's financial statements as income or expense, as applicable, as the services are rendered. The Company will record its share, if any, of the results of these transactions as they are recorded by Alibaba Group within Yahoo's earnings in equity interests in the consolidated statements of income. Alibaba Group will recognize the Liquidity Event Payment, the payment of the IPCo Promissory Note, and any impact from the transfer of assets, described above, if and when such payments or transfers occur. The Company will record its share, if any, of the results of these transactions as they are recorded by Alibaba Group within the Company's earnings in equity interests in the consolidated statements of income.

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*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 the 523 million Shares sold to Alibaba Group. Approximately \$6.3 billion of the consideration was received in cash and \$800 million was received in Alibaba Group Preference Shares, which Alibaba redeemed for cash on May 16, 2013. The Initial Repurchase resulted in a pre-tax gain of approximately \$4.6 billion during the year ended December 31, 2012.

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

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

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. For the years ended December 31, 2012 and 2013, the Company recognized approximately \$39 million and \$137 million in revenue related to the TIPLA. 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. Pursuant to the terms of the TIPLA, the Company also recognized revenue of approximately \$44 million, \$86 million, and \$122 million for the years ended December 31, 2011, 2012, and 2013, respectively.

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

	Twelve Months Ended September 30,		
	2011	2012	2013
Operating data:			
Revenue	\$2,344,973	\$4,082,838	\$6,734,978
Gross profit	\$1,557,392	\$2,764,314	\$4,909,327
Income from operations	\$ 325,334	\$ 687,632	\$3,103,664
Net income	\$ 339,552	\$ 536,050	\$2,847,139
Net income attributable to Alibaba Group	\$ 268,004	\$ 484,511	\$2,809,429

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	September 30,	September 30,
	2012	2013
Balance sheet data:		
Current assets	\$4,062,823	\$7,994,731
Long-term assets	\$3,204,144	\$5,959,835
Current liabilities	\$2,624,656	\$4,838,510
Long-term liabilities	\$4,705,347	\$5,319,113
Convertible preferred shares	\$1,317,526	\$1,688,889
Noncontrolling interests	\$ 65,907	\$ 92,127

Since acquiring its interest in Alibaba Group, the Company has recorded, in retained earnings, cumulative earnings in equity interests, net of tax, of \$661 million and \$1,078 million as of December 31, 2012 and 2013, respectively.

*Equity Investment in Yahoo Japan.* During April 1996, the Company signed a joint venture agreement with Softbank, which was amended in September 1997, whereby Yahoo Japan Corporation (“Yahoo Japan”) was formed. Yahoo Japan was formed to establish and manage a local version of Yahoo in Japan.

The investment in 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 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 consolidated statements of income.

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

During the year ended December 31, 2011, the Company recorded \$33 million in U.S. GAAP adjustments to Yahoo Japan’s net income to reflect the Company’s 35 percent share of non-cash losses related to impairments of assets held by Yahoo Japan. The \$33 million recorded during the year ended December 31, 2011 primarily includes \$7 million related to the Company’s share of a non-cash loss in connection with an impairment of assets held by Yahoo Japan in the second quarter of 2011, and a \$26 million U.S. GAAP adjustment to Yahoo Japan’s net income in the first quarter of 2011 to reflect the Company’s share of an other-than-temporary impairment of a cost-method investment of Yahoo Japan that resulted primarily from reductions in the projected operating results of the Yahoo Japan investee.

The fair value of the Company’s ownership in the common stock of Yahoo Japan, based on the quoted stock price, was approximately \$11 billion as of December 31, 2013.

During the years ended December 31, 2011, 2012 and 2013, the Company received cash dividends from Yahoo Japan in the amounts of \$75 million, \$84 million, and \$77 million, net of tax, respectively, which were recorded as reductions in the Company’s investment in Yahoo Japan.

The following tables present summarized financial information derived from Yahoo Japan’s consolidated financial statements, which are prepared on the basis of Japanese GAAP. The Company has made adjustments to the Yahoo Japan financial information to address differences between Japanese GAAP and U.S. GAAP that

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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.

	Twelve Months Ended September 30,		
	2011	2012	2013
<b>Operating data:</b>			
Revenue	\$3,988,377	\$4,242,623	\$4,296,522
Gross profit	\$3,311,357	\$3,594,633	\$3,577,001
Income from operations	\$1,963,924	\$2,189,323	\$2,150,644
Net income	\$1,114,637	\$1,313,494	\$1,365,443
Net income attributable to Yahoo Japan	\$1,108,390	\$1,308,539	\$1,355,457
<b>Balance sheet data:</b>			
Current assets		\$5,752,826	\$6,318,156
Long-term assets		\$1,837,829	\$1,728,912
Current liabilities		\$1,167,772	\$1,992,508
Long-term liabilities		\$ 49,461	\$ 56,762
Noncontrolling interests		\$ 31,034	\$ 74,754

Since acquiring its equity interest in Yahoo Japan, the Company has recorded cumulative earnings in equity interests, net of dividends received and related taxes on dividends, of \$2.3 billion and \$2.8 billion as of December 31, 2012 and 2013, respectively.

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 \$287 million, \$281 million, and \$266 million, respectively, for the years ended December 31, 2011, 2012, and 2013. As of December 31, 2012 and 2013, the Company had net receivable balances from Yahoo Japan of approximately \$43 million and \$42 million, respectively.

### Note 9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

*Net Investment Hedges.* The Company hedges, on an after-tax basis, a portion of its net investment in Yahoo Japan with forward contracts to reduce the risk that its carrying value of its investment in Yahoo Japan will be adversely affected by foreign currency exchange rate fluctuations. At inception, the forward contracts had maturities ranging from 9 to 15 months. The Company applies hedge accounting on its forward contracts for the net investment hedge of Yahoo Japan. The total balance of the after-tax net investment hedge was less than the Yahoo Japan investment balance as of both December 31, 2012 and 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 consolidated balance sheets. The Company recognizes net investment derivative instruments as either an asset or a liability on the Company's consolidated balance sheets at fair value.

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The notional amounts of the foreign currency forward contracts were \$3 billion as of December 31, 2012 and \$1.3 billion as of December 31, 2013, respectively. The fair value of the foreign currency forward contract assets were \$3 million and \$209 million as of December 31, 2012 and 2013, respectively, and were included in prepaid expenses and other current assets on the Company's consolidated balance sheets. Pre-tax gains of \$3 million and \$510 million were recorded as of December 31, 2012 and December 31, 2013, respectively, and were included in accumulated other comprehensive income on the Company's consolidated balance sheets. The Company did not enter into any net investment hedges in the year ended December 31, 2011. The Company received \$304 million in cash for settlement of certain foreign currency forward contracts during year ended December 31, 2013.

*Cash Flow Hedges.* The Company entered into foreign currency forward contracts designated as cash flow hedges of varying maturities through July 31, 2014. For derivatives designated as cash flow hedges, the effective portion of the unrealized gains or losses on these forward contracts is recorded in accumulated other comprehensive income on the Company's consolidated balance sheets and reclassified into revenue on the consolidated statements of income when the underlying hedged revenue is recognized. If the cash flow hedges were to become ineffective, the ineffective portion would be immediately recorded in other income, net on the Company's consolidated statements of income. The cash flow hedges were considered to be effective as of December 31, 2013. The total notional amount of the foreign currency forward contracts was \$56 million as of December 31, 2013. The fair value of the foreign currency forward contract assets was \$4 million as of December 31, 2013 which was included in prepaid expenses and other current assets on the Company's consolidated balance sheets. A pre-tax net gain of \$2 million was recorded as of December 31, 2013, which was included in accumulated other comprehensive income on the Company's consolidated balance sheets. For year ended December 31, 2013, the Company recorded gains of \$2 million, net of tax, for cash flow hedges, which were recorded in revenue in the consolidated statements of income. The Company received \$2 million in cash for settlement of certain foreign currency forward contracts during the year ended December 31, 2013. The Company did not enter into any cash flow hedges in the years ended December 31, 2011 and 2012.

*Balance Sheet Hedges.* The Company hedges certain of its net recognized foreign currency assets and liabilities with foreign exchange forward contracts to reduce the risk that its earnings and cash flows will be adversely affected by changes in foreign currency exchange rates. These derivative instruments hedge assets and liabilities, including intercompany transactions, which are denominated in foreign currencies. The Company recognizes balance sheet derivative instruments as either an asset or a liability on the Company's consolidated balance sheets at fair value. Changes in the fair value of these derivatives are recorded in other income, net on the Company's consolidated statements of income. The notional amounts of these foreign currency forward contracts were \$356 million and \$393 million as of December 31, 2012 and 2013, respectively. As of December 31, 2012 and 2013, the fair value of the foreign currency forward contract liabilities were \$5 million, and less than \$1 million, respectively, and were included in accrued expenses and other current liabilities on the Company's consolidated balance sheets. A loss of \$3 million, a gain of \$4 million, and a loss of \$12 million were recorded for the years ended December 31, 2011, 2012, and 2013, respectively, and were included in other income, net on the Company's consolidated statements of income. The Company received \$7 million and paid a net \$17 million in cash for settlement of certain foreign currency forward contracts during the years ended December 31, 2012 and 2013, respectively.

*Forecasted Revenue Hedges.* On October 2, 2013, the Company began hedging a portion of the forecasted revenue of certain international subsidiaries whose functional currencies are not the U.S. dollar. This program attempts to reduce the risk that its revenue denominated in these currencies will be adversely affected by foreign currency exchange rate fluctuations. These derivatives are economic hedges and as such do not qualify for hedge accounting. The Company recognizes these derivative instruments as either assets or liabilities on the Company's consolidated balance sheets at fair value. Changes in the fair value of these derivatives are recorded as a component of revenue in the Company's consolidated statements of income. The Company did not have any derivative contracts related to the forecasted revenue hedge outstanding as of December 31, 2013. The Company did not enter into any forecasted revenue hedges in the years ended December 31, 2011 and 2012.

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Foreign currency forward contracts activity for the year ended December 31, 2013 was as follows (in millions):

	Beginning fair value	Settlement	Gain (loss) recorded in other income, net	Gain (loss) recorded in other comprehensive income	Gain (loss) recorded in revenue	Ending fair value
Derivatives designated as hedging instruments:						
Net investment hedges	\$ 3	\$ (304)	\$ —	\$ 510 <sup>(1)</sup>	\$ —	\$ 209
Cash flow hedges	—	(2)	1	2 <sup>(2)</sup>	3 <sup>(3)</sup>	4
Derivatives not designated as hedging instruments:						
Balance sheet hedges	(5)	17	(12)	—	—	—
Forecasted revenue hedges	—	—	—	—	—	—

<sup>(1)</sup> This amount does not reflect the tax impact of \$193 million recorded during the twelve months ended December 31, 2013. The \$317 million after tax impact of the gain recorded under other comprehensive income was included in accumulated other comprehensive income on the Company's consolidated balance sheets.

<sup>(2)</sup> This amount does not reflect the tax impact of less than \$1 million recorded during the twelve months ended December 31, 2013. The less than \$1 million tax impact of the gain was included in accumulated other comprehensive income on the Company's consolidated balance sheets.

<sup>(3)</sup> This amount does not reflect the tax impact of \$1 million recorded during the twelve months ended December 31, 2013. The \$2 million after tax impact was included in the consolidated statements of income.

### Note 10 CREDIT AGREEMENT

On October 19, 2012, the Company entered into a credit agreement (the "Credit Agreement") with Citibank, N.A., as Administrative Agent, and the other lenders party thereto from time to time. On October 10, 2013, the Company entered into Amendment No. 1 to the Credit Agreement. Amendment No. 1 extended the termination date of the Credit Agreement from October 18, 2013 to October 9, 2014. The Credit Agreement, as amended, continues to provide for a \$750 million unsecured revolving credit facility, subject to increase of up to \$250 million in accordance with its terms.

Borrowings under the Credit Agreement, as amended, will continue to bear interest at a rate equal to, at the option of the Company, 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 margins for borrowings under the Credit Agreement, as amended, will be based upon the leverage ratio of the Company and range from 1.00 percent to 1.25 percent with respect to Eurodollar Rate borrowings and 0 percent to 0.25 percent with respect to Base Rate borrowings.

As of December 31, 2013, the Company was in compliance with the financial covenants in the Credit Agreement and no amounts were outstanding.

### Note 11 CONVERTIBLE NOTES

#### 0.00% Convertible Senior Notes

In 2013, the Company issued the Notes. The Notes were sold under a purchase agreement, dated November 20, 2013, with J.P. Morgan Securities LLC and Goldman, Sachs & Co., as representatives of the several initial purchasers named therein (collectively, the "Initial Purchasers"). The Notes were sold to the Initial Purchasers for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

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In connection with the issuance of the Notes, the Company entered into an indenture (the “Indenture”) with respect to the Notes with The Bank of New York Mellon Trust Company, N.A., as trustee. Under the Indenture, the Notes are senior unsecured obligations of Yahoo! Inc., the Notes will not bear regular interest, and the principal amount of the Notes will not accrete. The Notes will mature on December 1, 2018, unless previously purchased or converted in accordance with their terms prior to such date. The Company may not redeem Notes prior to maturity. However, holders of the Notes may convert them at certain times and upon the occurrence of certain events in the future, as outlined in the Indenture. Holders of the Notes who convert in connection with a “make-whole fundamental change,” as defined in the Indenture, may require Yahoo to purchase for cash all or any portion of their Notes at a purchase price equal to 100 percent of the principal amount, plus accrued and unpaid special interest as defined in the Indenture, if any. The Notes will be convertible into shares of Yahoo’s common stock at an initial conversion rate of 18.7161 shares per \$1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately \$53.43 per share), subject to adjustment upon the occurrence of certain events. Certain corporate events described in the Indenture may increase the conversion rate for holders who elect to convert their Notes in connection with such corporate event should they occur. Upon conversion of the Notes, holders will receive cash, shares of Yahoo’s common stock or a combination thereof, at Yahoo’s election. The Company’s intent is to settle the principal amount of the Notes in cash upon conversion. If the conversion value exceeds the principal amount, the Company would deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount (conversion spread). The conversion spread would be included in the denominator for the computation of diluted net income per common share, using the treasury stock method. As of December 31, 2013, none of the conditions allowing holders of the Notes to convert had been met.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount (“debt discount”) is amortized to interest expense over the term of the Notes using the effective interest method with an effective interest rate of 5.26 percent per annum. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Issuance costs attributable to the \$1.1 billion liability component are being amortized to expense over the term of the Notes, and issuance costs attributable to the \$306 million equity component were included with the equity component in stockholders’ equity. Additionally, the Company recorded a deferred tax liability of \$37 million on a portion of the equity component transaction costs which are deductible for tax purposes.

The Notes consist of the following (in thousands):

	Year Ended December 31, 2013
Liability component:	
Principal	\$ 1,437,500
Less: note discount	(326,915)
Net carrying amount	<u>\$ 1,110,585</u>
Equity component(*)	<u>\$ 305,569</u>

(\*) Recorded in the consolidated balance sheet within additional paid-in capital.

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The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Year Ended December 31, 2013
Accretion of convertible note discount	\$ 4,846

As of December 31, the fair value of the Notes, which was determined based on inputs that are observable in the market (Level 2) and carrying value of debt instruments (carrying value excludes the equity component of the Company's Notes classified in equity) was as follows:

	2013	
	Fair Value	Carrying Value
Convertible senior notes	\$1,111,473	\$ 1,110,585

### Note Hedge Transactions and Warrant Transactions

The Company entered into note hedge transactions with certain option counterparties (the "Option Counterparties") to reduce the potential dilution with respect to Yahoo's common stock upon conversion of the Notes or offset any cash payment the Company is required to make in excess of the principal amount of converted Notes. For the year ended December 31, 2013, the Company paid \$206 million for the note hedge transactions. Separately, the Company also entered into privately negotiated warrant transactions with the Option Counterparties giving them the right to purchase common stock from the Company. The warrant transactions will have a dilutive effect with respect to Yahoo's common stock to the extent that the market price per share of its common stock exceeds the strike price of \$71.24 per share of the warrants on or prior to the expiration date of the warrants. The warrants begin to expire in March 2019. For the year ended December 31, 2013, the Company received \$125 million in proceeds from the issuance of warrants. The note hedges and warrants are not marked to market. The value of the note hedges and warrants were initially recorded in stockholders' equity and continue to be classified as stockholders' equity.

### Note 12 COMMITMENTS AND CONTINGENCIES

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

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

Rent expense for all operating leases was approximately \$84 million, \$76 million, and \$77 million for 2011, 2012, and 2013, respectively.

Many of the Company's leases contain one or more of the following options which the Company can exercise at the end of the initial lease term: (i) renewal of the lease for a defined number of years at the then fair market rental rate or at a slight discount to the fair market rental rate; (ii) purchase of the property at the then fair market value; or (iii) right of first offer to lease additional space that becomes available.

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Gross and net lease commitments as of December 31, 2013 can be summarized as follows (in millions):

	<u>Gross Operating Lease Commitments</u>	<u>Sublease Income</u>	<u>Net Operating Lease Commitments</u>
Years ending December 31,			
2014	\$ 141	\$ (12)	\$ 129
2015	109	(9)	100
2016	69	(2)	67
2017	55	—	55
2018	36	—	36
Due after 5 years	122	—	122
Total gross and net lease commitments	<u>\$ 532</u>	<u>\$ (23)</u>	<u>\$ 509</u>

	<u>Capital Lease Commitment</u>
Years ending December 31,	
2014	\$ 15
2015	12
2016	9
2017	9
2018	9
Due after 5 years	4
Gross lease commitment	<u>\$ 58</u>
Less: interest	<u>(14)</u>
Net lease commitment included in capital lease and other long-term liabilities	<u>\$ 44</u>

*Affiliate Commitments.* In connection with contracts to provide advertising services to Affiliates, the Company is obligated to make payments, which represent TAC, to its Affiliates. As of December 31, 2013, these commitments totaled \$24 million, of which \$13 million will be payable in 2014, \$10 million will be payable in 2015, and \$1 million will be payable in 2016.

*Non-cancelable Obligations.* The Company is obligated to make payments under various non-cancelable arrangements with vendors and other business partners, principally for marketing, bandwidth, co-location, and content arrangements. As of December 31, 2013, these commitments totaled \$198 million, of which \$101 million will be payable in 2014, \$48 million will be payable in 2015, \$36 million will be payable in 2016, \$8 million will be payable in 2017, and \$5 million will be payable in 2018.

*Intellectual Property Rights.* The Company is committed to make certain payments under various intellectual property arrangements of up to \$25 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

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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 consolidated financial statements.

As of December 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. Accordingly, the Company is not exposed to any financing, liquidity, market, or credit risk that could arise if the Company had engaged in such relationships. In addition, the Company identified no variable interests currently held in entities for which it is the primary beneficiary.

See Note 19—"Search Agreement with Microsoft Corporation" for a description of the Company's Search Agreement and License Agreement with Microsoft.

### *Legal Contingencies*

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

*Stockholder and Securities Matters*. On June 14, 2007, a stockholder derivative action was filed in the United States District Court for the Central District of California by Jill Watkins against members of the board of directors ("Board") and selected officers. The complaint filed by the plaintiff alleged breaches of fiduciary duties and corporate waste, similar to the allegations in a former class action relating to stock price declines during the period April 2004 to July 2006, and alleged violation of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On July 16, 2009, the plaintiff Watkins voluntarily dismissed the action against all defendants without prejudice. On July 17, 2009, plaintiff Miguel Leyte-Vidal, who had substituted in as plaintiff prior to the dismissal of the federal Watkins action, re-filed a stockholder derivative action in Santa Clara County Superior Court against members of the Board and selected officers. The Santa Clara County Superior Court derivative action purports to assert causes of action on behalf of the Company for violation of specified provisions of the California Corporations Code, for breaches of fiduciary duty regarding financial accounting and insider selling and for unjust enrichment. On October 23, 2013, the California Court of Appeal affirmed the Superior Court's judgment in favor of all defendants following dismissal of plaintiff's third amended complaint without leave to amend. The plaintiff did not pursue any further appeals and the judgment in Yahoo's favor is final.

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

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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 and related disclosures. On June 7, 2012, the courts approved stipulations staying the California Derivative Litigation pending resolution of the Federal Derivative Litigation, and deferring the Federal Derivative Litigation pending a ruling on the motion to dismiss filed by the defendants in the related stockholder class actions, which are discussed below. On December 16, 2013, United States District Court for the Northern District of California granted the Company's motion to stay the Federal Derivative Litigation pending resolution of the appeal filed by the plaintiffs in the related stockholder class actions.

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

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

*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 purported to leave open for determination in future proceedings certain other alleged damages that were not quantified in the judgment. The judgment was issued by a law clerk to the trial court judge who presided over the entire case during the trial court proceedings but stepped down from his position shortly before the judgment was entered.

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

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

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

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

The Company has determined, based on current knowledge, that the amount or range of reasonably possible losses, including reasonably possible losses in excess of amounts already accrued, is not reasonably estimable with respect to certain matters described above. The Company has also determined, based on current knowledge, that the aggregate amount or range of losses that are estimable with respect to the Company’s legal proceedings, including the matters described above other than the Mexico matter, would not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows. Amounts accrued as of December 31, 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 13 S TOCKHOLDERS’ E QUITY**

The 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.

*Stock Repurchases.* The Company repurchases its common stock from time to time in part to reduce the dilutive effects of its stock options, awards, and employee stock purchase plan.

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In June 2010, the Board authorized a stock repurchase program allowing the Company to repurchase up to \$3 billion of its outstanding shares of common stock from time to time. That repurchase program, which by its terms, would have expired in June 2013, was exhausted during the third quarter of 2012. In May 2012, the Board authorized a stock repurchase program allowing the Company to repurchase up to an additional \$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. In November 2013, the Board authorized an additional stock repurchase program with an authorized level of \$5 billion. The November 2013 program, according to its terms, will expire in December 2016. 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 year ended December 31, 2012, the Company repurchased approximately 126 million shares of its common stock under the June 2010 and May 2012 stock repurchase programs at an average price of \$17.20 per share for a total of \$2.2 billion. The June 2010 program was exhausted during 2012. During the year ended December 31, 2013, the Company repurchased approximately 129 million shares of its common stock under the May 2012 stock repurchase programs at an average price of \$25.95 per share for a total of \$3.3 billion. These repurchases included the Company's repurchase of 40 million shares of its common stock beneficially owned by Third Point LLC on July 25, 2013. These shares were repurchased pursuant to a purchase agreement entered into on July 22, 2013, prior to the market opening for trading in Yahoo stock, and at \$29.11 per share, which was the closing price of the Company's common stock on July 19, 2013. The total purchase price for these shares was \$1.2 billion. The repurchase transaction was funded primarily with cash as well as borrowings of \$150 million under the Company's unsecured revolving credit facility that have been repaid. As of December 31, 2013, the May 2012 program had remaining authorized purchase capacity of \$93 million and the November 2013 program had remaining authorized purchase capacity of \$5 billion.

During the year ended December 31, 2012, the Company retired 79 million shares, resulting in reductions of \$79,000 in common stock, \$631 million in additional paid-in capital, and \$585 million in retained earnings. During the year ended December 31, 2013, the Company retired 198 million shares, resulting in reductions of \$198,000 in common stock, \$1.6 billion in additional paid-in capital, and \$2.9 billion in retained earnings. Treasury stock is accounted for under the cost method.

### **Note 14 EMPLOYEE BENEFITS**

*Benefit Plans.* The Company maintains the Yahoo! Inc. 401(k) Plan (the "401(k) Plan") for its full-time employees in the U.S. The 401(k) Plan allows employees of the Company to contribute up to the Internal Revenue Code prescribed maximum amount. Employees may elect to contribute from 1 to 50 percent of their annual compensation to the 401(k) Plan. The Company matches employee contributions at a rate of 25 percent, up to the IRS prescribed amount. Both employee and employer contributions vest immediately upon contribution. During 2011, 2012, and 2013, the Company's contributions to the 401(k) Plan amounted to approximately \$20 million, \$19 million, and \$18 million, respectively. The Company also contributed approximately \$24 million, \$22 million, and \$17 million to its other defined contribution retirement benefit plans outside of the U.S. for 2011, 2012, and 2013, respectively.

*Stock Plans.* The 1995 Stock Plan provides for the issuance of stock-based awards to employees, including executive officers, and consultants. The 1995 Stock Plan permits the granting of incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, and dividend equivalents.

Options granted under the 1995 Stock Plan before May 19, 2005 generally expire 10 years after the grant date, and options granted after May 19, 2005 generally expire seven years after the grant date. Options generally become exercisable over a four-year period based on continued employment and vest either monthly, quarterly, semi-annually, or annually.

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The 1995 Stock Plan permits the granting of restricted stock and restricted stock units (collectively referred to as “restricted stock awards”). The restricted stock award vesting criteria are generally the passing of time, meeting certain performance-based objectives, or a combination of both, and continued employment through the vesting period (which varies but generally does not exceed four years). Restricted stock award grants are generally measured at fair value on the date of grant based on the number of shares granted and the quoted price of the Company’s common stock. Such value is recognized as an expense over the corresponding service period.

The 1995 Stock Plan provides for the issuance of a maximum of 754 million shares of which 65 million shares were still available for award grant purposes as of December 31, 2013. Each share of the Company’s common stock issued in settlement of “full-value awards” (which include all awards other than options and stock appreciation rights) granted on or after June 25, 2009 under the 1995 Stock Plan is counted as 1.75 shares against the 1995 Stock Plan’s share limit.

The Directors’ Plan provides for the grant of nonqualified stock options and restricted stock units to non-employee directors of the Company. The Directors’ Plan provides for the issuance of up to 9 million shares of the Company’s common stock, of which approximately 5 million were still available for award grant purposes as of December 31, 2013. Each share of the Company’s common stock issued in settlement of restricted stock units granted after the Company’s 2006 annual meeting of shareholders under the Directors’ Plan is counted as 1.75 shares against the Directors’ Plan’s share limit.

Options granted under the Directors’ Plan before May 25, 2006 generally become exercisable, based on continued service as a director, for initial grants to new directors, in equal monthly installments over four years, and for annual grants, with 25 percent of such options vesting on the one year anniversary of the date of grant and the remaining options vesting in equal monthly installments over the remaining 36-month period thereafter. Such options generally expire seven to 10 years after the grant date. Options granted on or after May 25, 2006 become exercisable, based on continued service as a director, in equal quarterly installments over one year. Such options generally expire seven years after the grant date.

Restricted stock units granted under the Directors’ Plan generally vest in equal quarterly installments over a one-year period following the date of grant and, once vested, are generally payable in an equal number of shares of the Company’s common stock on the earlier of the end of the one-year vesting period or the date the director ceases to be a member of the Board (subject to any deferral election that may be made by the director).

Non-employee directors are also permitted to elect an award of restricted stock units or a stock option under the Directors’ Plan in lieu of a cash payment of their quarterly Board retainer and any cash fees for serving on committees of the Board. Such stock options or restricted stock unit awards granted in lieu of cash fees are fully vested on the grant date.

From time to time the Company also assumes stock-based awards in connection with corporate mergers and acquisitions, which awards become payable in shares of the Company’s common stock.

*Employee Stock Purchase Plan.* The Employee Stock Purchase Plan allows employees to purchase shares of the Company’s common stock through payroll deductions of up to 15 percent of their compensation subject to certain Internal Revenue Code limitations. Prior to November 2012, the price of common stock purchased under the plan was equal to 85 percent of the lower of the fair market value of the common stock on the commencement date of each 24-month offering period or the specified purchase date. Beginning in November 2012, the Employee Stock Purchase Plan was modified to consist of three-month offering periods. The price of the common stock purchased under the plan after November 2012 will be equal to 90 percent of the lower of the fair market value of the common stock on the commencement date of each three-month offering period or the specified purchase date.

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The Employee Stock Purchase Plan provides for the issuance of a maximum of 75 million shares of common stock of which 15 million shares were available as of December 31, 2013. For the years ended December 31, 2011, 2012, and 2013, stock-based compensation expense related to the activity under the plan was \$46 million, \$31 million, and \$16 million, respectively. As of December 31, 2013, there was \$3 million of unamortized stock-based compensation cost related to the Employee Stock Purchase Plan which will be recognized over a weighted average period of 0.4 years.

The Company's 1995 Stock Plan, the Directors' Plan, other stock-based awards assumed through acquisitions, and the Tumblr equity holdback are collectively referred to as the "Plans." Stock option activity under the Plans for the year ended December 31, 2013 is summarized as follows (in thousands, except years and per share amounts):

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	38,092	\$ 21.42	4.19	\$ 78,387
Options granted	51	\$ 29.32		
Options assumed in acquisitions	1,121	\$ 7.39		
Options exercised <sup>(1)</sup>	(13,707)	\$ 20.32		
Options cancelled/forfeited	(1,198)	\$ 15.13		
Options expired	(3,391)	\$ 29.73		
Outstanding at December 31, 2013	<u>20,968</u>	<u>\$ 20.43</u>	<u>4.20</u>	<u>\$ 428,414</u>
Vested and expected to vest at December 31, 2013 <sup>(2)</sup>	<u>19,701</u>	<u>\$ 20.13</u>	<u>4.09</u>	<u>\$ 400,054</u>
Exercisable at December 31, 2013	<u>10,696</u>	<u>\$ 22.24</u>	<u>2.64</u>	<u>\$ 194,676</u>

<sup>(1)</sup> The Company issued new shares to satisfy stock option exercises.

<sup>(2)</sup> The expected to vest options are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options.

The weighted average grant date fair values of all options granted and assumed in the years ended December 31, 2011, 2012, and 2013 were \$5.04, \$4.36, and \$18.72 per share, respectively.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock on December 31, 2013 and the exercise price for in-the-money options) that would have been received by the option holders if all in-the-money options had been exercised on December 31, 2013.

The total intrinsic values of options exercised in the years ended December 31, 2011, 2012, and 2013 were \$46 million, \$45 million, and \$122 million, respectively.

As of December 31, 2013, there was \$16 million of unamortized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 1.5 years.

Cash received from option exercises and purchases of shares under the Employee Stock Purchase Plan for the year ended December 31, 2013 was \$353 million.

The total net tax benefit attributable to stock options exercised in the year ended December 31, 2013 was \$16 million.

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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 <sup>(5)</sup>		
	Years Ended December 31,			Years Ended December 31,		
	2011	2012	2013	2011	2012	2013
Expected dividend yield <sup>(1)</sup>	0.0%	0.0%	0%	0.0%	0.0%	0%
Risk-free interest rate <sup>(2)</sup>	1.3%	0.6%	0.7%	0.4%	0.4%	0.1%
Expected volatility <sup>(3)</sup>	36.9%	31.9%	33.3%	35.6%	33.7%	31.7%
Expected life (in years) <sup>(4)</sup>	4.03	4.02	3.60	1.04	1.21	0.25

<sup>(1)</sup> The Company currently has no history or expectation of paying cash dividends on its common stock in the near future.

<sup>(2)</sup> The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the awards in effect at the time of grant.

<sup>(3)</sup> The Company estimates the volatility of its common stock at the date of grant based on the implied volatility of publicly traded options on its common stock, with a term of one year or greater.

<sup>(4)</sup> The expected life of stock options granted under the Plans is based on historical exercise patterns, which the Company believes are representative of future behavior. New grants issued by the Company had an expected life of 4.25 years in 2011, 4.00 years in 2012, and 2.58 years in 2013. Options assumed in acquisitions had expected lives of less than 4 years.

<sup>(5)</sup> 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 was permitted in February, May, August, and November of each year.

Restricted stock awards activity under the Plans for the year ended December 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(*)	34,835	\$ 25.55
Assumed in acquisitions	2,364	\$ 26.24
Vested	(14,187)	\$ 15.49
Forfeited	(7,229)	\$ 17.74
Awarded and unvested at December 31, 2013	<u>49,584</u>	<u>\$ 24.20</u>

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

As of December 31, 2013, there was \$615 million of unamortized stock-based compensation cost related to unvested restricted stock awards, which is expected to be recognized over a weighted average period of 2.8 years. The total fair value of restricted stock awards vested during the years ended December 31, 2011, 2012, and 2013 was \$136 million, \$171 million, and \$220 million, respectively.

During the year ended December 31, 2013, 14.2 million shares subject to previously granted restricted stock awards vested. A majority of these vested restricted stock awards were net share settled. The Company withheld 5.3 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.

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Total payments for the employees' tax obligations to the relevant taxing authorities were \$140 million for the year ended December 31, 2013 and are reflected as a financing activity within the consolidated statements of cash flows. The payments were used for tax withholdings related to the net share settlements of restricted stock units. The payments had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued on the vesting date and were recorded as a reduction of additional paid-in capital.

In 2011, 2012, and 2013, \$71 million, \$36 million, and \$64 million, respectively, of excess tax benefits from stock-based awards for options exercised and restricted stock awards that vested in current and prior periods were included as a source of cash flows from financing activities. These excess tax benefits represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised and restricted stock awards that vested in current and prior periods. The Company has accumulated excess tax deductions relating to stock options exercised and restricted stock awards that vested prior to January 1, 2006 available to reduce income taxes otherwise payable. To the extent such deductions reduce income taxes payable in the current year, they are reported as financing activities in the consolidated statements of cash flows.

*CEO 2012 Annual Equity Awards.* Marissa A. Mayer, the Company's Chief Executive Officer, received an equity award for 2012 that will vest over three years. A total of \$6 million of the grant date fair value of this equity award was granted as restricted stock units on July 26, 2012 and will vest over three years. The remaining portion of this equity award (valued at \$6 million per the offer letter) was granted in November 2012 as a performance-based stock option that will vest over the two and a half years after July 26, 2012, subject to satisfaction of performance criteria. See below for additional discussion of the performance-based stock options.

After 2012, Ms. Mayer will be eligible to receive annual equity grants when such grants are made to senior executives. Subject to the discretion of the Compensation and Leadership Development Committee of the Board of Directors (the "Compensation Committee"), the Company contemplates that the target value of such awards will not be less than the target value of her 2012 annual grant.

*CEO One-Time Retention Award.* Ms. Mayer received a one-time retention equity award that will vest over five years. A total of \$15 million of the grant date fair value of this equity award was granted as restricted stock units on July 26, 2012 and will vest over five years. The remaining portion of this equity award (valued at \$15 million per the offer letter) was granted in November 2012 as a performance-based stock option that will vest over the four and a half years after July 26, 2012, subject to satisfaction of performance criteria. The number of performance options granted in November 2012 was determined based on the grant date fair value as of July 26, 2012. See below for additional discussion of the performance-based stock options.

*CEO Make-Whole Restricted Stock Units.* To partially compensate Ms. Mayer for forfeiture of compensation from her previous employer, on July 26, 2012 she was granted restricted stock units with a grant-date fair value of \$14 million (the "Make-Whole RSUs"). Based on grant date fair values, \$4 million of the Make-Whole RSUs vested in 2012, \$7 million vested in 2013, and \$3 million is scheduled to vest in 2014.

*Performance-Based Executive Incentive Equity Awards.* The financial performance stock options awarded by the Company in November 2012 include multiple performance periods. In January 2013, the Compensation and Leadership Development Committee of the Board (the "Compensation Committee") established performance goals under these stock options for the first performance period (the six months ended June 30, 2013) and the second performance period (the full year ended December 31, 2013). These options were held by Ms. Mayer, Mr. de Castro, the Company's former Chief Operating Officer, and Mr. Goldman, the Company's Chief Financial Officer, (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

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revenue ex-TAC (50 percent), operating income (30 percent) and free cash flow (20 percent). The financial performance goals for each metric are established at the beginning of each performance period and, accordingly, the portion (or “tranche”) of the award related to each performance period is treated as a separate grant for accounting purposes. The grant date fair values of the first and second tranches of the November 2012 financial performance stock options were \$12 million and \$14 million, respectively, and are being recognized over six and twelve month service periods, respectively. The Company began recording stock-based compensation expense for these tranches in January 2013, at the grant date, when the financial performance goals were established and approved.

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

### Note 15 RESTRUCTURING CHARGES, NET

Restructuring charges, net consists of costs associated with the Restructuring Plans Prior to 2012, the Q2’12 Restructuring Plan, the Q4’12 Korea Business Closure and the Q4’13 Restructuring Plan. These charges include employee severance pay and related costs, accelerations and reversals of stock-based compensation expense, facility restructuring costs, contract termination and other non-cash charges associated with the exit of facilities, as well as reversals of restructuring charges arising from changes in estimates.

For the years ended December 31, 2011, 2012, and 2013, restructuring charges, net was comprised of the following (in thousands):

	Year Ended December 31,		Year Ended December 31, 2012			
	2011	Restructuring Plans Prior to 2012	Restructuring Plans Prior to 2012	Q2’12	Q4’12	Total
	Restructuring			Restructuring Plan	Korea Business Closure	
Employee severance pay and related costs	\$ 12,965	\$ 1,169	\$ 96,537	\$ 4,998	\$102,704	
Non-cancelable lease, contract terminations, and other charges	10,251	8,462	9,541	8,996	26,999	
Other non-cash charges, net	990	—	40,462	69,434	109,896	
Sub-total before accelerations (reversals) of stock-based compensation expense	24,206	9,631	146,540	83,428	239,599	
Accelerations (reversals) of stock-based compensation expense	214	—	(3,429)	—	(3,429)	
Restructuring charges, net	<u>\$ 24,420</u>	<u>\$ 9,631</u>	<u>\$ 143,111</u>	<u>\$ 83,428</u>	<u>\$236,170</u>	

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	Year Ended December 31, 2013				
	Restructuring				
	Plans Prior to	Q2'12	Q4'12	Q4'13	
	2012	Restructuring	Korea Business	Restructuring	Total
Employee severance pay and related costs (reversals)	\$ (459)	\$ (15,401)	\$ (103)	\$ 5,144	\$(10,819)
Non-cancelable lease, contract terminations, and other charges	13,894	164	(20)	—	14,038
Other non-cash charges	—	—	547	—	547
Restructuring charges (reversal), net	<u>\$ 13,435</u>	<u>\$ (15,237)</u>	<u>\$ 424</u>	<u>\$ 5,144</u>	<u>\$ 3,766</u>

Although the Company does not allocate restructuring charges to its segments, the amounts of the restructuring charges relating to each segment are presented below. For the years ended December 31, 2011, 2012, and 2013, restructuring charges, net consists of the following (in thousands):

	Year Ended December 31, 2011 Restructuring Plans
	Prior to 2012
Americas	\$ 22,244
EMEA	952
Asia Pacific	1,224
Restructuring charges, net	<u>\$ 24,420</u>

	Year Ended December 31, 2012			
	Restructuring			
	Plans Prior to	Q2'12	Q4'12	
	2012	Restructuring	Korea Business	Total
Americas	\$ 9,834	\$ 92,789	\$ —	\$102,623
EMEA	(617)	45,977	—	45,360
Asia Pacific	414	4,345	83,428	88,187
Restructuring charges, net	<u>\$ 9,631</u>	<u>\$ 143,111</u>	<u>\$ 83,428</u>	<u>\$236,170</u>

	Year Ended December 31, 2013				
	Restructuring				
	Plans Prior to	Q2'12	Q4'12	Q4'13	
	2012	Restructuring	Korea Business	Restructuring	Total
Americas	\$ 8,212	\$ (7,641)	\$ —	\$ —	\$ 571
EMEA	4,716	(6,998)	—	5,144	2,862
Asia Pacific	507	(598)	424	—	333
Restructuring charges, net	<u>\$ 13,435</u>	<u>\$ (15,237)</u>	<u>\$ 424</u>	<u>\$ 5,144</u>	<u>\$ 3,766</u>

*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 year ended December 31, 2011, the Company incurred total pre-tax cash charges of \$23 million in severance, facility and other related costs, net of reversal for adjustments to original estimates totaling \$12 million. In addition to the pre-tax cash charges, the Company recorded a non-cash charge of \$1 million related to asset impairment. Of the \$24 million in restructuring charges, net recorded in the year ended December 31, 2011, \$22 million related to the Americas segment, \$1 million related to the EMEA segment, and \$1 million related to the Asia Pacific segment. During the

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year ended December 31, 2012, the Company recorded total pre-tax cash charges of \$10 million in severance, facility and other related costs, net of reversal for adjustments to original estimates totaling \$5 million. The majority of the \$10 million in restructuring charges, net recorded in the year ended December 31, 2012, related to the Americas segment. During the year ended December 31, 2013, the Company incurred total pre-tax cash charges of \$13 million in facility and other related costs, net of reversal for adjustments to original estimates totaling \$1 million. Of the \$13 million recorded for the year ended December 31, 2013, \$8 million related to the Americas segment and \$5 million related to the EMEA segment.

*Q2'12 Restructuring Plan.* During the second quarter of 2012, the Company began implementing the Q2'12 Restructuring Plan to reduce its worldwide workforce by approximately 2,000 employees and to consolidate certain real estate and data center facilities. During the year ended December 31 2012, the Company recorded total pre-tax cash charges of \$139 million in severance and facility related costs and \$40 million in non-cash facility and other asset impairment charges. The total pre-tax charges were offset by changes to original estimates of \$33 million in severance related costs recognized throughout 2012, primarily as a result of redeployments and voluntary resignations of employees prior to their planned severance dates and a \$3 million credit related to non-cash stock-based compensation expense reversals for unvested stock awards that were forfeited. Of the \$143 million in restructuring charges, net recorded in the year ended December 31, 2012, \$93 million related to the Americas segment, \$46 million related to the EMEA segment, and \$4 million related to the Asia Pacific segment. During the year ended December 31, 2013, the Company recorded total pre-tax cash charges of \$7 million in severance, facility and other related costs, which were offset by a credit of \$22 million for severance related reversals due to adjustments to original estimates as a result of redeployments and voluntary resignations of employees prior to their planned severance dates. Of the \$15 million credit in restructuring charges, net recorded in the year ended December 31, 2013, \$7 million related to the Americas segment, \$7 million related to the EMEA segment, and \$1 million related to the Asia Pacific segment.

*Q4'12 Korea Business Closure.* During the fourth quarter of 2012, the Company decided to close its Korea business by the end of 2012 to streamline its operations and focus its resources. During the year ended December 31, 2012, the Company incurred total pre-tax cash charges of \$13 million in severance and contract termination costs. In addition to the pre-tax cash charges, the Company recorded a non-cash charge of \$86 million related to goodwill and other asset impairment and a non-cash credit approximately of \$16 million related to the reversal of previously recorded cumulative foreign currency translation adjustments. As a result, the Company recorded a net \$83 million in restructuring charges all related to the Asia Pacific segment for the year ended December 31, 2012. During the year ended December 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.

*Q4'13 Restructuring Plan.* During the fourth quarter of 2013, the Company started the process of closing its Cairo, Egypt and Rolle, Switzerland offices as part of its continued efforts to streamline its operations and focus its resources. During the year ended December 31, 2013, the Company recorded total pre-tax cash charges of \$5 million in severance and other related costs, which all related to the EMEA segment.

*Restructuring Accruals.* The \$30 million restructuring liability as of December 31, 2013 consists of \$5 million for employee severance pay expenses, which the Company expects to pay out by the end of the third quarter of 2014 and \$25 million relates to non-cancelable lease and contract termination costs that the Company expects to pay over the terms of the related obligations which extend to the fourth quarter of 2021.

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The activity in the Company's restructuring accruals for the years ended December 31, 2012 and 2013 is summarized as follows (in thousands):

	Restructuring				Total
	Plans Prior to	Q2'12 Restructuring	Q4'12 Korea Business	Q4'13 Restructuring	
	2012	Plan	Closure	Plan	
Balance as of January 1, 2012	\$ 49,127	\$ —	\$ —	\$ —	\$ 49,127
Employee severance pay and related costs	5,924	128,701	4,998	—	139,623
Non-cash reversals of stock-based compensation expense	—	(3,429)	—	—	(3,429)
Non-cancelable lease, contract termination, and other charges	8,792	9,997	8,996	—	27,785
Other non-cash charges, net	—	40,462	69,434	—	109,896
Changes in estimates and reversals of previous charges	(5,085)	(32,620)	—	—	(37,705)
Restructuring charges, net for the year ended December 31, 2012	\$ 9,631	\$ 143,111	\$ 83,428	\$ —	\$ 236,170
Cash paid	(30,746)	(68,018)	(4,307)	—	(103,071)
Non-cash reversals of stock-based compensation expense	—	3,429	—	—	3,429
Other non-cash charges, net	(232)	(40,148)	(69,157)	—	(109,537)
Foreign currency	(64)	(3,325)	138	—	(3,251)
Balance as of December 31, 2012	\$ 27,716	\$ 35,049	\$ 10,102	\$ —	\$ 72,867
Employee severance pay and related costs	28	6,722	443	5,144	12,337
Non-cancelable lease, contract termination, and other charges	14,407	164	1,251	—	15,822
Other non-cash charges	—	—	547	—	547
Changes in estimates and reversals of previous charges	(1,000)	(22,123)	(1,817)	—	(24,940)
Restructuring charges (reversals), net for the year ended December 31, 2013	\$ 13,435	\$ (15,237)	\$ 424	\$ 5,144	\$ 3,766
Cash paid	(19,082)	(16,829)	(9,471)	(624)	(46,006)
Other non-cash charges	—	—	(547)	—	(547)
Foreign currency	280	(218)	(171)	125	16
Balance as of December 31, 2013	<u>\$ 22,349</u>	<u>\$ 2,765</u>	<u>\$ 337</u>	<u>\$ 4,645</u>	<u>\$ 30,096</u>

As of December 31, restructuring accruals were included in the Company's consolidated balance sheets as follows (in thousands):

	2012	2013
Accrued expenses and other current liabilities	\$57,642	\$21,741
Capital lease and other long-term liabilities	15,225	8,355
Total restructuring accruals	<u>\$72,867</u>	<u>\$30,096</u>

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As of December 31, restructuring accruals by segment consisted of the following (in thousands):

	2012	2013
Americas	\$42,689	\$18,078
EMEA	18,144	11,284
Asia Pacific	12,034	734
Total restructuring accruals	<u>\$72,867</u>	<u>\$30,096</u>

### Note 16 INCOME TAXES

The components of income before income taxes and earnings in equity interests are as follows (in thousands):

	Years Ended December 31,		
	2011	2012	2013
United States	\$533,262	\$5,056,643	\$538,824
Foreign	294,254	157,564	94,459
Income before income taxes and earnings in equity interests	<u>\$827,516</u>	<u>\$5,214,207</u>	<u>\$633,283</u>

The provision for income taxes is composed of the following (in thousands):

	Years Ended December 31,		
	2011	2012	2013
Current:			
United States federal	\$141,922	\$2,278,759	\$138,032
State	(11,037)	361,788	49,872
Foreign	40,490	68,816	49,790
Total current provision for income taxes	<u>171,375</u>	<u>2,709,363</u>	<u>237,694</u>
Deferred:			
United States federal	77,012	(741,628)	(63,166)
State	(4,437)	(29,470)	(22,498)
Foreign	(2,183)	1,778	1,362
Total deferred provision (benefit) for income taxes	<u>70,392</u>	<u>(769,320)</u>	<u>(84,302)</u>
Provision for income taxes	<u>\$241,767</u>	<u>\$1,940,043</u>	<u>\$153,392</u>

The provision for income taxes differs from the amount computed by applying the federal statutory income tax rate to income before income taxes and earnings in equity interests as follows (in thousands):

	Years Ended December 31,		
	2011	2012	2013
Income tax at the U.S. federal statutory rate of 35 percent	\$289,630	\$1,824,973	\$221,648
State income taxes, net of federal benefit	4,627	237,637	23,000
Stock-based compensation expense	20,021	19,946	16,015
Research tax credits	(10,499)	—	(18,036)
Effect of non-U.S. operations	(49,781)	(138,078)	(47,968)
Settlement with tax authorities	(14,685)	(4,711)	(46,943)
Remeasurement of prior year tax positions	—	—	(24,246)
Acquisition related non-deductible expenses	—	1,894	9,296
Goodwill impairment charge	—	—	22,244
Other	2,454	(1,618)	(1,618)
Provision for income taxes	<u>\$241,767</u>	<u>\$1,940,043</u>	<u>\$153,392</u>

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Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred income tax assets and liabilities are as follows (in thousands):

	December 31,	
	2012	2013
Deferred income tax assets:		
Net operating loss and tax credit carryforwards	\$ 219,054	\$ 148,060
Stock-based compensation expense	81,910	66,583
Non-deductible reserves and expenses	265,751	431,374
Depreciation expense	21,386	22,937
Unrealized investment gains	3,584	2,878
Intangible assets	5,861	7,764
Gross deferred income tax assets	597,546	679,596
Valuation allowance	(51,503)	(36,690)
Deferred income tax assets	<u>\$ 546,043</u>	<u>\$ 642,906</u>
Deferred income tax liabilities:		
Purchased intangible assets	(29,960)	(156,435)
Depreciation expense	(118,808)	(86,641)
Investments in equity interests	(13,120)	(323,368)
Restructuring liabilities	(6,547)	(7,235)
Deferred income tax liabilities	<u>\$(168,435)</u>	<u>\$(573,679)</u>
Net deferred income tax assets	<u>\$ 377,608</u>	<u>\$ 69,227</u>

As of December 31, 2013, the Company's federal and state net operating loss carryforwards for income tax purposes were approximately \$299 million and \$31 million, respectively. The federal and state net operating loss carryforwards are subject to various limitations under Section 382 of the Internal Revenue Code and applicable state tax law. If not utilized, the federal and state net operating loss carryforwards will begin to expire in 2021.

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 retroactively extending the credit for amounts paid or incurred after December 31, 2011 and before January 1, 2014. As such, the provision for income taxes for the year ended December 31, 2013 reflects the benefit of both the 2012 and 2013 federal research and development tax credit. The Company's state research tax credit carryforward for income tax purposes is approximately \$177 million and it can be carried forward indefinitely. Tax credit carryforwards that result from the exercise of employee stock options are not recorded on the Company's consolidated balance sheets and are accounted for as a credit to additional paid-in capital if and when realized through a reduction in income taxes payable.

The Company has a valuation allowance of approximately \$37 million as of December 31, 2013 against certain deferred income tax assets that are not more likely than not to be realized in future periods. In evaluating the Company's ability to realize its deferred income tax assets, the Company considers all available positive and negative evidence, including operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction by jurisdiction basis. The valuation allowance as of December 31, 2013 relates to foreign net operating loss carryforwards that will reduce the provision for income taxes if and when recognized.

The U.S. Department of the Treasury issued final regulations on the deduction and capitalization of expenditures related to tangible property for income tax purposes. These regulations apply to the Company's tax year beginning on January 1, 2014. Based on its assessment as of December 31, 2013, these regulations will not have a material impact on the Company's financial position, results of operations, or cash flows.

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In 2012, the Company made a one-time distribution of foreign earnings resulting in an overall net benefit of \$117 million. During 2013, the Company recorded an additional net benefit of \$36 million related to this distribution. As of December 31, 2013, the Company does not anticipate a repatriation of its undistributed foreign earnings of approximately \$2.6 billion. Those earnings are principally related to Yahoo Japan. If these earnings were to be repatriated in the future, the Company may be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be repatriated.

The total amount of gross unrecognized tax benefits was \$695 million as of December 31, 2013, of which up to \$466 million would affect the Company's effective tax rate if realized. A reconciliation of the beginning and ending amount of unrecognized tax benefits in 2012 and 2013 is as follows (in thousands):

	<u>2012</u>	<u>2013</u>
Unrecognized tax benefits balance at January 1	\$532,862	\$727,367
Gross increase for tax positions of prior years	9,441	69,188
Gross decrease for tax positions of prior years	(32,513)	(40,298)
Gross increase for tax positions of current year	231,525	34,556
Settlements	(10,520)	(94,640)
Lapse of statute of limitations	(3,428)	(888)
Unrecognized tax benefits balance at December 31	<u>\$727,367</u>	<u>\$695,285</u>

The remaining balances are recorded on the Company's consolidated balance sheets as follows (in thousands):

	<u>December 31,</u>	
	<u>2012</u>	<u>2013</u>
Total unrecognized tax benefits balance	\$727,367	\$695,285
Amounts netted against related deferred tax assets	(83,635)	(89,048)
Unrecognized tax benefits recorded on consolidated balance sheets	<u>\$643,732</u>	<u>\$606,237</u>
Amounts classified as accrued expenses and other current liabilities	\$ 30,484	\$ —
Amounts classified as deferred and other long-term tax liabilities, net	<u>613,248</u>	<u>606,237</u>
Unrecognized tax benefits recorded on consolidated balance sheets	<u>\$643,732</u>	<u>\$606,237</u>

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. During 2011, 2012 and 2013, interest and penalties recorded in the consolidated statements of income were a credit of \$2 million and a charge of \$37 million and \$21 million (net of interest received of \$4 million), respectively. The amounts of accrued interest and penalties recorded on the consolidated balance sheets as of December 31, 2012 and 2013 were approximately \$51 million and \$76 million, respectively.

In 2013, the Company settled the IRS income tax examination for the 2005 and 2006 returns resulting in a benefit of approximately \$54 million. In addition, the Company recorded a reduction of tax reserves of approximately \$24 million based on proposed adjustments to its intercompany transfer pricing methodology for the 2007 and 2008 returns. As of December 31, 2013, the Company's federal 2009 and 2010 income tax returns are currently under the IRS examination. The Company's 2005 through 2008 tax returns are also under various stages of audit by the California Franchise Tax Board. While the California Franchise Tax Board has not reached any conclusions on the 2007 and 2008 returns, the Company has protested the proposed California Franchise Tax Board's adjustments to the 2005 and 2006 returns. The Company is also in various stages of examination and appeal in connection with its taxes in foreign jurisdictions, which generally span tax years 2005 through 2012.

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It is difficult to predict when the examinations will be settled or their final outcomes. The Company believes that it has adequately provided for any reasonably foreseeable adjustment and that any settlement will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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

During the year ended December 31, 2012, tax authorities from the Brazilian State of Sao Paulo assessed certain indirect taxes against the Company's Brazilian subsidiary, Yahoo! do Brasil Internet Ltda., related to online advertising services. The assessment totaling approximately \$85 million is for calendar years 2008 and 2009. The Company currently believes the assessment is without merit. The Company believes the risk of loss is remote and has not recorded an accrual for the assessment.

### **Note 17   T R A N S A C T I O N S   W I T H   R E L A T E D   P A R T I E S**

Revenue from related parties, excluding Yahoo Japan and Alibaba Group, represented approximately 1 percent of total revenue for the years ended December 31, 2011, 2012, and 2013. Management believes that the terms of the agreements with these related parties are comparable to the terms obtained in arm's-length transactions with unrelated similarly situated customers of the Company.

See Note 8—"Investments in Equity Interests" for additional information related to transactions involving Yahoo Japan and Alibaba Group.

### **Note 18   S E G M E N T S**

The Company continues to manage its business geographically. The primary areas of measurement and decision-making are the 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.

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

	Years Ended December 31,		
	2011	2012	2013
<b>Revenue by segment:</b>			
Americas	\$3,302,989	\$3,461,633	\$3,481,502
EMEA	629,383	472,061	385,186
Asia Pacific	1,051,827	1,052,872	813,692
Total revenue	4,984,199	4,986,566	4,680,380
<b>TAC by segment:</b>			
Americas	160,110	182,511	158,974
EMEA	221,916	114,230	42,915
Asia Pacific	221,345	222,165	52,553
Total TAC	603,371	518,906	254,442
<b>Revenue ex-TAC by segment:</b>			
Americas	3,142,879	3,279,122	3,322,528
EMEA	407,467	357,831	342,271
Asia Pacific	830,482	830,707	761,139
Total revenue ex-TAC	4,380,828	4,467,660	4,425,938
<b>Direct costs by segment <sup>(1)</sup>:</b>			
Americas	696,103	733,316	747,684
EMEA	165,750	161,990	165,719
Asia Pacific	225,417	224,114	197,619
Global operating costs <sup>(2)(3)</sup>	1,638,975	1,672,070	1,830,621
Depreciation and amortization	625,864	649,267	628,778
Goodwill impairment charge	—	—	63,555
Gains on sales of patents	—	—	(79,950)
Stock-based compensation expense	203,958	224,365	278,220
Restructuring charges, net	24,420	236,170	3,766
Income from operations	<u>\$ 800,341</u>	<u>\$ 566,368</u>	<u>\$ 589,926</u>

(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. Beginning in 2012, marketing and customer experience costs are managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

(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. Prior to 2012, marketing and customer experience costs were managed on a global basis and included as global operating costs. Prior period amounts have been revised to conform to the current presentation.

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

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	Years Ended December 31,		
	2011	2012	2013
Capital expenditures, net:			
Americas	\$437,804	\$437,978	\$309,215
EMEA	49,371	27,074	11,435
Asia Pacific	106,119	40,455	17,481
Total capital expenditures, net	<u>\$593,294</u>	<u>\$505,507</u>	<u>\$338,131</u>
	December 31,		
	2012	2013	
Property and equipment, net:			
Americas:			
U.S.	\$1,483,225	\$1,346,889	
Other	1,869	1,183	
Total Americas	<u>\$1,485,094</u>	<u>\$1,348,072</u>	
EMEA	59,416	44,976	
Asia Pacific	141,335	95,470	
Total property and equipment, net	<u>\$1,685,845</u>	<u>\$1,488,518</u>	

See also Note 5—"Goodwill" and Note 15—"Restructuring Charges, Net" for additional information regarding segments.

### Enterprise Wide Disclosures:

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

	Years Ended December 31,		
	2011	2012	2013
Display	\$2,160,309	\$2,142,818	\$1,949,830
Search	1,853,110	1,885,860	1,741,791
Other	970,780	957,888	988,759
Total revenue	<u>\$4,984,199</u>	<u>\$4,986,566</u>	<u>\$4,680,380</u>
	Years Ended December 31,		
	2011	2012	2013
Revenue:			
U.S.	\$3,112,998	\$3,294,206	\$3,317,794
International	1,871,201	1,692,360	1,362,586
Total revenue	<u>\$4,984,199</u>	<u>\$4,986,566</u>	<u>\$4,680,380</u>

Revenue is attributed to individual countries according to the online property that generated the revenue. No single foreign country accounted for more than 10 percent of the Company's revenue in 2011, 2012, and 2013, respectively.

### Note 19 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

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Microsoft. Under the License Agreement, Microsoft acquired an exclusive 10-year license to the Company's core search technology and has the ability to integrate this technology into its existing Web search platforms. On February 18, 2010, the Company received regulatory clearance from both the U.S. Department of Justice and the European Commission and on February 23, 2010 the Company commenced implementation of the Search Agreement on a market-by-market basis. Under the Search Agreement, the Company is the exclusive worldwide relationship sales force for both companies' premium search advertisers, which include advertisers meeting certain spending or other criteria, advertising agencies that specialize in or offer search engine marketing services and their clients, and resellers and their clients seeking assistance with their paid search accounts. The term of the Search Agreement is 10 years from February 23, 2010, subject to earlier termination as provided in the Search Agreement. Approximately 20 percent, 25 percent, and 31 percent of the Company's revenue for the years ended December 31, 2011, 2012 and, 2013, respectively, was attributable to the Search Agreement.

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

As of December 31, 2012 and 2013, the Company had collected total amounts of nil and \$21 million, respectively, on behalf of Microsoft and Affiliates, which was included in cash and cash equivalents with a corresponding liability in accrued expenses and other current liabilities. The Company's 88 percent share in connection with the Search Agreement, which is included in accounts receivable, net, was \$258 million and \$305 million as of December 31, 2012 and December 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 based on the difference in revenue per search between the pre-transition and post-transition periods and certain other factors. The Company records the RPS Guarantee as search revenue in the quarter the amount becomes fixed, which is typically the quarter in which the associated shortfall in revenue per search occurred. In the fourth quarter of 2011, Microsoft agreed to extend the RPS Guarantee in the U.S. and Canada through March 2013, and in the second quarter of 2013, Microsoft extended the RPS Guarantee in the U.S. through March 2014. In June 2013, Microsoft and Yahoo agreed upon the RPS Guarantee payment amounts to be paid to the Company for the quarters ended December 31, 2012, March 31, 2013 and June 30, 2013. The Company also agreed to fixed quarterly payments in lieu of the RPS Guarantee in the U.S. for the quarters ending September 30, 2013, December 31, 2013 and March 31, 2014. In addition, the Company agreed to waive its right to receive any future RPS Guarantee payments in all other markets except Taiwan and Hong Kong.

The Company completed the transition of its algorithmic and paid search platforms to the Microsoft platform in the U.S. and Canada in the fourth quarter of 2010. In 2011, the Company completed the transition of algorithmic search in all other markets. By the end of 2012, the Company completed the transition of paid search in India, most of the EMEA markets, and six markets in Latin America. By the end of 2013, the Company had substantially completed the transition of paid search, including the transition of paid search in Taiwan and Hong Kong.

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From February 23, 2010 until the applicable services were fully transitioned to Microsoft in all markets, Microsoft was required under the Search Agreement to reimburse the Company for the costs of operating algorithmic and paid search services subject to specified exclusions and limitations. The Company's results for the years ended December 31, 2011, 2012, and 2013 reflect \$212 million, \$67 million, and \$49 million, respectively, in search operating cost reimbursements from Microsoft under the Search Agreement.

The Company's results for the year ended December 31, 2011 reflect transition cost reimbursements from Microsoft under the Search Agreement, which were equal to the transition costs of \$26 million incurred by Yahoo related to the Search Agreement in the year ended December 31, 2011. During the third quarter of 2011, the Company's cumulative transition costs exceeded Microsoft's \$150 million reimbursement cap under the Search Agreement. Transition costs the Company incurs in excess of the \$150 million reimbursement cap are not subject to reimbursement.

Reimbursement receivables are recorded as the reimbursable costs are incurred and are applied against the operating expense categories in which the costs were incurred. As of December 31, 2012, a total of \$67 million of search operating cost reimbursable had been incurred by the Company related to the Search Agreement. Of that amount, \$5 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's consolidated balance sheets as of December 31, 2012. As of December 31, 2013, a total of \$49 million of search operating cost reimbursable had been incurred by the Company related to the Search Agreement. Of that amount, \$5 million had not been received from Microsoft and was classified as part of prepaid expenses and other current assets on the Company's consolidated balance sheets as of December 31, 2013.

### **Note 20** SUBSEQUENT EVENTS

**Stock Repurchase Transactions.** From January 1, 2014 through February 28, 2014, the Company repurchased approximately 9 million shares of its common stock at an average price of \$37.75 per share, for a total of \$332 million.

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**Schedule II—Valuation and Qualifying Accounts  
Years Ended December 31, 2011, 2012, and 2013**

	<b>Balance at Beginning of Year</b>	<b>Charged to Expenses</b>	<b>Write-Offs Net of, Recoveries</b>	<b>Balance at End of Year</b>
	(In thousands)			
<b>Accounts receivable</b>				
Allowance for doubtful accounts				
2011	22,975	18,147	(10,980)	30,142
2012	30,142	12,868	(10,375)	32,635
2013	32,635	10,278	(7,364)	35,549

	<b>Balance at Beginning of Year</b>	<b>Charged to Expenses</b>	<b>Charged (Credited) to Other Accounts(*)</b>	<b>Balance at End of Year</b>
	(In thousands)			
<b>Deferred tax asset valuation allowance</b>				
2011	60,176	(5,975)	(1,061)	53,140
2012	53,140	(82)	(1,555)	51,503
2013	51,503	(4,595)	(10,218)	36,690

(\*) Amounts not charged (credited) to expenses are charged (credited) to stockholders' equity, deferred tax assets (liabilities), or goodwill.

**Selected Quarterly Financial Data  
(Unaudited)**

	Quarters Ended							
	March 31, 2012 <sup>(1)</sup>	June 30, 2012 <sup>(2)</sup>	September 30, 2012 <sup>(3)</sup>	December 31, 2012 <sup>(4)</sup>	March 31, 2013 <sup>(5)</sup>	June 30, 2013 <sup>(6)</sup>	September 30, 2013 <sup>(7)</sup>	December 31, 2013 <sup>(8)</sup>
	(In thousands, except per share amounts)							
Revenue	\$1,221,233	\$1,217,794	\$ 1,201,732	\$1,345,807	\$1,140,368	\$1,135,244	\$1,138,973	\$1,265,795
Total operating expenses	\$1,051,857	\$1,162,981	\$ 1,049,543	\$1,155,817	\$ 954,398	\$ 998,265	\$1,046,214	\$1,091,577
Income from operations	\$ 169,376	\$ 54,813	\$ 152,189	\$ 189,990	\$ 185,970	\$ 136,979	\$ 92,759	\$ 174,218
Other income, net	\$ 2,278	\$ 20,175	\$ 4,607,656	\$ 17,730	\$ 17,072	\$ 23,606	\$ 5,370	\$ (2,691)
Provision for income taxes	\$ (56,419)	\$ (26,523)	\$(1,774,094)	\$ (83,007)	\$ (29,736)	\$ (50,267)	\$ (31,891)	\$ (41,498)
Earnings in equity interests	\$ 172,243	\$ 179,991	\$ 175,265	\$ 148,939	\$ 217,588	\$ 224,690	\$ 232,756	\$ 221,641
Net income attributable to Yahoo! Inc.	<u>\$ 286,343</u>	<u>\$ 226,631</u>	<u>\$ 3,160,238</u>	<u>\$ 272,267</u>	<u>\$ 390,285</u>	<u>\$ 331,150</u>	<u>\$ 296,656</u>	<u>\$ 348,190</u>
Net income attributable to Yahoo! Inc. common stockholders per share— basic	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 2.66</u>	<u>\$ 0.24</u>	<u>\$ 0.36</u>	<u>\$ 0.31</u>	<u>\$ 0.29</u>	<u>\$ 0.34</u>
Net income attributable to Yahoo! Inc. common stockholders per share— diluted	<u>\$ 0.23</u>	<u>\$ 0.18</u>	<u>\$ 2.64</u>	<u>\$ 0.23</u>	<u>\$ 0.35</u>	<u>\$ 0.30</u>	<u>\$ 0.28</u>	<u>\$ 0.33</u>
Shares used in per share calculation— basic	<u>1,215,783</u>	<u>1,213,320</u>	<u>1,186,046</u>	<u>1,155,950</u>	<u>1,094,170</u>	<u>1,079,389</u>	<u>1,024,289</u>	<u>1,012,972</u>
Shares used in per share calculation— diluted	<u>1,226,486</u>	<u>1,221,719</u>	<u>1,195,085</u>	<u>1,168,336</u>	<u>1,108,095</u>	<u>1,094,694</u>	<u>1,041,698</u>	<u>1,038,754</u>

<sup>(1)</sup> Net income attributable to Yahoo! Inc. for the quarter ended March 31, 2012 includes net restructuring charges of \$6 million.

<sup>(2)</sup> Net income attributable to Yahoo! Inc. for the quarter ended June 30, 2012 includes net restructuring charges of \$129 million.

<sup>(3)</sup> Net income attributable to Yahoo! Inc. for the quarter ended September 30, 2012 includes net restructuring charges of \$25 million and pre-tax gain of \$4.6 billion related to the sale of Alibaba Group Shares, which is included in other income, net.

<sup>(4)</sup> Net income attributable to Yahoo! Inc. for the quarter ended December 31, 2012 includes a one-time distribution of foreign earnings resulting in an overall net benefit of approximately \$117 million and net restructuring charges of \$77 million.

<sup>(5)</sup> Net income attributable to Yahoo! Inc. for the quarter ended March 31, 2013 includes net restructuring reversals of \$7 million.

<sup>(6)</sup> Net income attributable to Yahoo! Inc. for the quarter ended June 30, 2013 includes net restructuring charges of \$4 million.

<sup>(7)</sup> Net income attributable to Yahoo! Inc. for the quarter ended September 30, 2013 includes net restructuring reversals of less than \$1 million.

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<sup>(8)</sup> Net income attributable to Yahoo! Inc. for the quarter ended December 31, 2013 includes a gain on sale of patents of \$70 million, a goodwill impairment charge of \$64 million, and net restructuring charges of \$8 million.

### **Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

### **Item 9A. *Controls and Procedures***

#### **Evaluation of Disclosure Controls and Procedures**

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

#### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria established in the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on this evaluation, the Company's management concluded that its internal control over financial reporting was effective as of December 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's independent registered public accounting firm has issued an attestation report regarding its assessment of the Company's internal control over financial reporting as of December 31, 2013, which appears on page 74.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in Yahoo'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 quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

### **Item 9B. *Other Information***

Not applicable.

**Part III**

**Item 10. *Directors, Executive Officers and Corporate Governance***

The information required by this item is incorporated by reference to Yahoo's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

In addition, the Board has adopted a code of ethics, which is posted on the Company's Website at [www.yahoo.com](http://www.yahoo.com). The code of ethics may be found as follows: From our main Web page, first click on "About Yahoo" at the bottom right of the page, then on "More About Yahoo," then on "Investor Relations" in the left column, then on "Corporate Governance" then on "Documents" and then click on "Yahoo Code of Ethics".

The Company's code of ethics applies to the Company's directors and employees, including our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer and Global Controller, and to contractors of the Company. The code of ethics sets forth the fundamental principles and key policies and procedures that govern the conduct of the Company's business. The Company's employees receive training on the code of ethics. We intend to disclose any amendment to, or waiver from, the code of ethics for our directors and executive officers, including our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Global Controller or persons performing similar functions, to the extent disclosure is required by applicable rules of the SEC and NASDAQ Stock Market LLC by posting such information on our Website, at the address and location specified above.

**Item 11. *Executive Compensation***

The information required by this item is incorporated by reference to Yahoo's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item is incorporated by reference to Yahoo's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

The information required by this item is incorporated by reference to Yahoo's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

**Item 14. *Principal Accounting Fees and Services***

The information required by this item is incorporated by reference to Yahoo's Proxy Statement for its 2014 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2013.

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### Part IV

#### Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. *Consolidated Financial Statements:*

*Index To Consolidated Financial Statements*

Consolidated Financial Statements:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	74
Consolidated Balance Sheets as of December 31, 2012 and 2013	75
Consolidated Statements of Income for each of the three years in the period ended December 31, 2013	76
Consolidated Statements of Comprehensive Income for each of the three years in the period ended December 31, 2013	77
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2013	78
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2013	80
Notes to Consolidated Financial Statements	82

2. *Financial Statement Schedules:*

Financial Statement Schedules:

II—Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2013	131
All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto	

Supplementary Financial Data:

Selected Quarterly Financial Data (unaudited) for the two years ended December 31, 2013	132
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3. *Exhibits:*

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



EXHIBIT INDEX

The following exhibits are included, or incorporated by reference, in this Annual Report on Form 10-K (and are numbered in accordance with Item 601 of Regulation S-K). Pursuant to Item 601(a)(2) of Regulation S-K, this exhibit index immediately precedes the exhibits.

<u>Exhibit Number</u>	<u>Description</u>
2.1	Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of May 20, 2012 (previously filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed May 24, 2012 and incorporated herein by reference).
2.2	First Amendment to Share Repurchase and Preference Share Sale Agreement, by and between Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of September 11, 2012 (previously filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K filed September 19, 2012 and incorporated herein by reference).
2.3	Second Amendment to Share Repurchase and Preference Share Sale Agreement, by and among Alibaba Group Holding Limited, the Registrant, and Yahoo! Hong Kong Holdings Limited, dated as of October 14, 2013 (previously filed as Exhibit 2.3 to the Registrant's Current Report on Form 8-K filed October 15, 2013 and incorporated herein by reference).
3.1(A)	Amended and Restated Certificate of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed July 28, 2000 and incorporated herein by reference).
3.1(B)	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of the Registrant (previously filed as Exhibit 4.8 to the Registrant's Quarterly Report on Form 10-Q filed May 4, 2001 and incorporated herein by reference).
3.2	Amended and Restated Bylaws of the Registrant (previously filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K/A filed December 20, 2010 and incorporated herein by reference).
4.1	Form of the Registrant's Common Stock certificate (previously filed as Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed November 12, 2013 and incorporated herein by reference).
4.2*	Indenture (including form of Notes) with respect to the Registrant's 0.00% Convertible Senior Notes due 2018, dated as of November 26, 2013, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as trustee (Reflects minor corrections to Edgar conversion errors where a plus (+) was reflected as a minus (-) in certain conversion formulas in Section 14.04 of the indenture).
10.1+	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (previously filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed November 6, 2009 and incorporated herein by reference).
10.2(A)+	Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 13, 2012 and incorporated herein by reference).
10.2(B)+	Form of Stock Option Agreement, including Notice of Stock Option Grant, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(B) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).

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<u>Exhibit Number</u>	<u>Description</u>
10.2(C)+	Form of Stock Option Agreement for Executives, including Notice of Stock Option Grant to Executive, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(C) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).
10.2(D)+	Form of Restricted Stock Unit Award Agreement, including Notice of Grant, under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(D) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).
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 10.2(E) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).
10.2(F)+	Form of Restricted Stock Unit Award Agreement for Executives (version 2) under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(F) to the Registrant's Annual Report on Form 10-K filed February 29, 2012 and incorporated herein by reference).
10.2(G)+	Form of Performance Restricted Stock Unit Award Agreement (TSR version) under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(F) to the Registrant's Annual Report on Form 10-K filed February 26, 2010 and incorporated herein by reference).
10.2(H)+	Form of Performance Restricted Stock Unit Award Agreement (2010 AFP version) under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(I) to the Registrant's Annual Report on Form 10-K filed February 26, 2010 and incorporated herein by reference).
10.2(I)+	Form of Letter Amendment (2011) to Performance Restricted Stock Unit Award Agreement (2010 AFP version) under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(K) to the Registrant's Annual Report on Form 10-K filed February 28, 2011 and incorporated herein by reference).
10.2(J)+	Form of Second Letter Amendment (2012) to Performance Restricted Stock Unit Award Agreement (2010 AFP version) under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(M) to the Registrant's Annual Report on Form 10-K filed February 29, 2012 and incorporated herein by reference).
10.2(K)+	Form of Performance Restricted Stock Unit Award Agreement under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.2(L) to the Registrant's Annual Report on Form 10-K filed February 28, 2011 and incorporated herein by reference).
10.2(L)+	Form of Restricted Stock Award Agreement under the Yahoo! 1995 Stock Plan (previously filed as Exhibit 10.2(F) to the Registrant's Quarterly Report on Form 10-Q filed November 6, 2009 and incorporated herein by reference).
10.2(M)+	Form of Stock Appreciation Rights Award Agreement under the Yahoo! Inc. 1995 Stock Plan (previously filed as Exhibit 10.23(D) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2007 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 (previously filed as Exhibit 10.2(O) to the Registrant's Quarterly Report on Form 10-Q filed May 7, 2013 and incorporated herein by reference).

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<u>Exhibit Number</u>	<u>Description</u>
10.2(P)+	Form of Restricted Stock Unit Award Agreement Letter Amendment between the Registrant and executives regarding tax withholding elections (previously filed as Exhibit 10.2(P) to the Registrant's Quarterly Report on Form 10-Q filed November 12, 2013 and incorporated herein by reference).
10.3(A)+	Yahoo! Inc. 1996 Employee Stock Purchase Plan (previously filed as Exhibit 10.3(A) to the Registrant's Quarterly Report on Form 10-Q filed November 8, 2012 and incorporated herein by reference).
10.3(B)+	Form of Enrollment Agreement under the Yahoo! Inc. 1996 Employee Stock Purchase Plan (previously filed as Exhibit 10.3 (B) to the Registrant's Quarterly Report on Form 10-Q filed November 8, 2012 and incorporated herein by reference).
10.4(A)+	Yahoo! Inc. 1996 Directors' Stock Plan (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed July 13, 2012 and incorporated herein by reference).
10.4(B)+	Form of Director Nonstatutory Stock Option Agreement, including Notice of Grant, under the Yahoo! Inc. 1996 Directors' Stock Plan (previously filed as Exhibit 10.4(B) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2010 and incorporated herein by reference).
10.4(C)+	Form of Notice of Restricted Stock Unit Grant and Director Restricted Stock Unit Award Agreement under the Yahoo! Inc. 1996 Directors' Stock Plan (previously filed as Exhibit 10.4(C) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2010 and incorporated herein by reference).
10.5	Joint Venture Agreement dated April 1, 1996 by and between the Registrant and SOFTBANK Corporation (previously filed as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed March 21, 2003 and incorporated herein by reference).
10.6	Amendment Agreement dated September 17, 1997 by and between Registrant and SOFTBANK Corporation (previously filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K filed March 21, 2003 and incorporated herein by reference).
10.7	Yahoo Japan License Agreement dated April 1, 1996 by and between the Registrant and Yahoo Japan Corporation (previously filed as Exhibit 10.43 to Amendment No. 2 to the Registrant's Registration Statement on Form S-3, Registration No. 333-100298, filed on December 23, 2002 and incorporated herein by reference).
10.8	Amendment to Yahoo Japan License Agreement dated September 12, 1997 by and between the Registrant and Yahoo Japan Corporation (previously filed as Exhibit 10.40 to Amendment No. 1 of the Registrant's Registration Statement on Form S-3, Registration No. 333-100298, filed on November 27, 2002 and incorporated herein by reference).
10.9	Amendment No. 2 to Yahoo Japan License Agreement dated January 31, 2005 by and between the Registrant and Yahoo Japan Corporation (previously filed as Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed March 11, 2005 and incorporated herein by reference).
10.10+	Summary of Compensation Payable to Named Executive Officers (previously filed as Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q filed November 8, 2012 and incorporated herein by reference).
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+	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).

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<u>Exhibit Number</u>	<u>Description</u>
10.13+	Yahoo! Inc. Change in Control Employee Severance Plan for Level I and Level II Employees, as amended on December 10, 2008 (previously filed as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K filed February 27, 2009 and incorporated herein by reference).
10.14(A)†	Letter Agreement, dated July 29, 2009, between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.21 (A) to the Registrant's Quarterly Report on Form 10-Q filed November 6, 2009 and incorporated herein by reference).
10.14(B)†	Search and Advertising Services and Sales Agreement, dated December 4, 2009, between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(B) to the Registrant's Annual Report on Form 10-K filed February 26, 2010 and incorporated herein by reference).
10.14(C)†	License Agreement, dated December 4, 2009, between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(C) to the Registrant's Annual Report on Form 10-K filed February 26, 2010 and incorporated herein by reference).
10.14(D)†	First Amendment to Search and Advertising Services and Sales Agreement, dated as of July 14, 2010, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(D) to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2011 and incorporated herein by reference).
10.14(E)†	Second Amendment to Search and Advertising Services and Sales Agreement, dated as of October 10, 2010, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(E) to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2011 and incorporated herein by reference).
10.14(F)†	Third Amendment to Search and Advertising Services and Sales Agreement, dated as of March 31, 2011, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(F) to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2011 and incorporated herein by reference).
10.14(G)†	Amendment No. 1 to License Agreement, dated as of October 10, 2010, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(G) to the Registrant's Quarterly Report on Form 10-Q filed May 10, 2011 and incorporated herein by reference).
10.14(H)†	Fourth Amendment to Search and Advertising Services and Sales Agreement, dated as of December 13, 2010, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(H) to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q filed December 2, 2011 and incorporated herein by reference).
10.14(I)†	Fifth Amendment to Search and Advertising Services and Sales Agreement, dated as of July 2, 2011, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(I) to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q filed December 2, 2011 and incorporated herein by reference).
10.14(J)†	Sixth Amendment to Search and Advertising Services and Sales Agreement, dated as of October 14, 2011, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.18(J) to the Registrant's Quarterly Report on Form 10-Q filed November 7, 2011 and incorporated herein by reference).
10.14(K)†	Seventh Amendment to Search and Advertising Services and Sales Agreement, dated as of January 1, 2012, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.16(K) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012 and incorporated herein by reference).

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<u>Exhibit Number</u>	<u>Description</u>
10.14(L)†	Eighth Amendment to Search and Advertising Services and Sales Agreement, dated as of June 6, 2012, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.16(L) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012 and incorporated herein by reference).
10.14(M)†	Ninth Amendment to Search and Advertising Services and Sales Agreement, dated as of June 27, 2013, by and between the Registrant and Microsoft Corporation (previously filed as Exhibit 10.15(M) to the Registrant's Quarterly Report on Form 10-Q filed August 8, 2013 and incorporated herein by reference).
10.15(A)†	Framework Agreement, dated as of July 29, 2011, by and among the Registrant, Alibaba Group Holding Limited, Softbank Corp., Alipay.com Co., Ltd., APN Ltd., Zhejiang Alibaba E-Commerce Co., Ltd., Jack Ma Yun, Joseph C. Tsai and certain joinder parties (previously filed as Exhibit 10.1 to Amendment No. 1 to the Registrant's Current Report on Form 8-K filed August 12, 2011 and incorporated herein by reference).
10.15(B)	Amendment to Framework Agreement, dated as of November 15, 2012, by and among the Registrant, Alibaba Group Holding Limited, Softbank Corp., Alipay.com Co., Ltd., APN Ltd., Zhejiang Alibaba E-Commerce Co., Ltd., Jack Ma Yun, Joseph C. Tsai and certain joinder parties (previously filed as Exhibit 10.18 (B) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.16	Settlement Agreement, dated May 13, 2012, among the Registrant, Third Point LLC and each of the other persons set forth on the signature pages thereto (previously filed as Exhibit 99.01 to the Registrant's Current Report on Form 8-K filed May 14, 2012 and incorporated herein by reference).
10.17(A)+	Employment Offer Letter, dated July 16, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 19, 2012 and incorporated herein by reference).
10.17(B)+	Restricted Stock Unit Award Agreement (CEO Make-Whole Grant), dated July 26, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.22(B) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012 and incorporated herein by reference).
10.17(C)+	Form of Restricted Stock Unit Award Agreement (CEO Retention and Annual Grants), between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.22(C) to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2012 and incorporated herein by reference).
10.17(D)+	Performance Stock Option Agreement (Retention Grant), including Notice of Performance Stock Option Grant, dated November 29, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.21(D) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.17(E)+	Performance Stock Option Agreement (Annual Grant), including Notice of Performance Stock Option Grant, dated November 29, 2012, between the Registrant and Marissa A. Mayer (previously filed as Exhibit 10.21(E) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.17(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).

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<u>Exhibit Number</u>	<u>Description</u>
10.17(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).
10.17(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).
10.18(A)+	Employment Offer Letter, dated September 23, 2012, between the Registrant and Ken Goldman (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed September 26, 2012 and incorporated herein by reference).
10.18(B)+	Performance Stock Option Agreement, including Notice of Performance Stock Option Grant, dated November 29, 2012, between the Registrant and Ken Goldman (previously filed as Exhibit 10.22(B) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.19(A)+	Employment Offer Letter, dated October 15, 2012, between the Registrant and Henrique de Castro (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 15, 2012 and incorporated herein by reference).
10.19(B)+	Restricted Stock Unit Award Agreement (Make-Whole Grant), dated November 29, 2012, between the Registrant and Henrique de Castro (previously filed as Exhibit 10.23(B) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.19(C)+	Restricted Stock Unit Award Agreement (Initial Grant), dated November 29, 2012, between the Registrant and Henrique de Castro (previously filed as Exhibit 10.23(C) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.19(D)+	Performance Stock Option Agreement, including Notice of Performance Stock Option Grant, dated November 29, 2012, between the Registrant and Henrique de Castro (previously filed as Exhibit 10.23(D) to the Registrant's Annual Report on Form 10-K filed March 1, 2013 and incorporated herein by reference).
10.19(E)+	Form of Severance Agreement between the Registrant and Henrique de Castro (previously filed as Exhibit 10.23(E) to the Registrant's Quarterly Report on Form 10-Q filed May 7, 2013 and incorporated herein by reference).
10.20(A)	Credit Agreement, dated as of October 19, 2012, by and among the Registrant, the initial lenders named therein, Citibank, N.A., as Administrative Agent, HSBC Bank USA, National Association as Syndication Agent and Citigroup Global Markets Inc. and HSBC Securities (USA) Inc., as Joint Lead Arrangers and Joint Bookrunners (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 22, 2012 and incorporated herein by reference).
10.20(B)	Amendment No. 1 to Credit Agreement, dated as of October 10, 2013, by and among the Registrant, the lenders named therein, and Citibank, N.A. as Administrative Agent (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed October 15, 2013 and incorporated herein by reference).
10.21(A)	Purchase Agreement, dated July 22, 2013, among the Registrant, Third Point, LLC, Daniel S. Loeb, Third Point Partners L.P., Third Point Partners Qualified L.P., Third Point Offshore Master Fund L.P., Third Point Ultra Master Fund L.P. and Third Point Reinsurance Company, Ltd. (previously filed as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on July 25, 2013 and incorporated herein by reference).

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<u>Exhibit Number</u>	<u>Description</u>
10.21(B)	Amendment to Agreement, dated July 22, 2013, between the Registrant, Third Point, LLC and each of the other persons set forth on the signature pages thereto (previously filed as Exhibit 99.2 to the Registrant's Current Report on Form 8-K filed on July 25, 2013 and incorporated herein by reference).
10.22	Form of Call Option Confirmation between Yahoo and each Option Counterparty (previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference).
10.23	Form of Warrant Confirmation between Yahoo and each Option Counterparty (previously filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed November 26, 2013 and incorporated herein by reference).
21.1*	List of Subsidiaries.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see the signature page of this Annual Report on Form 10-K.)
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 February 28, 2014.
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 February 28, 2014.
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 February 28, 2014.
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.

\*\* Furnished herewith.

+ Indicates a management contract or compensatory plan or arrangement.

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

YAHOO! INC.

AND

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,

as Trustee

INDENTURE

Dated as of November 26, 2013

0.00% Convertible Senior Notes due 2018

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**EXHIBIT**

Exhibit A      Form of Note

A-1

INDENTURE, dated as of November 26, 2013, between YAHOO! INC., a Delaware corporation, as issuer (the “ **Company** ”, as more fully set forth in Section 1.01) and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association, as trustee (the “ **Trustee** ”, as more fully set forth in Section 1.01).

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 0.00% Convertible Senior Notes due 2018 (the “ **Notes** ”), initially in an aggregate principal amount not to exceed \$1,250,000,000 (as increased by an amount equal to the aggregate principal amount of any additional Notes purchased by the Initial Purchasers pursuant to the exercise of their over-allotment option as set forth in the Purchase Agreement), and in order to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Form of Note, the certificate of authentication to be borne by each Note, the Form of Notice of Conversion, the Form of Fundamental Change Repurchase Notice and the Form of Assignment and Transfer to be borne by the Notes are to be substantially in the forms hereinafter provided; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Company, and this Indenture a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the Holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective Holders from time to time of the Notes (except as otherwise provided below), as follows:

ARTICLE 1  
D E F I N I T I O N S

Section 1.01. *Definitions* . The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. The words “herein,” “hereof,” “hereunder,” and words of similar import

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refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article include the plural as well as the singular.

“ **144A Restricted** ” shall have the meaning specified in Section 4.06(e).

“ **Additional Shares** ” shall have the meaning specified in Section 14.03(a).

“ **Affiliate** ” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control,” when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“ **Bid Solicitation Agent** ” means the Person appointed by the Company to solicit bids for the Trading Price of the Notes in accordance with Section 14.01(b)(i). The Trustee shall initially act as the Bid Solicitation Agent.

“ **Board of Directors** ” means the board of directors of the Company or a committee of such board duly authorized to act for it hereunder.

“ **Board Resolution** ” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“ **Business Day** ” means, with respect to any Note, any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law, regulation or executive order to close or be closed.

“ **Capital Stock** ” means, for any entity, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that entity.

“ **Cash Settlement** ” shall have the meaning specified in Section 14.02(a).

“ **Clause A Distribution** ” shall have the meaning specified in Section 14.04(c).

“ **Clause B Distribution** ” shall have the meaning specified in Section 14.04(c).

“ **Clause C Distribution** ” shall have the meaning specified in Section 14.04(c).

“ **close of business** ” means 5:00 p.m. (New York City time).

“ **Combination Settlement** ” shall have the meaning specified in Section 14.02(a).

“ **Commission** ” means the U.S. Securities and Exchange Commission.

“ **Common Equity** ” of any Person means Capital Stock of such Person that is generally entitled (a) to vote in the election of directors of such Person or (b) if such Person is not a corporation, to vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“ **Common Stock** ” means the common stock of the Company, par value \$0.001 per share, at the date of this Indenture, subject to Section 14.07.

“ **Company** ” shall have the meaning specified in the first paragraph of this Indenture, and subject to the provisions of Article 11, shall include its successors and assigns.

“ **Company Order** ” means a written order of the Company, signed by (a) the Company’s Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, President, Executive or Senior Vice President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title “Vice President”) and (b) any such other Officer designated in clause (a) of this definition or the Company’s Treasurer or Assistant Treasurer or Secretary or any Assistant Secretary, and delivered to the Trustee.

“ **Consolidated** ” means the consolidation of accounts in accordance with generally accepted accounting principles in the United States as in effect from time to time.

“ **Conversion Agent** ” shall have the meaning specified in Section 4.02.

“ **Conversion Date** ” shall have the meaning specified in Section 14.02(c).

“ **Conversion Obligation** ” shall have the meaning specified in Section 14.01(a).

“ **Conversion Price** ” means as of any date, \$1,000, *divided by* the Conversion Rate as of such date.

“ **Conversion Rate** ” shall have the meaning specified in Section 14.01(a).

“ **Corporate Trust Office** ” means the office of the Trustee at which at any particular time its corporate trust business in Los Angeles, California shall be principally administered, which office as of the date of this instrument is located at 400 South Hope Street, Suite 400, Los Angeles, California 90071, except that with respect to presentation of Notes for payment or for registration of transfer, conversion or exchange, such term shall mean the office or agency of the Trustee at which at any particular time its corporate agency business shall be conducted, which office at the date of this instrument is located at 101 Barclay Street, New York, New York 10286; Attention: Corporate Trust Division – Corporate Finance Unit, or, in the case of any of such offices or agency, such other address as the Trustee may designate from time to time by written notice to the Holders and the Company, or the designated corporate trust office of any successor trustee (or such other address as such successor trustee may designate from time to time by notice to the Holders and the Company).

“ **Custodian** ” means the Trustee, as custodian for The Depository Trust Company, with respect to the Global Notes, or any successor entity thereto.

“ **Daily Conversion Value** ” means, for each of the 30 consecutive Trading Days during the Observation Period, one-thirtieth (1/30<sup>th</sup>) of the product of (a) the Conversion Rate on such Trading Day and (b) the Daily VWAP on such Trading Day.

“ **Daily Measurement Value** ” means the Specified Dollar Amount (if any), *divided by* 30.

“ **Daily Settlement Amount** ,” for each of the 30 consecutive Trading Days during the Observation Period, shall consist of:

(a) cash in an amount equal to the lesser of (i) the Daily Measurement Value and (ii) the Daily Conversion Value on such Trading Day; and

(b) if the Daily Conversion Value on such Trading Day exceeds the Daily Measurement Value, a number of shares of Common Stock equal to (i) the difference between the Daily Conversion Value and the Daily Measurement Value, *divided by* (ii) the Daily VWAP for such Trading Day.

“ **Daily VWAP** ” means the per share volume-weighted average price as displayed under the heading “Bloomberg VWAP” on Bloomberg page “YHOO <equity> AQR” (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such Trading Day (or if such volume-weighted average price is unavailable, the market value of one share of the Common Stock on such Trading Day determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by the Company). The “ **Daily VWAP** ” shall be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

“ **Default** ” means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

“ **Defaulted Amounts** ” means any amounts on any Note (including, without limitation, the Fundamental Change Repurchase Price, principal and interest) that are payable but are not punctually paid or duly provided for.

“ **Depository** ” means, with respect to each Global Note, the Person specified in Section 2.05(c) as the Depository with respect to such Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, “ **Depository** ” shall mean or include such successor.

“ **Distributed Property** ” shall have the meaning specified in Section 14.04(c).

“ **Effective Date** ” shall have the meaning specified in Section 14.03(c), except that, as used in Section 14.04, “ **Effective Date** ” means the first date on which shares of the Common Stock trade on the applicable exchange or in the applicable market, regular way, reflecting the relevant share split or share combination, as applicable.

“ **Event of Default** ” shall have the meaning specified in Section 6.01.

“ **Ex-Dividend Date** ” means the first date on which shares of the Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question, from the Company or, if applicable, from the seller of Common Stock on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

“ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“ **Form of Assignment and Transfer** ” shall mean the “Form of Assignment and Transfer” attached as Attachment 3 to the Form of Note attached hereto as Exhibit A.

“ **Form of Fundamental Change Repurchase Notice** ” shall mean the “Form of Fundamental Change Repurchase Notice” attached as Attachment 2 to the Form of Note attached hereto as Exhibit A.

“ **Form of Note** ” shall mean the “Form of Note” attached hereto as Exhibit A.

“ **Form of Notice of Conversion** ” shall mean the “Form of Notice of Conversion” attached as Attachment 1 to the Form of Note attached hereto as Exhibit A.

“ **Fundamental Change** ” shall be deemed to have occurred at the time after the Notes are originally issued if any of the following occurs:

(a) a “person” or “group” within the meaning of Section 13(d) of the Exchange Act, other than the Company, its controlled Subsidiaries and the employee benefit plans of the Company and its wholly owned Subsidiaries, files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group, has become the direct or indirect “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of the Company’s Common Equity representing more than 50% of the voting power of the Company’s Common Equity;

(b) the consummation of (A) any recapitalization, reclassification or change of the Common Stock (other than changes resulting from a subdivision or combination) as a result of which the Common Stock would be converted into, or exchanged for, stock, other securities, other property or assets; (B) any share exchange, consolidation or merger of the Company pursuant to which the Common Stock will be converted into cash, securities or other property or assets; or (C) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to any Person other than one of the Company’s controlled Subsidiaries; *provided, however*, that neither (i) a transaction described in clause (B) in which the holders of all classes of the Company’s Common Equity immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of the continuing or surviving corporation or transferee or the parent thereof immediately after such transaction in substantially the same proportions as such ownership immediately prior to such transaction nor (ii) any merger of the Company solely for the purpose of changing the Company’s jurisdiction of

incorporation, that results in a reclassification, conversion or exchange of outstanding shares of Common Stock solely into shares of common stock of the surviving entity shall be a Fundamental Change pursuant to this clause (b);

(c) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(e) the Common Stock ceases to be listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors);

*provided, however*, that a transaction or transactions described in clauses (a) or (b) above shall not constitute a Fundamental Change if at least 90% of the consideration received or to be received by the common stockholders of the Company, excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights, in connection with such transaction or transactions consists of shares of common stock, common shares, ordinary shares or depositary shares evidencing interest in common shares or ordinary shares that are listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) or will be so listed or quoted when issued or exchanged in connection with such transaction or transactions and as a result of such transaction or transactions the Notes become convertible into such consideration, excluding cash payments for fractional shares (subject to the provisions of Section 14.07).

For the purposes of this definition, "control," when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

" **Fundamental Change Company Notice** " shall have the meaning specified in Section 15.02(c).

" **Fundamental Change Repurchase Date** " shall have the meaning specified in Section 15.02(a).

" **Fundamental Change Repurchase Notice** " shall have the meaning specified in Section 15.02(b)(i).

" **Fundamental Change Repurchase Price** " shall have the meaning specified in Section 15.02(a).

" **Global Note** " shall have the meaning specified in Section 2.05(b).

" **Holder** ," as applied to any Note, or other similar terms (but excluding the term "beneficial holder"), shall mean any Person in whose name at the time a particular Note is registered on the Note Register.

“ **Indenture** ” means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

“ **Initial Purchasers** ” means J.P. Morgan Securities LLC, Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC.

“ **Last Reported Sale Price** ” of the Common Stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock is traded. If the Common Stock is not listed for trading on a U.S. national or regional securities exchange on the relevant date, the “ **Last Reported Sale Price** ” shall be the last quoted bid price for the Common Stock in the over-the-counter market on the relevant date as reported by OTC Markets Group Inc. or a similar organization. If the Common Stock is not so quoted, the “ **Last Reported Sale Price** ” shall be the average of the mid-point of the last bid and ask prices for the Common Stock on the relevant date from each of at least three nationally recognized independent investment banking firms selected by the Company for this purpose. The “ **Last Reported Sale Price** ” shall be determined without regard to after-hours trading or any other trading outside of regular trading session hours.

“ **Legend Removal Date** ” shall have the meaning specified in Section 4.06(e).

“ **Make-Whole Fundamental Change** ” means any transaction or event that constitutes a Fundamental Change (as defined above and determined after giving effect to any exceptions to or exclusions from such definition, but without regard to subclause (i) of the *proviso* in clause (b) of the definition thereof).

“ **Market Disruption Event** ” means, for the purposes of determining amounts due upon conversion (a) a failure by the primary U.S. national or regional securities exchange or market on which the Common Stock is listed or admitted for trading to open for trading during its regular trading session or (b) the occurrence or existence prior to 1:00 p.m., New York City time, on any Scheduled Trading Day for the Common Stock for more than one half-hour period in the aggregate during regular trading hours of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise) in the Common Stock or in any options contracts or future contracts relating to the Common Stock.

“ **Material Subsidiary** ” means a Subsidiary of the Company that, when consolidated with the Subsidiaries of such Subsidiary, either (i) generated 10% or more of the Consolidated revenues of the Company and its Subsidiaries, taken as a whole or (ii) owns 10% or more of the Consolidated total assets of the Company and its Subsidiaries, taken as a whole, in each case as measured pursuant to the financial statements for the most recently ended fiscal quarter or fiscal year included in the reports filed (or deemed filed) with the Trustee pursuant to Section 4.06(b).

“ **Maturity Date** ” means December 1, 2018.

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“ **Measurement Period** ” shall have the meaning specified in Section 14.01(b)(i).

“ **Merger Event** ” shall have the meaning specified in Section 14.07(a).

“ **Note** ” or “ **Notes** ” shall have the meaning specified in the first paragraph of the recitals of this Indenture.

“ **Note Register** ” shall have the meaning specified in Section 2.05(a).

“ **Note Registrar** ” shall have the meaning specified in Section 2.05(a).

“ **Notice of Conversion** ” shall have the meaning specified in Section 14.02(b).

“ **Observation Period** ” with respect to any Note surrendered for conversion means: (i) if the relevant Conversion Date occurs prior to September 1, 2018, the 30 consecutive Trading Day period beginning on, and including, the second Trading Day immediately succeeding such Conversion Date; and (ii) if the relevant Conversion Date occurs on or after September 1, 2018, the 30 consecutive Trading Days beginning on, and including, the 32nd Scheduled Trading Day immediately preceding the Maturity Date.

“ **Offering Memorandum** ” means the preliminary offering memorandum dated November 20, 2013, as supplemented by the related pricing term sheet dated November 20, 2013, relating to the offering and sale of the Notes.

“ **Officer** ” means, with respect to the Company, the President, the Chief Executive Officer, the Chief Financial Officer, the Chief Accounting Officer, the Treasurer, any Assistant Treasurer, the Secretary, any Assistant Secretary, any Executive or Senior Vice President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title “Vice President”).

“ **Officer’s Certificate** ,” when used with respect to the Company, means a certificate that is delivered to the Trustee and that is signed by an Officer of the Company. Each such certificate shall include the statements provided for in Section 17.05 if and to the extent required by the provisions of such Section. The Officer giving an Officer’s Certificate pursuant to Section 4.08 shall be the principal executive, financial or accounting officer of the Company.

“ **open of business** ” means 9:00 a.m. (New York City time).

“ **Opinion of Counsel** ” means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, that is delivered to the Trustee, which opinion may contain customary exceptions and qualifications as to the matters set forth therein. Each such opinion shall include the statements provided for in Section 17.05 if and to the extent required by the provisions of such Section 17.05.

“ **outstanding** ,” when used with reference to Notes, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

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(a) Notes theretofore canceled by the Trustee or accepted by the Trustee for cancellation;

(b) Notes, or portions thereof, that have become due and payable and in respect of which monies in the necessary amount shall have been deposited in trust with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent);

(c) Notes that have been paid pursuant to Section 2.06 or Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06 unless proof satisfactory to the Trustee is presented that any such Notes are held by protected purchasers in due course;

(d) Notes converted pursuant to Article 14 and required to be canceled pursuant to Section 2.08; and

(e) Notes repurchased by the Company pursuant to the penultimate sentence of Section 2.10.

“ **Paying Agent** ” shall have the meaning specified in Section 4.02.

“ **Person** ” means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

“ **Physical Notes** ” means permanent certificated Notes in registered form issued in denominations of \$1,000 principal amount and multiples thereof.

“ **Physical Settlement** ” shall have the meaning specified in Section 14.02(a).

“ **Predecessor Note** ” of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.06 in lieu of or in exchange for a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note that it replaces.

“ **Purchase Agreement** ” means that certain Purchase Agreement, dated as of November 20, 2013, between the Company and J.P. Morgan Securities LLC and Goldman, Sachs & Co., as representatives of the Initial Purchasers.

“ **Reference Property** ” shall have the meaning specified in Section 14.07(a).

“ **Resale Restriction Termination Date** ” shall have the meaning specified in Section 2.05(c).

“ **Responsible Officer** ” means, with respect to the Trustee, any officer assigned to the Corporate Trust Division – Corporate Finance Unit (or any successor division or unit) of the

Trustee located at the Corporate Trust Office of the Trustee, who shall have direct responsibility for the administration of this Indenture, and for the purposes of Section 7.01(c)(ii) shall also include any other officer of the Trustee to whom any corporate trust matter is referred because of such officer's knowledge of and familiarity with the particular subject.

“ **Restricted Securities** ” shall have the meaning specified in Section 2.05(c).

“ **Rule 144** ” means Rule 144 as promulgated under the Securities Act.

“ **Rule 144A** ” means Rule 144A as promulgated under the Securities Act.

“ **Scheduled Trading Day** ” means a day that is scheduled to be a Trading Day on the principal U.S. national or regional securities exchange or market on which the Common Stock is listed or admitted for trading. If the Common Stock is not so listed or admitted for trading, “ **Scheduled Trading Day** ” means a Business Day.

“ **Securities Act** ” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“ **Settlement Amount** ” has the meaning specified in Section 14.02(a)(iv).

“ **Settlement Method** ” means, with respect to any conversion of Notes, Physical Settlement, Cash Settlement or Combination Settlement, as elected (or deemed to have been elected) by the Company.

“ **Settlement Notice** ” has the meaning specified in Section 14.02(a)(iii).

“ **Special Interest** ” means all amounts, if any, payable pursuant to Section 4.06(d), Section 4.06(e) and Section 6.03, as applicable.

“ **Special Interest Payment Date** ” means each June 1 and December 1 of each year, if and to the extent any Special Interest shall accrue and be payable on such Special Interest Payment Date.

“ **Special Interest Record Date** ,” with respect to any Special Interest Payment Date, shall mean the May 15 or November 15 (whether or not such day is a Business Day) immediately preceding the applicable June 1 or December 1 Special Interest Payment Date, respectively.

“ **Specified Dollar Amount** ” means the maximum cash amount per \$1,000 principal amount of Notes to be received upon conversion as specified in the Settlement Notice related to any converted Notes.

“ **Spin-Off** ” shall have the meaning specified in Section 14.04(c).

“ **Stock Price** ” shall have the meaning specified in Section 14.03(c).

“ **Subsidiary** ” means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares

of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

“ **Successor Company** ” shall have the meaning specified in Section 11.01(a).

“ **Trading Day** ” means a day on which (i) trading in the Common Stock (or other security for which a closing sale price must be determined) generally occurs on The NASDAQ Global Select Market or, if the Common Stock (or such other security) is not then listed on The NASDAQ Global Select Market, on the principal other U.S. national or regional securities exchange on which the Common Stock (or such other security) is then listed or, if the Common Stock (or such other security) is not then listed on a U.S. national or regional securities exchange, on the principal other market on which the Common Stock (or such other security) is then traded and (ii) a Last Reported Sale Price for the Common Stock (or closing sale price for such other security) is available on such securities exchange or market; *provided* that if the Common Stock (or such other security) is not so listed or traded, “ **Trading Day** ” means a Business Day; and *provided, further*, that for purposes of determining amounts due upon conversion only, “ **Trading Day** ” means a day on which (x) there is no Market Disruption Event and (y) trading in the Common Stock generally occurs on The NASDAQ Global Select Market or, if the Common Stock is not then listed on The NASDAQ Global Select Market, on the principal other U.S. national or regional securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a U.S. national or regional securities exchange, on the principal other market on which the Common Stock is then listed or admitted for trading, except that if the Common Stock is not so listed or admitted for trading, “ **Trading Day** ” means a Business Day.

“ **Trading Price** ” of the Notes on any date of determination means the average of the secondary market bid quotations obtained by the Bid Solicitation Agent for \$2,000,000 principal amount of Notes at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers the Company selects for this purpose; *provided* that if three such bids cannot reasonably be obtained by the Bid Solicitation Agent but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by the Bid Solicitation Agent, that one bid shall be used. If the Bid Solicitation Agent cannot reasonably obtain at least one bid for \$2,000,000 principal amount of Notes from a nationally recognized securities dealer on any determination date, then the Trading Price per \$1,000 principal amount of Notes on such determination date shall be deemed to be less than 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate on such date of determination.

“ **transfer** ” shall have the meaning specified in Section 2.05(c).

“ **Trigger Event** ” shall have the meaning specified in Section 14.04(c).

“ **Trust Indenture Act** ” means the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture; *provided, however*, that in the event the Trust

Indenture Act of 1939 is amended after the date hereof, the term “Trust Indenture Act” shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939, as so amended.

“ **Trustee** ” means the Person named as the “ **Trustee** ” in the first paragraph of this Indenture until a successor trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “ **Trustee** ” shall mean or include each Person who is then a Trustee hereunder.

“ **unit of Reference Property** ” shall have the meaning specified in Section 14.07(a).

“ **Valuation Period** ” shall have the meaning specified in Section 14.04(c).

Section 1.02. *References to Interest* . All references to interest on, or in respect of, any Note in this Indenture shall be deemed to refer solely to Special Interest if, in such context, Special Interest is, was or would be payable pursuant to any of Section 4.06(d), Section 4.06(e) and Section 6.03 or to any interest payable on any Defaulted Amounts as set forth in Section 2.03(c).

## ARTICLE 2

### ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.01 . *Designation and Amount* . The Notes shall be designated as the “0.00% Convertible Senior Notes due 2018.” The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture is initially limited to \$1,250,000,000 (as increased by an amount equal to the aggregate principal amount of any additional Notes purchased by the Initial Purchasers pursuant to the exercise of their over-allotment option as set forth in the Purchase Agreement), subject to Section 2.10 and except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of other Notes pursuant to Section 2.05, Section 2.06, Section 2.07, Section 10.04, Section 14.02 and Section 15.04.

Section 2.02 . *Form of Notes* . The Notes and the Trustee’s certificate of authentication to be borne by such Notes shall be substantially in the respective forms set forth in Exhibit A, the terms and provisions of which shall constitute, and are hereby expressly incorporated in and made a part of this Indenture. To the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Any Global Note may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Custodian or the Depositary, or as may be required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Notes may be listed or traded or designated for issuance or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Notes are subject.

Any of the Notes may have such letters, numbers or other marks of identification and such notations, legends or endorsements as the Officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, or to conform to usage or to indicate any special limitations or restrictions to which any particular Notes are subject.

Each Global Note shall represent such principal amount of the outstanding Notes as shall be specified therein and shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be increased or reduced to reflect repurchases, cancellations, conversions, transfers or exchanges permitted hereby. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in such manner and upon instructions given by the Holder of such Notes in accordance with this Indenture. Payment of principal (including the Fundamental Change Repurchase Price, if applicable) of, and any accrued and unpaid Special Interest on, a Global Note shall be made to the Holder of such Note on the date of payment, unless a record date or other means of determining Holders eligible to receive payment is provided for herein.

Section 2.03 . *Date and Denomination of Notes; No Regular Interest; Special Interest and Defaulted Amounts.* (a) The Notes shall be issuable in registered form without coupons in denominations of \$1,000 principal amount and multiples thereof. Each Note shall be dated the date of its authentication and shall not bear regular interest, and the principal amount of the Notes will not accrete. Special Interest on the Notes, if any, shall be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of actual days elapsed over a 30-day month.

(b) The Person in whose name any Note (or its Predecessor Note) is registered on the Note Register at the close of business on any Special Interest Record Date with respect to any Special Interest Payment Date shall be entitled to receive any Special Interest payable on such Special Interest Payment Date. Any Special Interest shall be payable at the office or agency of the Company maintained by the Company for such purposes in New York, New York, which shall initially be the office or agency of the Trustee located in New York, New York, or any other office or agency located in the United States of America so designated by the Trustee. The Company shall pay Special Interest, if any, (i) on any Physical Notes (A) to Holders holding Physical Notes having an aggregate principal amount of \$5,000,000 or less, by check mailed to the Holders of these Notes at their address as it appears in the Note Register and (B) to Holders holding Physical Notes having an aggregate principal amount of more than \$5,000,000, either by check mailed to each such Holder or, upon application by such a Holder to the Note Registrar not later than the relevant Special Interest Record Date, by wire transfer in immediately available funds to that Holder's account within the United States, which application shall remain in effect until the Holder notifies, in writing, the Note Registrar to the contrary or (ii) on any Global Note by wire transfer of immediately available funds to the account of the Depositary or its nominee.

(c) Any Defaulted Amounts shall forthwith cease to be payable to the Holder on the relevant payment date and shall not accrue interest unless Special Interest was payable with respect to such Defaulted Amounts on the relevant payment date, in which case such Defaulted Amounts shall accrue interest at the then-applicable Special Interest rate from, and including, such relevant payment date, and such Defaulted Amounts together with any such interest thereon shall be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(i) The Company may elect to make payment of any Defaulted Amounts to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Amounts, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of the Defaulted Amounts proposed to be paid on each Note and the date of the proposed payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Amounts or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Amounts as in this clause provided. Thereupon the Company shall fix a special record date for the payment of such Defaulted Amounts which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment, and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Company shall promptly notify the Trustee in writing of such special record date and the Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Amounts and the special record date therefor to be delivered to each Holder at its address as it appears in the Note Register, or by electronic means to the Depositary in the case of Global Notes, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Amounts and the special record date therefor having been so delivered, such Defaulted Amounts shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (ii) of this Section 2.03(c).

(ii) The Company may make payment of any Defaulted Amounts in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, and upon such notice as may be required by such exchange or automated quotation system, if, after written notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.04 . *Execution, Authentication and Delivery of Notes.* The Notes shall be signed in the name and on behalf of the Company by the manual or facsimile signature of any of its Officers.

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At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes, without any further action by the Company hereunder.

Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, executed manually by an authorized signatory of the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 17.10), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the Holder is entitled to the benefits of this Indenture.

In case any Officer of the Company who shall have signed any of the Notes shall cease to be such Officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the Person who signed such Notes had not ceased to be such Officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the Officers of the Company, although at the date of the execution of this Indenture any such Person was not such an Officer.

Section 2.05 . *Exchange and Registration of Transfer of Notes; Restrictions on Transfer; Depository.* (a) The Company shall cause to be kept at the Corporate Trust Office a register (the register maintained in such office or in any other office or agency of the Company designated pursuant to Section 4.02, the “**Note Register**”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. Such register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. The Trustee is hereby initially appointed the “**Note Registrar**” for the purpose of registering Notes and transfers of Notes as herein provided. The Company may appoint one or more co-Note Registrars in accordance with Section 4.02.

Upon surrender for registration of transfer of any Note to the Note Registrar or any co-Note Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding.

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All Notes presented or surrendered for registration of transfer or for exchange, repurchase or conversion shall (if so required by the Company, the Trustee, the Note Registrar or any co-Note Registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and duly executed, by the Holder thereof or its attorney-in-fact duly authorized in writing.

No service charge shall be imposed by the Company, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent for any exchange or registration of transfer of Notes, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of new Notes issued upon such exchange or registration of transfer being different from the name of the Holder of the old Notes surrendered for exchange or registration of transfer.

None of the Company, the Trustee, the Note Registrar or any co-Note Registrar shall be required to exchange or register a transfer of (i) any Notes surrendered for conversion or, if a portion of any Note is surrendered for conversion, such portion thereof surrendered for conversion or (ii) any Notes, or a portion of any Note, surrendered for repurchase (and not withdrawn) in accordance with Article 15.

All Notes issued upon any registration of transfer or exchange of Notes in accordance with this Indenture shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

(b) So long as the Notes are eligible for book-entry settlement with the Depository, unless otherwise required by law, subject to the fourth paragraph from the end of Section 2.05(c) all Notes shall be represented by one or more Notes in global form (each, a “**Global Note**”) registered in the name of the Depository or the nominee of the Depository. The transfer and exchange of beneficial interests in a Global Note that does not involve the issuance of a Physical Note shall be effected through the Depository (but not the Trustee or the Custodian) in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depository therefor.

(c) Every Note that bears or is required under this Section 2.05(c) to bear the legend set forth in this Section 2.05(c) (together with any Common Stock issued upon conversion of the Notes that is required to bear the legend set forth in Section 2.05(d), collectively, the “**Restricted Securities**”) shall be subject to the restrictions on transfer set forth in this Section 2.05(c) (including those contained in the legend set forth below), unless such restrictions on transfer shall be eliminated or otherwise waived by written consent of the Company, and the Holder of each such Restricted Security, by such Holder’s acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in this Section 2.05(c) and Section 2.05(d), the term “**transfer**” encompasses any sale, pledge, transfer or other disposition whatsoever of any Restricted Security.

Until the date (the “**Resale Restriction Termination Date**”) that is the later of (1) the date that is one year after the last date of original issuance of the Notes, or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto, and (2)

such later date, if any, as may be required by applicable law, any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon conversion thereof, which shall bear the legend set forth in Section 2.05 (d), if applicable) shall bear a legend in substantially the following form (unless such Notes have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company in writing, with notice thereof to the Trustee):

THIS SECURITY AND THE COMMON STOCK, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, AND

(2) AGREES FOR THE BENEFIT OF YAHOO! INC. (THE “**COMPANY**”) THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(D) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR

OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

No transfer of any Note prior to the Resale Restriction Termination Date will be registered by the Note Registrar unless the applicable box on the Form of Assignment and Transfer has been checked.

Any Note (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of such Note for exchange to the Note Registrar in accordance with the provisions of this Section 2.05, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall be entitled to instruct the Custodian in writing to so surrender any Global Note as to which such restrictions on transfer shall have expired in accordance with their terms for exchange, and, upon such instruction, the Custodian shall so surrender such Global Note for exchange; and any new Global Note so exchanged therefor shall not bear the restrictive legend specified in this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall promptly notify the Trustee upon the occurrence of the Resale Restriction Termination Date and promptly after a registration statement, if any, with respect to the Notes or any Common Stock issued upon conversion of the Notes has been declared effective under the Securities Act.

Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.05(c)), a Global Note may not be transferred as a whole or in part except (i) by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository and (ii) for transfers of portions of a Global Note in certificated form made upon request of a member of, or a participant in, the Depository (for itself or on behalf of a beneficial owner) by written notice given to the Trustee by or on behalf of the Depository in accordance with customary procedures of the Depository and in compliance with this Section 2.05(c).

The Depository shall be a clearing agency registered under the Exchange Act. The Company initially appoints The Depository Trust Company to act as Depository with respect to each Global Note. Initially, each Global Note shall be issued to the Depository, registered in the name of Cede & Co., as the nominee of the Depository, and deposited with the Trustee as custodian for Cede & Co.

If (i) the Depository notifies the Company at any time that the Depository is unwilling or unable to continue as depository for the Global Notes and a successor depository is not appointed within 90 days, (ii) the Depository ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days or (iii) an Event of Default with respect to the Notes has occurred and is continuing, a beneficial owner of any Note requests that its beneficial interest therein be issued as a Physical Note and the Depository

approves such request, the Company shall execute, and the Trustee, upon receipt of an Officer's Certificate and a Company Order for the authentication and delivery of Notes, shall authenticate and deliver (x) in the case of clause (iii), a Physical Note to such beneficial owner in a principal amount equal to the principal amount of such Note corresponding such beneficial owner's beneficial interest and (y) in the case of clause (i) or (ii), Physical Notes to each beneficial owner of the related Global Notes (or a portion thereof) in an aggregate principal amount equal to the aggregate principal amount of such Global Notes in exchange for such Global Notes, and upon delivery of the Global Notes to the Trustee such Global Notes shall be canceled.

Physical Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.05(c) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall deliver such Physical Notes to the Persons in whose names such Physical Notes are so registered.

At such time as all interests in a Global Note have been converted, canceled, repurchased or transferred, such Global Note shall be, upon receipt thereof, canceled by the Trustee in accordance with standing procedures and existing instructions between the Depository and the Custodian. At any time prior to such cancellation, if any interest in a Global Note is exchanged for Physical Notes, converted, canceled, repurchased or transferred to a transferee who receives Physical Notes therefor or any Physical Note is exchanged or transferred for part of such Global Note, the principal amount of such Global Note shall, in accordance with the standing procedures and instructions existing between the Depository and the Custodian, be appropriately reduced or increased, as the case may be, and an endorsement shall be made on such Global Note, by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction or increase.

None of the Company, the Trustee, the Paying Agent, the Note Registrar or any agent of the Company or the Trustee shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Note or maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

None of the Company, the Trustee, the Paying Agent, the Note Registrar or any agent of the Company or the Trustee shall have any responsibility or obligation to any beneficial owner in a Global Note, a Depository participant or other Person with respect to the accuracy of the records of the Depository or its nominee or of any Depository participant, with respect to any ownership interest in the Notes or with respect to the delivery to any Depository participant, beneficial owner or other Person (other than the Depository) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Notes. All notices and communications to be given to the Holders and all payments to be made to Holders under the Notes and this Indenture shall be given or made only to or upon the order of the Holders (which shall be the Depository or its nominee in the case of the Global Note). The rights of beneficial owners in the Global Note shall be exercised only through the Depository subject to the applicable procedures. The Trustee, the Paying Agent, the Note Registrar and any agent of the Trustee shall be entitled to rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners. The Trustee, the Paying Agent, the Note Registrar and any agent of the Trustee shall be entitled to deal with the Depository, and any nominee thereof, that is the registered holder of any Global

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Note for all purposes of this Indenture relating to such Global Note (including the payment of principal (including the Fundamental Change Repurchase Price, if applicable) of, and any accrued and unpaid interest on, such Global Note and the giving of instructions or directions by or to the owner or holder of a beneficial ownership interest in such Global Note) as the sole holder of such Global Note and shall have no obligations to the beneficial owners thereof. None of the Company, the Trustee, the Paying Agent, the Note Registrar or any agent of the Company or the Trustee shall have any responsibility or liability for any acts or omissions of the Depository with respect to such Global Note, for the records of any such depository, including records in respect of beneficial ownership interests in respect of any such Global Note, for any transactions between the Depository and any Depository participant or between or among the Depository, any such Depository participant and/or any holder or owner of a beneficial interest in such Global Note, or for any transfers of beneficial interests in any such Global Note.

Notwithstanding the foregoing, with respect to any Global Note, nothing herein shall prevent the Company, the Trustee, or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by any Depository (or its nominee), as a Holder, with respect to such Global Note shall impair, as between such Depository and owners of beneficial interests in such Global Note, the operation of customary practices governing the exercise of the rights of such Depository (or its nominee) as Holder of such Global Note.

None of the Trustee, the Paying Agent or the Note Registrar shall have any obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfer of any interest between or among Depository participants, members or beneficial owners) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

(d) Until the Resale Restriction Termination Date, any stock certificate representing Common Stock issued upon conversion of such Note shall bear a legend in substantially the following form (unless the Note or such Common Stock has been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or such Common Stock has been issued upon conversion of Notes that have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company with written notice thereof to the Trustee and any transfer agent for the Common Stock):

**THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ SECURITIES ACT ”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH**

THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, AND

(2) AGREES FOR THE BENEFIT OF YAHOO! INC. (THE “ **COMPANY** ”) THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE OF THE SERIES OF NOTES UPON THE CONVERSION OF WHICH THIS SECURITY WAS ISSUED OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(D) ABOVE, THE COMPANY AND THE TRANSFER AGENT FOR THE COMPANY’S COMMON STOCK RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

Any such Common Stock as to which such restrictions on transfer shall have expired in accordance with their terms may, upon surrender of the certificates representing such shares of Common Stock for exchange in accordance with the procedures of the transfer agent for the Common Stock, be exchanged for a new certificate or certificates for a like aggregate number of shares of Common Stock, which shall not bear the restrictive legend required by this Section 2.05(d).

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(e) Any Note or Common Stock issued upon the conversion or exchange of a Note that is repurchased or owned by any Affiliate of the Company may not be resold by such Affiliate (or such Person, as the case may be) unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act in a transaction that results in such Note or Common Stock, as the case may be, no longer being a “restricted security” (as defined under Rule 144 under the Securities Act). The Company shall cause any Note that is repurchased or owned by it to be surrendered to the Trustee for cancellation in accordance with Section 2.08.

Section 2.06 . *Mutilated, Destroyed, Lost or Stolen Notes.* In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon its written request the Trustee or an authenticating agent appointed by the Trustee shall authenticate and deliver, a new Note, bearing a registration number not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. In every case the applicant for a substituted Note shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or such authenticating agent may authenticate any such substituted Note and deliver the same upon the receipt of such security or indemnity as the Trustee, the Company and, if applicable, such authenticating agent may require. No service charge shall be imposed by the Company, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent upon the issuance of any substitute Note, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of the new substitute Note being different from the name of the Holder of the old Note that became mutilated or was destroyed, lost or stolen. In case any Note that has matured or is about to mature or has been surrendered for required repurchase or is about to be converted in accordance with Article 14 shall become mutilated or be destroyed, lost or stolen, the Company may, in its sole discretion, instead of issuing a substitute Note, pay or authorize the payment of or convert or authorize the conversion of the same (without surrender thereof except in the case of a mutilated Note), as the case may be, if the applicant for such payment or conversion shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, evidence satisfactory to the Company, the Trustee and, if applicable, any Paying Agent or Conversion Agent of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued

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hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment or conversion or repurchase of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment or conversion of negotiable instruments or other securities without their surrender.

Section 2.07 . *Temporary Notes.* Pending the preparation of Physical Notes, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and deliver temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of the Physical Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the Physical Notes. Without unreasonable delay, the Company shall execute and deliver to the Trustee or such authenticating agent Physical Notes (other than any Global Note) and thereupon any or all temporary Notes (other than any Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.02 and the Trustee or such authenticating agent shall authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of Physical Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Physical Notes authenticated and delivered hereunder.

Section 2.08 . *Cancellation of Notes Paid, Converted, Etc.* The Company shall cause all Notes surrendered for the purpose of payment, repurchase, registration of transfer or exchange or conversion, if surrendered to any Person other than the Trustee (including any of the Company's agents, Subsidiaries or Affiliates), to be surrendered to the Trustee for cancellation. All Notes delivered to the Trustee shall be canceled promptly by it, and no Notes shall be authenticated in exchange therefor except as expressly permitted by any of the provisions of this Indenture. The Trustee shall dispose of canceled Notes in accordance with its customary procedures and, after such disposition, shall deliver evidence of such disposition to the Company, at the Company's written request in a Company Order.

Section 2.09 . *CUSIP Numbers.* The Company in issuing the Notes may use "CUSIP", "ISIN" or other similar numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP", "ISIN" or other similar numbers in all notices issued to Holders as a convenience to such Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or on such notice and that reliance may be placed only on the other identification numbers printed on the Notes. The Company shall promptly notify the Trustee in writing of any change in the "CUSIP", "ISIN" or other similar numbers.

Section 2.10 . *Additional Notes; Repurchases.* The Company may, without notice to or the consent of the Holders and notwithstanding Section 2.01, reopen this Indenture and issue

additional Notes hereunder with the same terms as the Notes initially issued hereunder (other than differences in the issue price) in an unlimited aggregate principal amount; *provided* that if any such additional Notes are not fungible with the Notes initially issued hereunder for U.S. federal income tax purposes, such additional Notes shall have one or more separate CUSIP numbers. Prior to the issuance of any such additional Notes, the Company shall deliver to the Trustee a Company Order, an Officer's Certificate and an Opinion of Counsel, such Officer's Certificate and Opinion of Counsel to cover such matters required by Section 17.05. In addition, the Company may, to the extent permitted by law, and directly or indirectly (regardless of whether such Notes are surrendered to the Company), repurchase Notes in the open market or otherwise, whether by the Company or its Subsidiaries or through a private or public tender or exchange offer or through counterparties to private agreements, including by cash-settled swaps or other derivatives, in each case without notice to Holders. The Company shall cause any Notes so repurchased (other than Notes repurchased pursuant to cash-settled swaps or other derivatives) to be surrendered to the Trustee for cancellation in accordance with Section 2.08.

ARTICLE 3  
SATISFACTION AND DISCHARGE

Section 3.01 . *Satisfaction and Discharge.* This Indenture shall upon request of the Company cease to be of further effect, and the Trustee, at the expense and upon the written request of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (a) (i) all Notes theretofore authenticated and delivered (other than (x) Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.06 and (y) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 4.04(d)) have been delivered to the Trustee for cancellation; or (ii) the Company has deposited with the Trustee or delivered to Holders, as applicable, after the Notes have become due and payable, whether on the Maturity Date, any Fundamental Change Repurchase Date, upon conversion or otherwise, cash or cash, shares of Common Stock or a combination thereof, as applicable, solely to satisfy the Company's Conversion Obligation, sufficient to pay all of the outstanding Notes and all other sums due and payable under this Indenture by the Company; and (b) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.06 shall survive.

ARTICLE 4  
PARTICULAR COVENANTS OF THE COMPANY

Section 4.01 . *Payment of Principal and Special Interest.* The Company covenants and agrees that it will cause to be paid the principal (including the Fundamental Change Repurchase Price, if applicable) of, and any accrued and unpaid Special Interest on, each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes.

Notwithstanding anything to the contrary contained in this Indenture, the Company may, to the extent it is required to do so by law, deduct or withhold income or other similar taxes imposed by the United States of America from principal, premium or any Special Interest payments hereunder

Section 4.02 . *Maintenance of Office or Agency*. The Company will maintain in New York, New York, or any other office or agency in the United States of America so designated by the Trustee, an office or agency where the Notes may be surrendered for registration of transfer or exchange or for presentation for payment or repurchase (“ **Paying Agent** ”) or for conversion (“ **Conversion Agent** ”) and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office or the office or agency of the Trustee in New York, New York, or any other office or agency in the United States of America so designated by the Trustee as a place where Notes may be presented for payment or for registration of transfer.

The Company may also from time to time designate as co-Note Registrars one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided* that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the United States of America so designated by the Trustee as a place for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The terms “ **Paying Agent** ” and “ **Conversion Agent** ” include any such additional or other offices or agencies, as applicable.

The Company hereby initially designates the Trustee as the Paying Agent, Note Registrar, Custodian, Bid Solicitation Agent and Conversion Agent and the Corporate Trust Office as the office or agency in the United States of America where Notes may be surrendered for registration of transfer or exchange or for presentation for payment or repurchase or for conversion and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served.

Section 4.03 . *Appointments to Fill Vacancies in Trustee’s Office*. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.09, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.04 . *Provisions as to Paying Agent*. (a) If the Company shall appoint a Paying Agent other than the Trustee, the Company will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(i) that it will hold all sums held by it as such agent for the payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and any

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accrued and unpaid interest on, the Notes in trust for the benefit of the Holders of the Notes;

(ii) that it will give the Trustee prompt notice of any failure by the Company to make any payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and any accrued and unpaid Special Interest on, the Notes when the same shall be due and payable; and

(iii) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held in trust.

The Company shall, on or before each due date of the principal (including the Fundamental Change Repurchase Price, if applicable) of, or any accrued and unpaid Special Interest on, the Notes, deposit with the Paying Agent a sum sufficient to pay such principal (including the Fundamental Change Repurchase Price, if applicable) or any such accrued and unpaid Special Interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of any failure to take such action; provided that if such deposit is made on the due date, such deposit must be received by the Paying Agent by 11:00 a.m., New York City time, on such date.

(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and any accrued and unpaid Special Interest on, the Notes, set aside, segregate and hold in trust for the benefit of the Holders of the Notes a sum sufficient to pay such principal (including the Fundamental Change Repurchase Price, if applicable) and any such accrued and unpaid Special Interest so becoming due and will promptly notify the Trustee in writing of any failure to take such action and of any failure by the Company to make any payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, or any accrued and unpaid Special Interest on, the Notes when the same shall become due and payable.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay, cause to be paid or deliver to the Trustee all sums or amounts held in trust by the Company or any Paying Agent hereunder as required by this Section 4.04, such sums or amounts to be held by the Trustee upon the trusts herein contained and upon such payment or delivery by the Company or any Paying Agent to the Trustee, the Company or such Paying Agent shall be released from all further liability but only with respect to such sums or amounts.

(d) Any money and shares of Common Stock deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, any accrued and unpaid interest on and the consideration due upon conversion of any Note and remaining unclaimed for two years after such principal (including the Fundamental Change Repurchase Price, if applicable), any interest or consideration due upon conversion has become due and payable shall be paid to the Company on request of the Company contained in an Officer's Certificate, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or

such Paying Agent with respect to such trust money and shares of Common Stock, and all liability of the Company as trustee thereof, shall thereupon cease.

Section 4.05 . *Existence*. Subject to Article 11, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 4.06 . *Rule 144A Information Requirement and Annual Reports*. (a) At any time the Company is not subject to Section 13 or 15(d) of the Exchange Act, the Company shall, so long as any of the Notes or any shares of Common Stock issuable upon conversion thereof shall, at such time, constitute “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, promptly provide to the Trustee and shall, upon written request, provide to any Holder, beneficial owner or prospective purchaser of such Notes or any shares of Common Stock issuable upon conversion of such Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to facilitate the resale of such Notes or shares of Common Stock pursuant to Rule 144A.

(b) The Company shall file with the Trustee, within 15 days after the same are required to be filed with the Commission (after giving effect to any grace period provided by Rule 12b-25 under the Exchange Act or any similar or successor grace period under the Exchange Act), copies of any documents or reports that the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act (excluding any such information, documents or reports, or portions thereof, subject to confidential treatment and any correspondence with the Commission). Any such document or report that the Company files with the Commission via the Commission’s EDGAR system shall be deemed to be filed with the Trustee for purposes of this Section 4.06(b) at the time such documents are filed via the EDGAR system, it being understood that the Trustee shall not be responsible for determining whether such filings are required to be or have been made.

(c) Delivery of the reports and documents described in subsection (b) above to the Trustee is for informational purposes only, and the Trustee’s receipt of such shall not constitute actual or constructive knowledge or notice of any information contained therein or determinable from information contained therein, including the Company’s compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely on an Officer’s Certificate).

(d) If, at any time during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the Notes, the Company fails to timely file any document or report that it is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (after giving effect to all applicable grace periods thereunder and other than reports on Form 8-K), or the Notes are not otherwise freely tradable by Holders other than the Company’s Affiliates or Holders that were the Company’s Affiliates at any time during the three months preceding (as a result of restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes), the Company shall pay Special Interest on the Notes. Such Special Interest payable pursuant to this Section 4.06(d) shall accrue on the Notes at a rate equal to (i) 0.25% per annum of the principal amount of the Notes outstanding for each day during the first 90 days during such six-month period and (ii) 0.50% per annum of the principal amount of Notes outstanding for the remaining portion of such period, if

any, in each case for which the Company's failure to file has occurred and is continuing or the Notes are not otherwise freely tradable by Holders other than the Company's Affiliates (or Holders that have been the Company's Affiliates at any time during the three months preceding) without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes. As used in this Section 4.06(d), documents or reports that the Company is required to "file" with the Commission pursuant to Section 13 or 15(d) of the Exchange Act does not include documents or reports that the Company furnishes to the Commission pursuant to Section 13 or 15(d) of the Exchange Act.

(e) If and for so long as the restrictive legend on the Notes specified in Section 2.05(c) has not been removed (or deemed removed pursuant to this Indenture), the Notes are assigned a restricted CUSIP number or the Notes are not otherwise freely tradable by Holders other than the Company's Affiliates or Holders that were the Company's Affiliates at any time during the three months preceding (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes) (any such Notes, "**144A Restricted**") as of the 365th day after the last date of original issuance of the Notes (subject to the proviso in this Section 4.06(e), the "**Legend Removal Date**"), the Company shall pay Special Interest on the Notes at a rate equal to (i) 0.25% per annum of the principal amount of Notes outstanding for each day during the first 90 days after the Legend Removal Date on which the Notes are 144A Restricted and (ii) 0.50% per annum of the principal amount of Notes outstanding for each day beginning on the 91st day after the Legend Removal Date that the Notes continue to be 144A Restricted; *provided* that the Company shall have no obligation to pay any Special Interest pursuant to this Section 4.06(e) unless it shall have received a request for the Notes not to be 144A Restricted from any Holder, any Initial Purchaser or the Trustee on or after the 335th day after the last date of original issuance of the Notes; provided further that if the Company receives such a request on or after the 15th calendar day immediately preceding the 365th day after the last date of original issuance of the Notes, the "Legend Removal Date" shall be deemed to be the 16th calendar day immediately following the date the Company received such request.

(f) Special Interest will be payable in arrears on each Special Interest Payment Date following accrual as set forth in Section 2.03(b).

(g) The Special Interest that is payable in accordance with Section 4.06(d) or Section 4.06(e) shall be in addition to, and not in lieu of, any Special Interest that may be payable as a result of the Company's election pursuant to Section 6.03. Notwithstanding the foregoing, in no event shall Special Interest accrue under the terms of this Indenture (aggregating any Special Interest payable pursuant to Section 4.06(d) or Section 4.06(e) with any Special Interest payable pursuant to Section 6.03) at a rate per year in excess of 0.50%, regardless of the number of events or circumstances giving rise to the requirement to pay such Special Interest.

(h) If Special Interest is payable by the Company pursuant to Section 4.06(d) or Section 4.06(e), the Company shall deliver to the Trustee an Officer's Certificate to that effect stating (i) the amount of such Special Interest that is payable and (ii) the date on which such Special Interest is payable. Unless and until a Responsible Officer of the Trustee receives at the Corporate Trust Office such a certificate, the Trustee may assume without inquiry that no such Special Interest is payable. If the Company has paid Special Interest directly to the Persons

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entitled to it, the Company shall deliver to the Trustee an Officer's Certificate setting forth the particulars of such payment.

Section 4.07 . *Stay, Extension and Usury Laws.* The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or any interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.08 . *Compliance Certificate; Statements as to Defaults.* The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2013) an Officer's Certificate stating whether the signers thereof have knowledge of any failure by the Company to comply with all conditions and covenants then required to be performed under this Indenture and, if so, specifying each such failure and the nature thereof.

In addition, the Company shall promptly and, in any event, within 30 days after the occurrence of any Event of Default or Default, deliver to the Trustee an Officer's Certificate setting forth the details of such Event of Default or Default, its status and the action that the Company is taking or proposing to take in respect thereof.

Section 4.09 . *Withholding Tax.* In order to comply with applicable tax laws (inclusive of rules, regulations and interpretations promulgated by competent authorities) related to this Indenture and the Notes in effect from time to time ("Applicable Law") that a foreign financial institution, issuer, trustee, paying agent or other party is or has agreed to be subject to, the Company agrees (i) to provide to The Bank of New York Mellon Trust Company, N.A. sufficient information about the parties and/or transactions (including any modification to the terms of such transactions) so that The Bank of New York Mellon Trust Company, N.A. can determine whether it has tax related obligations under Applicable Law, (ii) that The Bank of New York Mellon Trust Company, N.A. shall be entitled to make any withholding or deduction from payments to the extent necessary to comply with Applicable Law for which The Bank of New York Mellon Trust Company, N.A. shall not have any liability, and (iii) to hold harmless The Bank of New York Mellon Trust Company, N.A. for any losses it may suffer due to the actions it takes to comply with Applicable Law. The provisions of this section shall survive the satisfaction and discharge of this Indenture, the termination for any reason of this Indenture, and the earlier resignation or removal of the Trustee.

ARTICLE 5  
LISTS OF HOLDERS AND REPORTS BY THE COMPANY AND THE TRUSTEE

Section 5.01 . *Lists of Holders.* The Company covenants and agrees that it will, upon written request from the Trustee, furnish or cause to be furnished to the Trustee, semi-annually, not more than 15 days after each June 1 and December 1 in each year beginning with June 1, 2014, and at such other times as the Trustee may request in writing, within 30 days after receipt by the Company of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder), a list in such form as the Trustee may reasonably require of the names and addresses of the Holders as of a date not more than 15 days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, except that no such list need be furnished so long as the Trustee is acting as Note Registrar.

Section 5.02 . *Preservation of Lists.* The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to it as provided in Section 5.01 or maintained by the Trustee in its capacity as Note Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

ARTICLE 6  
DEFAULTS AND REMEDIES

Section 6.01 . *Events of Default.* Each of the following events shall be an “ **Event of Default** ” with respect to the Notes:

- (a) default in any payment of Special Interest on any Note when due and payable, and the default continues for a period of 30 days;
- (b) default in the payment of principal of any Note when due and payable on the Maturity Date, upon any required repurchase, upon declaration of acceleration or otherwise;
- (c) failure by the Company to comply with its obligation to convert the Notes in accordance with this Indenture upon exercise of a Holder’s conversion right, and such failure continues for a period of five Business Days;
- (d) failure by the Company to issue a Fundamental Change Company Notice in accordance with Section 15.02(c) or notice of a specified corporate event in accordance with Section 14.01(b)(ii) or (iii), in each case when due;
- (e) failure by the Company to comply with its obligations under Article 11;
- (f) failure by the Company for 60 days after written notice from the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding has been received by the Company to comply with any of its other agreements contained in the Notes or this Indenture;

(g) default by the Company or any Subsidiary of the Company with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness for money borrowed in excess of \$100,000,000 (or its foreign currency equivalent) in the aggregate of the Company and/or any such Subsidiary, whether such indebtedness now exists or shall hereafter be created (i) resulting in such indebtedness becoming or being declared due and payable or (ii) constituting a failure to pay the principal or interest of any such debt when due and payable at its stated maturity, upon required repurchase, upon declaration of acceleration or otherwise, in either case, without such indebtedness having been discharged or such acceleration having been cured, waived, rescinded or annulled for a period of 30 days after written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of Notes then outstanding in accordance with this Indenture;

(h) the Company or any Material Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to the Company or any such Material Subsidiary or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company or any such Material Subsidiary or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due; or

(i) an involuntary case or other proceeding shall be commenced against the Company or any Material Subsidiary seeking liquidation, reorganization or other relief with respect to the Company or such Material Subsidiary or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company or such Material Subsidiary or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 30 consecutive days.

*Section 6.02. Acceleration; Rescission and Annulment* . If one or more Events of Default shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), then, and in each and every such case (other than an Event of Default specified in Section 6.01(h) or Section 6.01(i) with respect to the Company), unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 8.04, by notice in writing to the Company (and to the Trustee if given by Holders), may declare 100% of the principal of, and any accrued and unpaid Special Interest on, all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall automatically be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. If an Event of Default specified in Section 6.01(h) or Section 6.01(i) with respect to the Company occurs and is continuing, 100% of the principal of, and accrued and unpaid Special Interest, if any, on, all Notes shall become and shall automatically be immediately due and payable.

The immediately preceding paragraph, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay installments of any accrued and unpaid Special Interest upon all Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest accruing on such principal at the then-applicable Special Interest rate only and to the extent any Special Interest is then payable) and amounts due to the Trustee pursuant to Section 7.06, and if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) any and all existing Events of Default under this Indenture, other than the nonpayment of the principal of and accrued and unpaid Special Interest, if any, on Notes that shall have become due solely by such acceleration, shall have been cured or waived pursuant to Section 6.09, then and in every such case (except as provided in the immediately succeeding sentence) the Holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all Defaults or Events of Default with respect to the Notes and rescind and annul such declaration and its consequences and such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent Default or Event of Default, or shall impair any right consequent thereon. Notwithstanding anything to the contrary herein, no such waiver or rescission and annulment shall extend to or shall affect any Default or Event of Default resulting from (i) the nonpayment of the principal of, or accrued and unpaid Special Interest, if any, on, any Notes, (ii) a failure to repurchase any Notes when required or (iii) a failure to pay or deliver, as the case may be, the consideration due upon conversion of the Notes.

Section 6.03. *Special Interest* . Notwithstanding anything in this Indenture or in the Notes to the contrary, to the extent the Company elects, the sole remedy for an Event of Default relating to the Company's failure to comply with its obligations as set forth in Section 4.06(b) shall, for the first 270 days after the occurrence of such an Event of Default, consist exclusively of the right to receive Special Interest on the Notes at a rate equal to (i) 0.25% per annum of the principal amount of the Notes outstanding for each day during the first 180 calendar days after the occurrence of such an Event of Default during which such Event of Default is continuing (or, if earlier, the date on which such Event of Default is cured or waived as provided for in this Indenture) and (ii) 0.50% per annum of the principal amount of the Notes outstanding for each day from, and including, the 181st calendar day to, but excluding, the 270th calendar day after the occurrence of such an Event of Default during which such Event of Default is continuing (or, if earlier, the date on which such Event of Default is cured or waived as provided for in this Indenture). Special Interest payable pursuant to this Section 6.03 shall be in addition to, not in lieu of, any Special Interest payable pursuant to Section 4.06(d) or Section 4.06(e). If the Company so elects, such Special Interest shall be payable as set forth in Section 2.03(b). On the 271st day after such Event of Default (if the Event of Default relating to the Company's failure to comply with its obligations as set forth in Section 4.06(b) is not cured or waived prior to such 271st day), the Notes shall be immediately subject to acceleration as provided in Section 6.02. In the event the Company does not elect to pay Special Interest following an Event of Default in accordance with this Section 6.03 or the Company elected to make such payment but does not

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pay the Special Interest when due, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

In order to elect to pay Special Interest as the sole remedy during the first 270 days after the occurrence of any Event of Default described in the immediately preceding paragraph, the Company must notify all Holders of the Notes, the Trustee and the Paying Agent of such election prior to the beginning of such 270-day period. Upon the failure to timely give such notice, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

In no event shall Special Interest accrue under the terms of this Indenture (aggregating any Special Interest payable pursuant to this Section 6.03 with any Special Interest payable pursuant to Section 4.06(d) or Section 4.06(e)) at a rate per year in excess of 0.50%, regardless of the number of events or circumstances giving rise to the requirement to pay such Special Interest.

Section 6.04 . *Payments of Notes on Default; Suit Therefor.* If an Event of Default described in clause (a) or (b) of Section 6.01 shall have occurred, the Company shall, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of the Notes, the whole amount then due and payable on the Notes for principal and Special Interest, if any, with no interest accruing on any overdue principal unless Special Interest was payable on the required payment date, in which case such payments will accrue interest at the then-applicable Special Interest rate from such required payment date, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 7.06. If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

In the event there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under Title 11 of the United States Code, or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the event of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.04, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and accrued and unpaid interest, if any, in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents and to take such other actions as it may deem necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes,

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its or their creditors, or its or their property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Holders to make such payments to the Trustee, as administrative expenses, and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including agents and counsel fees, and including any other amounts due to the Trustee under Section 7.06, incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the Holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting such Holder or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes.

In any proceedings brought by the Trustee (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any Holders of the Notes parties to any such proceedings.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of any waiver pursuant to Section 6.09 or any rescission and annulment pursuant to Section 6.02 or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Holders and the Trustee shall, subject to any determination in such proceeding, be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Holders and the Trustee shall continue as though no such proceeding had been instituted.

Section 6.05 . *Application of Monies Collected by Trustee.* Any monies collected by the Trustee pursuant to this Article 6 or, after an Event of Default, any money or other property distributable in respect of the Company's obligations under this Indenture shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such monies or

other property, in the case of payment in respect of the Notes upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

**First** , to the payment of all amounts due the Trustee (including any predecessor Trustee) under Section 7.06;

**Second** , in case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of any interest on, and any cash due upon conversion of, the Notes in default in the order of the date due of the payments of such interest and cash due upon conversion, as the case may be, with interest (to the extent that any interest is payable on such Notes and has been collected by the Trustee) payable upon such overdue amounts at the rate of Special Interest then payable on such Notes, if any, such payments to be made ratably to the Persons entitled thereto;

**Third** , in case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount (including, if applicable, the payment of the Fundamental Change Repurchase Price and any cash due upon conversion) then owing and unpaid upon the Notes for principal and interest, if any, with interest (to the extent that any interest is payable on such Notes and has been collected by the Trustee) on the overdue principal to the extent that such interest has been collected by the Trustee, payable upon such overdue amounts at the rate of Special Interest then payable on such Notes, if any, and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal (including, if applicable, the Fundamental Change Repurchase Price and the cash due upon conversion) and any interest without preference or priority of principal over such interest, or of any interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal (including, if applicable, the Fundamental Change Repurchase Price and any cash due upon conversion) and any accrued and unpaid interest; and

**Fourth** , to the payment of the remainder, if any, to the Company.

Section 6.06 . *Proceedings by Holders*. Except to enforce the right to receive payment of principal (including, if applicable, the Fundamental Change Repurchase Price) or interest when due, or the right to receive payment or delivery of the consideration due upon conversion, no Holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless:

(a) such Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as herein provided;

(b) Holders of at least 25% in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder;

(c) such Holders shall have offered to the Trustee such security or indemnity satisfactory to it against any loss, liability or expense to be incurred therein or thereby;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding; and

(e) no direction that, in the opinion of the Trustee, is inconsistent with such written request shall have been given to the Trustee by the Holders of a majority of the aggregate principal amount of the Notes then outstanding within such 60-day period pursuant to Section 6.09,

it being understood and intended, and being expressly covenanted by the taker and Holder of every Note with every other taker and Holder and the Trustee that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Holders (except as otherwise provided herein). For the protection and enforcement of this Section 6.06, each and every Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any Holder to receive payment or delivery, as the case may be, of (x) the principal (including the Fundamental Change Repurchase Price, if applicable) of, (y) accrued and unpaid interest, if any, on, and (z) the consideration due upon conversion of, such Note, on or after the respective due dates expressed or provided for in such Note or in this Indenture, or to institute suit for the enforcement of any such payment or delivery, as the case may be, on or after such respective dates against the Company shall not be impaired or affected without the consent of such Holder.

*Section 6.07 . Proceedings by Trustee.* In case of an Event of Default, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

*Section 6.08. Remedies Cumulative and Continuing .* Except as provided in the last paragraph of Section 2.06, all powers and remedies given by this Article 6 to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder of any of the Notes to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Default or Event of Default or any acquiescence therein; and, subject to the provisions of Section

6.06, every power and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

Section 6.09 . *Direction of Proceedings and Waiver of Defaults by Majority of Holders.* The Holders of a majority of the aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to Notes; *provided, however*, that (a) such direction shall not be in conflict with any rule of law or with this Indenture, and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The Trustee may refuse to follow any direction that it determines is unduly prejudicial to the rights of any other Holder (it being understood and agreed that the Trustee shall be under no affirmative obligation to make any such determination) or that would involve the Trustee in personal liability. The Holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 may on behalf of the Holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences except (i) a default in the payment of accrued and unpaid Special Interest, if any, on, or the principal (including any Fundamental Change Repurchase Price) of, the Notes when due that has not been cured pursuant to the provisions of Section 6.01, (ii) a failure by the Company to pay or deliver, as the case may be, the consideration due upon conversion of the Notes or (iii) a default in respect of a covenant or provision hereof which under Article 10 cannot be modified or amended without the consent of each Holder of an outstanding Note affected. Upon any such waiver the Company, the Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 6.09, said Default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

Section 6.10 . *Notice of Defaults.* If a Default or Event of Default occurs and is continuing hereunder and if it is actually known to the Trustee, the Trustee shall send to all Holders as the names and addresses of such Holders appear upon the Note Register notice of the Default or Event of Default within 90 days after such Default or Event of Default, unless such Defaults shall have been cured or waived before the giving of such notice; *provided* that, except in the case of a Default in the payment of the principal of (including the Fundamental Change Repurchase Price, if applicable), or accrued and unpaid Special Interest, if any, on, any of the Notes or a Default in the payment or delivery of the consideration due upon conversion, the Trustee shall be protected in withholding such notice if and so long as it in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 6.11 . *Undertaking to Pay Costs.* All parties to this Indenture agree, and each Holder of any Note by its acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that

such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; *provided* that the provisions of this Section 6.11 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of the Notes at the time outstanding determined in accordance with Section 8.04, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or accrued and unpaid interest, if any, on any Note (including, but not limited to, the Fundamental Change Repurchase Price with respect to the Notes being repurchased as provided in this Indenture) on or after the due date expressed or provided for in such Note or to any suit for the enforcement of the right to convert any Note in accordance with the provisions of Article 14.

ARTICLE 7  
C ONCERNING THE T RUSTEE

Section 7.01. *Duties and Responsibilities of Trustee* .

(a) Except during the continuance of an Event of Default:

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts, statements, opinions or conclusions stated therein);

(b) in case an event an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs;

(c) no provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct, except that:

(i) this Subsection (c) shall not be construed to limit the effect of Subsections (a) or (d) of this Section;

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(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority of the aggregate principal amount of the Notes at the time outstanding determined as provided in Section 8.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture with respect to the Notes;

(d) none of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

(e) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of this Section;

(f) the Trustee shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Company or any Paying Agent or any records maintained by any co-Note Registrar with respect to the Notes;

(g) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustee, the Trustee may conclusively rely on its failure to receive such notice as reason to act as if no such event occurred, unless a Responsible Officer of the Trustee had actual knowledge of such event;

(h) in the absence of written investment direction from the Company, all cash received by the Trustee shall be placed in a non-interest bearing trust account, and in no event shall the Trustee be liable for the selection of investments or for investment losses incurred thereon or for losses incurred as a result of the liquidation of any such investment prior to its maturity date or the failure of the party directing such investments prior to its maturity date or the failure of the party directing such investment to provide timely written investment direction, and the Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of such written investment direction from the Company;

(i) prior to taking any action under this Indenture, the Trustee will be entitled to indemnification or security satisfactory to it, from the Holder or Holders requesting such action, against any loss, liability or expense caused by taking or not taking such action; and

(j) in the event that the Trustee is also acting as Custodian, Note Registrar, Paying Agent, Conversion Agent, Bid Solicitation Agent or transfer agent hereunder, the rights, privileges, protections, immunities and benefits afforded to the Trustee pursuant to this Indenture, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and

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other Person employed to act hereunder, including as Custodian, Note Registrar, Paying Agent, Conversion Agent, Bid Solicitation Agent or transfer agent.

Section 7.02. *Certain Rights of the Trustee* . Subject to the provisions of Section 7.01:

(a) the Trustee may conclusively rely and shall be fully protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness, coupon or other paper or document believed by it in the absence of bad faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by a Company Order; any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution; and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officer's Certificate;

(d) the Trustee may consult with counsel and require an Opinion of Counsel and any advice of such counsel or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost and expense of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(f) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, custodians, nominees or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, custodian, nominee or attorney appointed by it with due care hereunder;

(g) the Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith, without gross negligence and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(h) the Trustee may request that the Company deliver a certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which certificate may be signed by any person authorized to sign an

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Officer's Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded;

(i) the permissive rights of the Trustee enumerated herein shall not be construed as duties;

(j) in no event shall the Trustee be liable for any special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action; and

(k) the Trustee shall not be deemed to have notice or be charged with knowledge of any Default or Event of Default with respect to the Notes, unless either (1) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (2) written notice of such Default or Event of Default shall have been received by a Responsible Officer to the Trustee by the Company or by any Holder of the Notes.

Section 7.03. *No Responsibility for Recitals, Etc.* . The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture. The Trustee shall not be responsible to make any calculation with respect to any matter under this Indenture. The Trustee shall have no duty to monitor or investigate the Company's compliance with or the breach of, or cause to be performed or observed, any representation, warranty, or covenant, or agreement of any Person, other than the Trustee, made in this Indenture.

Section 7.04. *Trustee, Paying Agents, Conversion Agents, Bid Solicitation Agent or Note Registrar May Own Notes.* . The Trustee, any Paying Agent, any Conversion Agent, Bid Solicitation Agent or Note Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not the Trustee, Paying Agent, Conversion Agent, Bid Solicitation Agent or Note Registrar.

Section 7.05. *Monies and Shares of Common Stock to Be Held in Trust.* . All monies and any shares of Common Stock received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money and shares of Common Stock held by the Trustee in trust hereunder need not be segregated from other funds or property except to the extent required by law. The Trustee shall be under no liability for any interest on any money or shares of Common Stock received by it hereunder except as may be agreed in writing from time to time by the Company and the Trustee.

Section 7.06. *Compensation and Expenses of Trustee.* . The Company covenants and agrees to pay to the Trustee in any capacity under this Indenture, from time to time, and the Trustee shall be entitled to, compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a

trustee of an express trust) as mutually agreed to in writing between the Trustee and the Company, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any of the provisions of this Indenture in any capacity thereunder (including the reasonable compensation and the expenses and disbursements of its agents and counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as shall have been caused by its gross negligence, willful misconduct or bad faith. The Company also covenants to indemnify the Trustee, or any predecessor Trustee, in any capacity under this Indenture and any other document or transaction entered into in connection herewith and its officers, directors, employees and agents and any authenticating agent for, and to hold them harmless against, any loss, claim, damage, liability or expense, including reasonable and documented fees and expenses of counsel, including taxes (other than taxes based upon, measured by or determined by the income of the Trustee) incurred without gross negligence, willful misconduct or bad faith on the part of the Trustee, its officers, directors, agents or employees, or such agent or authenticating agent, as the case may be, as determined by a final, non-appealable decision of a court of competent jurisdiction, and arising out of or in connection with the acceptance or administration of this Indenture or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim (whether asserted by the Company, or any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, or in connection with enforcing the provisions of this Section. The obligations of the Company under this Section 7.06 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by the Trustee, except, subject to the effect of Section 6.05, funds held in trust herewith for the benefit of the Holders of particular Notes. The Trustee's right to receive payment of any amounts due under this Section 7.06 shall not be subordinate to any other liability or indebtedness of the Company. The provisions of this Section 7.06 shall survive the satisfaction and discharge of this Indenture, the termination for any reason of this Indenture and the earlier resignation or removal of the Trustee. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld. The indemnification provided in this Section 7.06 shall extend to the officers, directors, agents and employees of the Trustee.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee and its agents and any authenticating agent incur expenses or render services after an Event of Default specified in Section 6.01(h) or Section 6.01(i) occurs, the expenses (including the reasonable and documented charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws.

"Trustee" for purposes of this Section shall include any predecessor Trustee; provided, however, that the negligence, willful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

Section 7.07. *Officer's Certificate as Evidence* . Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any

action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of gross negligence, willful misconduct and bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Trustee, and such Officer's Certificate, in the absence of gross negligence, willful misconduct and bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 7.08. *Eligibility of Trustee* . There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article. With respect to conflicts of interest, the Trustee shall be governed by Section 310(b) of the Trust Indenture Act: if the Trustee has or acquires any conflicting interest within the meaning of the Trust Indenture Act, it shall either eliminate such conflicting interest or resign to the extent, in the manner and with the effect, and subject to the conditions, provided in Section 310(b) of the Trust Indenture Act.

Section 7.09. *Resignation or Removal of Trustee* . (a) The Trustee may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the Holders at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the Holders, the resigning Trustee may, upon ten Business Days' notice to the Company and the Holders, petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide holder of a Note or Notes for at least six months may, subject to the provisions of Section 6.11, on behalf of himself or herself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.08 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in either case, the Company may by a Board Resolution remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.11, any Holder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The Holders of a majority in aggregate principal amount of the Notes at the time outstanding, as determined in accordance with Section 8.04, may at any time remove the Trustee and nominate a successor trustee that shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Holder, upon the terms and conditions and otherwise as in Section 7.09(a) provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.09 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.10.

Section 7.10. *Acceptance by Successor Trustee.* Any successor trustee appointed as provided in Section 7.09 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.06 and subject to its lien provided for in Section 7.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by such trustee as such, except for funds held in trust for the benefit of Holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.06.

No successor trustee shall accept appointment as provided in this Section 7.10 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 7.08.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.10, each of the Company and the successor trustee, at the written direction and at the expense of the Company shall mail or cause to be mailed notice of the succession of such trustee hereunder to the Holders at their addresses as they shall appear on the Note Register. If the Company fails to

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mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

Section 7.11. *Succession by Merger, Etc* . Any Person or other entity into which the Trustee may be merged or converted or with which it may be consolidated, or any Person or other entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person or other entity succeeding to all or substantially all of the corporate trust business of the Trustee (including the administration of this Indenture), shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; *provided* that in the case of any Person or other entity succeeding to all or substantially all of the corporate trust business of the Trustee such Person or other entity shall be eligible under the provisions of Section 7.08.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee or authenticating agent appointed by such predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee or an authenticating agent appointed by such successor trustee may authenticate such Notes either in the name of any predecessor trustee hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; *provided* , *however* , that the right to adopt the certificate of authentication of any predecessor trustee or to authenticate Notes in the name of any predecessor trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.12. *Trustee's Application for Instructions from the Company* . Any application by the Trustee for written instructions from the Company (other than with regard to any action proposed to be taken or omitted to be taken by the Trustee that affects the rights of the Holders of the Notes under this Indenture) may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any Officer that the Company has indicated to the Trustee should receive such application actually receives such application, unless any such officer shall have consented in writing to any earlier date), unless, prior to taking any such action (or the effective date in the case of any omission), the Trustee shall have received written instructions in accordance with this Indenture in response to such application specifying the action to be taken or omitted.

ARTICLE 8  
C ONCERNING THE H OLDERS

Section 8.01. *Action by Holders* . Whenever in this Indenture it is provided that the Holders of a specified percentage of the aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the Holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Holders in person or by agent or proxy appointed in writing, or (b) by the record of the Holders voting in favor thereof at any meeting of Holders duly called and held in accordance with the provisions of Article 9, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Holders. Whenever the Company or the Trustee solicits the taking of any action by the Holders of the Notes, the Company or the Trustee may fix, but shall not be required to, in advance of such solicitation, a date as the record date for determining Holders entitled to take such action. The record date if one is selected shall be not more than fifteen days prior to the date of commencement of solicitation of such action.

Section 8.02. *Proof of Execution by Holders* . Subject to the provisions of Section 7.01, Section 7.01(j) and Section 9.05, proof of the execution of any instrument by a Holder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar. The record of any Holders' meeting shall be proved in the manner provided in Section 9.06.

Section 8.03. *Who Are Deemed Absolute Owners* . The Company, the Trustee, any authenticating agent, any Paying Agent, any Conversion Agent and any Note Registrar may deem the Person in whose name a Note shall be registered upon the Note Register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Company or any Note Registrar) for the purpose of receiving payment of or on account of the principal of and (subject to Section 2.03) any accrued and unpaid interest on such Note, for conversion of such Note and for all other purposes under this Indenture; and neither the Company nor the Trustee nor any Paying Agent nor any Conversion Agent nor any Note Registrar shall be affected by any notice to the contrary. The sole registered holder of a Global Note shall be the Depositary or its nominee. All such payments or deliveries so made to any Holder for the time being, or upon its order, shall be valid, and, to the extent of the sums or shares of Common Stock so paid or delivered, effectual to satisfy and discharge the liability for monies payable or shares deliverable upon any such Note. Notwithstanding anything to the contrary in this Indenture or the Notes following an Event of Default, any owner of a beneficial interest in a Global Note may directly enforce against the Company, without the consent, solicitation, proxy, authorization or any other action of the Depositary or any other Person, such Holder's right to exchange such beneficial interest for a Note in certificated form in accordance with the provisions of this Indenture.

Section 8.04. *Company-Owned Notes Disregarded* . In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company, by any Subsidiary thereof or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any Subsidiary thereof shall be disregarded and deemed not to be outstanding for the purpose of any such determination; *provided* that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action only Notes that a Responsible Officer actually knows are so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to so act with respect to such Notes and that the pledgee is not the Company, a Subsidiary thereof or a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or a Subsidiary thereof. In the case of a dispute as to such right, any decision or indecision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officer's Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described Persons; and, subject to Section 7.01, the Trustee shall be entitled to accept such Officer's Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

Section 8.05. *Revocation of Consents; Future Holders Bound* . At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the Holders of the percentage of the aggregate principal amount of the Notes specified in this Indenture in connection with such action, any Holder of a Note that is shown by the evidence to be included in the Notes the Holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the Holder of any Note shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note and of any Notes issued in exchange or substitution therefor or upon registration of transfer thereof, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor or upon registration of transfer thereof.

## ARTICLE 9 H OLDERS ' M EETINGS

Section 9.01. *Purpose of Meetings* . A meeting of Holders may be called at any time and from time to time pursuant to the provisions of this Article 9 for any of the following purposes:

(a) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any Default or Event of Default hereunder (in each case, as permitted under this Indenture) and its consequences, or to

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take any other action authorized to be taken by Holders pursuant to any of the provisions of Article 6;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 7;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 10.02; or

(d) to take any other action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

Section 9.02. *Call of Meetings by Trustee* . The Trustee may at any time call a meeting of Holders to take any action specified in Section 9.01, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 8.01, shall be mailed to Holders of such Notes at their addresses as they shall appear on the Note Register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than 20 nor more than 90 days prior to the date fixed for the meeting.

Any meeting of Holders shall be valid without notice if the Holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the Holders of all Notes then outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

Section 9.03. *Call of Meetings by Company or Holders* . In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% of the aggregate principal amount of the Notes then outstanding, shall have requested the Trustee to call a meeting of Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Holders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 9.01, by mailing notice thereof as provided in Section 9.02.

Section 9.04. *Qualifications for Voting* . To be entitled to vote at any meeting of Holders a Person shall (a) be a Holder of one or more Notes on the record date pertaining to such meeting or (b) be a Person appointed by an instrument in writing as proxy by a Holder of one or more Notes on the record date pertaining to such meeting. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 9.05. *Regulations* . Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders, in regard to proof of the holding of Notes and of the appointment of proxies, and in

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regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 9.03, in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in aggregate principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 8.04, at any meeting of Holders each Holder or proxyholder shall be entitled to one vote for each \$1,000 principal amount of Notes held or represented by him or her; *provided, however*, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by it or instruments in writing as aforesaid duly designating it as the proxy to vote on behalf of other Holders. Any meeting of Holders duly called pursuant to the provisions of Section 9.02 or Section 9.03 may be adjourned from time to time by the Holders of a majority of the aggregate principal amount of Notes represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

Section 9.06. *Voting*. The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the outstanding aggregate principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 9.02. The record shall show the aggregate principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 9.07. *No Delay of Rights by Meeting*. Nothing contained in this Article 9 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Holders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Indenture or of the Notes. Nothing contained in this Article 9

shall be deemed or construed to limit any Holder's actions pursuant to the applicable procedures of the Depositary so long as the Notes are Global Notes.

ARTICLE 10  
SUPPLEMENTAL INDENTURES

Section 10.01. *Supplemental Indentures Without Consent of Holders* . The Company, when authorized by the resolutions of the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency that does not adversely affect Holders;
- (b) to provide for the assumption by a Successor Company of the obligations of the Company under this Indenture pursuant to Article 11;
- (c) to add guarantees with respect to the Notes;
- (d) to secure the Notes;
- (e) to add to the covenants or Events of Defaults of the Company for the benefit of the Holders or surrender any right or power conferred upon the Company;
- (f) to make any change that does not adversely affect the rights of any Holder
- (g) to increase the Conversion Rate as provided in this Indenture
- (h) to provide for the acceptance of appointment by a successor trustee pursuant to Section 7.09 or to facilitate the administration of the trusts by more than one trustee
- (i) to irrevocably elect or eliminate a Settlement Method and/or irrevocably elect a minimum Specified Dollar Amount; or
- (j) to conform the provisions of this Indenture or the Notes to the "Description of Notes" section of the Offering Memorandum.

Upon the written request of the Company, the Trustee is hereby authorized to, and shall join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained, except that the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 10.01 may be executed by the Company and the Trustee without notice to or the consent of the Holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 10.02.

Section 10.02. *Supplemental Indentures with Consent of Holders* . With the consent (evidenced as provided in Article 8) of the Holders of at least a majority of the aggregate principal amount of the Notes then outstanding (determined in accordance with Article 8 and including, without limitation, consents obtained in connection with a repurchase of, or tender or exchange offer for, Notes), the Company, when authorized by the resolutions of the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders; *provided, however* , that, without the consent of each Holder of an outstanding Note affected, no such supplemental indenture shall:

(a) reduce the amount of Notes whose Holders must consent to an amendment;

(b) reduce the rate of or extend the stated time for payment of interest, if any, on any Note;

(c) reduce the principal of or extend the Maturity Date of any Note;

(d) make any change that adversely affects the conversion rights of any Notes;

(e) reduce the Fundamental Change Repurchase Price of any Note or amend or modify in any manner adverse to the Holders the Company's obligation to make such payments, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;

(f) make any Note payable in a currency or at a place of payment other than that stated in the Note;

(g) change the ranking of the Notes;

(h) impair the right of any Holder to receive payment of principal and interest, if any, on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Note; or

(i) make any change in this Article 10 that requires each Holder's consent or in the waiver provisions in Section 6.02 or Section 6.09.

Upon the written request of the Company, and upon the filing with the Trustee of evidence of the consent of Holders as aforesaid and subject to Section 10.05, the Trustee is hereby authorized to, and the Trustee shall, join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Holdings do not need under this Section 10.02 to approve the particular form of any proposed supplemental indenture. It shall be sufficient if such Holders approve the substance thereof. After any such supplemental indenture becomes effective, the Company shall mail to the Holders a notice briefly describing such supplemental indenture. However, the failure to give

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such notice to all the Holders, or any defect in the notice, will not impair or affect the validity of the supplemental indenture.

Section 10.03. *Effect of Supplemental Indentures* . Upon the execution of any supplemental indenture pursuant to the provisions of this Article 10, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 10.04. *Notation on Notes* . Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 10 may, at the Company's expense, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 17.10) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 10.05. *Evidence of Compliance of Supplemental Indenture to Be Furnished Trustee* . In addition to the documents required by Section 17.05, the Trustee shall receive an Officer's Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 10 and is permitted or authorized by this Indenture and that the supplemental indenture constitutes the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws of general application affecting the rights and remedies of creditors and to general principles of equity (including, without limitation, concepts of materiality, reasonableness, good faith, fair dealing and unconscionability), regardless of whether considered in a proceeding in equity or law.

## ARTICLE 11

### C ONSOLIDATION , M ERGER , S ALE , C ONVEYANCE AND L EASE

Section 11.01. *Company May Consolidate, Etc. on Certain Terms* . Subject to the provisions of Section 11.02, the Company shall not consolidate with, merge with or into, or sell, convey, transfer or lease all or substantially all of its properties and assets to another Person, unless:

(a) the resulting, surviving or transferee Person (the “ **Successor Company** ”), if not the Company, shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia, and the Successor Company (if not the

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Company) shall expressly assume, by supplemental indenture all of the obligations of the Company under the Notes and this Indenture; and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing under this Indenture.

For purposes of this Section 11.01, the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of one or more Subsidiaries of the Company to another Person, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Company to another Person.

Section 11.02. *Successor Corporation to Be Substituted* . In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and any accrued and unpaid interest on all of the Notes, the due and punctual delivery or payment, as the case may be, of any consideration due upon conversion of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company (if not the Company) shall succeed to and, except in the case of a lease of all or substantially all of the Company's properties and assets, shall be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such Successor Company thereupon may cause to be signed, and may issue either in its own name or in the name of the Company any or all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such Successor Company instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that previously shall have been signed and delivered by the Officers of the Company to the Trustee for authentication, and any Notes that such Successor Company thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, sale, conveyance or transfer (but not in the case of a lease), upon compliance with this Article 11 the Person named as the "Company" in the first paragraph of this Indenture (or any successor that shall thereafter have become such in the manner prescribed in this Article 11) may be dissolved, wound up and liquidated at any time thereafter and, except in the case of a lease, such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture and the Notes.

In case of any such consolidation, merger, sale, conveyance, transfer or lease, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

Section 11.03 . *Opinion of Counsel to Be Given to Trustee*. No such consolidation, merger, sale, conveyance, transfer or lease shall be effective unless the Trustee shall receive an Officer's Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or lease and any such assumption and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the provisions of this Article 11 and that all conditions precedent herein provided for relating to such transaction have been complied with.

## ARTICLE 12

### IMMUNITY OF INCORPORATORS , STOCKHOLDERS , OFFICERS AND DIRECTORS

Section 12.01. *Indenture and Notes Solely Corporate Obligations* . No recourse for the payment of the principal of or any accrued and unpaid interest on any Note, nor for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, nor because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, officer or director or Subsidiary, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

## ARTICLE 13

[ INTENTIONALLY OMITTED ]

## ARTICLE 14

### CONVERSION OF NOTES

Section 14.01. *Conversion Privilege* . (a) Subject to and upon compliance with the provisions of this Article 14, each Holder of a Note shall have the right, at such Holder's option, to convert all or any portion (if the portion to be converted is \$1,000 principal amount or a multiple thereof) of such Note (i) subject to satisfaction of the conditions described in Section 14.01(b), at any time prior to the close of business on the Business Day immediately preceding September 1, 2018 under the circumstances and during the periods set forth in Section 14.01(b), and (ii) regardless of the conditions described in Section 14.01(b), on or after September 1, 2018 and prior to the close of business on the second Scheduled Trading Day immediately preceding the Maturity Date, in each case, at an initial conversion rate of 18.7161 shares of Common Stock (subject to adjustment as provided in this Article 14, the "**Conversion Rate** ") per \$1,000 principal amount of Notes (subject to, and in accordance with, the settlement provisions of Section 14.02, the "**Conversion Obligation** ").

(b) (i) Prior to the close of business on the Business Day immediately preceding September 1, 2018, a Holder may surrender all or any portion of its Notes for conversion at any time during the five Business Day period immediately after any ten consecutive Trading Day period (the “**Measurement Period**”) in which the Trading Price per \$1,000 principal amount of Notes, as determined following a request by a Holder of Notes in accordance with this Section 14.01(b)(i), for each Trading Day of the Measurement Period was less than 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate on each such Trading Day. The Trading Prices shall be obtained by the Bid Solicitation Agent pursuant to this Section 14.01(b)(i) and the definition of Trading Price set forth in this Indenture. The Company shall provide written notice to the Bid Solicitation Agent of the three independent nationally recognized securities dealers selected by the Company pursuant to the definition of Trading Price, along with appropriate contact information for each. The Bid Solicitation Agent shall have no obligation to obtain secondary market bid quotations unless the Company has requested it to do so in writing, and the Company shall have no obligation to make such request unless a Holder of a Note provides the Company with reasonable evidence that the Trading Price per \$1,000 principal amount of Notes would be less than 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate, at which time the Company shall instruct the Bid Solicitation Agent to obtain such bids beginning on the next Trading Day and on each successive Trading Day until a Trading Day occurs on which the Trading Price per \$1,000 principal amount of Notes is greater than or equal to 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate. The Company shall determine the Trading Price per \$1,000 principal amount of Notes for each Trading Day based on the bids obtained by the Bid Solicitation Agent pursuant to this Indenture, and any such determination by the Company shall be conclusive absent manifest error. If the Company does not instruct the Bid Solicitation Agent in writing to obtain secondary market bid quotations when obligated as provided in the preceding sentence, or if the Company so instructs the Bid Solicitation Agent to obtain bids and the Bid Solicitation Agent fails to obtain any bids, then, in either case, the Trading Price per \$1,000 principal amount of Notes shall be deemed to be less than 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate on each Trading Day of such failure. If the Trading Price condition set forth above has been met, the Company shall so notify the Holders, the Trustee and the Conversion Agent (if other than the Trustee) in writing. If, at any time after the Trading Price condition set forth above has been met, the Trading Price per \$1,000 principal amount of Notes is greater than or equal to 98% of the product of the Last Reported Sale Price of the Common Stock and the Conversion Rate for such date, the Company shall so notify the Holders of the Notes, the Trustee and the Conversion Agent (if other than the Trustee) in writing.

(ii) If, prior to the close of business on the Business Day immediately preceding September 1, 2018, the Company elects to:

(A) issue to all or substantially all holders of the Common Stock any rights, options or warrants (other than in connection with a stockholder rights plan) entitling them, for a period of not more than 45 calendar days after the announcement date of such issuance, to subscribe for or purchase shares of the Common Stock at a price per share that is less than the average of the Last Reported Sale Prices of the Common Stock for the 10 consecutive Trading Day

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period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance; or

(B) distribute to all or substantially all holders of the Common Stock the Company's assets, securities or rights to purchase securities of the Company, which distribution has a per share value, as determined in good faith by the Board of Directors, exceeding 10% of the Last Reported Sale Price of the Common Stock on the Trading Day preceding the date of announcement for such distribution,

then, in either case, the Company shall notify all Holders of the Notes, the Trustee and the Conversion Agent (if other than the Trustee) at least 35 Scheduled Trading Days prior to the Ex-Dividend Date for such issuance or distribution. Once the Company has given such notice, a Holder may surrender all or any portion of its Notes for conversion at any time until the earlier of (1) the close of business on the Business Day immediately preceding the Ex-Dividend Date for such issuance or distribution and (2) the Company's announcement that such issuance or distribution will not take place, in each case, even if the Notes are not otherwise convertible at such time.

(iii) If a transaction or event that constitutes a Fundamental Change or a Make-Whole Fundamental Change occurs prior to the close of business on the Business Day immediately preceding September 1, 2018, regardless of whether a Holder has the right to require the Company to repurchase the Notes pursuant to Section 15.02, or if the Company is a party to a consolidation, merger, binding share exchange, or transfer or lease of all or substantially all of its assets, in each case, pursuant to which the Common Stock would be converted into cash, securities or other assets, all or any portion of a Holder's Notes may be surrendered for conversion at any time from or after the date that is 35 Scheduled Trading Days prior to the anticipated effective date of the transaction (or, if later, the Business Day after the Company gives notice of such transaction) until 35 Trading Days after the actual effective date of such transaction or, if such transaction also constitutes a Fundamental Change, until the related Fundamental Change Repurchase Date. The Company shall notify Holders, the Trustee and the Conversion Agent (if other than the Trustee) (i) as promptly as practicable following the date the Company publicly announces such transaction but in no event less than 35 Scheduled Trading Days prior to the anticipated effective date of such transaction or (ii) if the Company does not have knowledge of such transaction at least 35 Scheduled Trading Days prior to the anticipated effective date of such transaction, within two Business Days of the date upon which the Company receives notice, or otherwise becomes aware, of such transaction, but in no event later than the actual effective date of such transaction.

(iv) Prior to the close of business on the Business Day immediately preceding September 1, 2018, a Holder may surrender all or any portion of its Notes for conversion at any time during any calendar quarter commencing after the calendar quarter ending on March 31, 2014 (and only during such calendar quarter), if the Last Reported Sale Price of the Common Stock for at least 20 Trading Days (whether or not consecutive) during the period of 30 consecutive Trading Days ending on the last Trading Day of the immediately preceding calendar quarter is greater than or equal to 130% of the

Conversion Price on each applicable Trading Day. The Conversion Agent, on behalf of the Company, shall determine at the beginning of each calendar quarter commencing after March 31, 2014 whether the Notes may be surrendered for conversion in accordance with this clause (iv) and shall notify the Company and the Trustee if the Notes become convertible in accordance with this clause (iv).

Section 14.02. *Conversion Procedure; Settlement Upon Conversion* .

(a) Subject to this Section 14.02, Section 14.03(b) and Section 14.07(a), upon conversion of any Note, the Company shall pay or deliver, as the case may be, to the converting Holder, in respect of each \$1,000 principal amount of Notes being converted, cash (“ **Cash Settlement** ”), shares of Common Stock, together with cash, if applicable, in lieu of delivering any fractional share of Common Stock in accordance with subsection (j) of this Section 14.02 (“ **Physical Settlement** ”) or a combination of cash and shares of Common Stock, together with cash, if applicable, in lieu of delivering any fractional share of Common Stock in accordance with subsection (j) of this Section 14.02 (“ **Combination Settlement** ”), at its election, as set forth in this Section 14.02.

(i) All conversions occurring during the period from, and including, September 1, 2018 to the close of business on the second Scheduled Trading Day immediately the Maturity Date shall be settled using the same Settlement Method.

(ii) Except for any conversions that occur during the period from, and including, September 1, 2018 to the close of business on the second Scheduled Trading Day immediately the Maturity Date, the Company shall use the same Settlement Method for all conversions occurring on the same Conversion Date, but the Company shall not have any obligation to use the same Settlement Method with respect to conversions that occur on different Conversion Days.

(iii) If, in respect of any Conversion Date (or the period described in the third immediately succeeding set of parentheses, as the case may be), the Company elects to deliver a notice (the “ **Settlement Notice** ”) of the relevant Settlement Method in respect of such Conversion Date (or such period, as the case may be), the Company, through the Trustee, shall deliver such Settlement Notice to converting Holders no later than the close of business on the Trading Day immediately following the relevant Conversion Date (or, in the case of any conversions occurring during the period from, and including, September 1, 2018 to the close of business on the second Scheduled Trading Day immediately preceding the Maturity Date, no later than the close of business on Business Day immediately preceding September 1, 2018). If the Company does not elect a Settlement Method prior to the deadline set forth in the immediately preceding sentence, the Company shall no longer have the right to elect Cash Settlement or Physical Settlement during such period or with respect to such conversion and the Company shall be deemed to have elected Combination Settlement in respect of its Conversion Obligation, and the Specified Dollar Amount per \$1,000 principal amount of Notes shall be equal to \$1,000. Such Settlement Notice shall specify the relevant Settlement Method and in the case of an election of Combination Settlement, the relevant Settlement Notice shall indicate the Specified Dollar Amount per \$1,000 principal amount of Notes. If the

Company delivers a Settlement Notice electing Combination Settlement in respect of its Conversion Obligation but does not indicate a Specified Dollar Amount per \$1,000 principal amount of Notes in such Settlement Notice, the Specified Dollar Amount per \$1,000 principal amount of Notes shall be deemed to be \$1,000.

(iv) The cash, shares of Common Stock or combination of cash and shares of Common Stock in respect of any conversion of Notes (the “**Settlement Amount**”) shall be computed as follows:

(A) if the Company elects to satisfy its Conversion Obligation in respect of such conversion by Physical Settlement, the Company shall deliver to the converting Holder in respect of each \$1,000 principal amount of Notes being converted a number of shares of Common Stock equal to the Conversion Rate in effect on the Conversion Date;

(B) if the Company elects to satisfy its Conversion Obligation in respect of such conversion by Cash Settlement, the Company shall pay to the converting Holder in respect of each \$1,000 principal amount of Notes being converted cash in an amount equal to the sum of the Daily Conversion Values for each of the 30 consecutive Trading Days during the related Observation Period; and

(C) if the Company elects (or is deemed to have elected) to satisfy its Conversion Obligation in respect of such conversion by Combination Settlement, the Company shall pay or deliver, as the case may be, in respect of each \$1,000 principal amount of Notes being converted, a Settlement Amount equal to the sum of the Daily Settlement Amounts for each of the 30 consecutive Trading Days during the related Observation Period.

(v) The Daily Settlement Amounts (if applicable) and the Daily Conversion Values (if applicable) shall be determined by the Company promptly following the last day of the Observation Period. Promptly after such determination of the Daily Settlement Amounts or the Daily Conversion Values, as the case may be, and the amount of cash payable in lieu of delivering any fractional share of Common Stock, the Company shall notify the Trustee and the Conversion Agent (if other than the Trustee) of the Daily Settlement Amounts or the Daily Conversion Values, as the case may be, and the amount of cash payable in lieu of delivering fractional shares of Common Stock. The Trustee and the Conversion Agent (if other than the Trustee) shall have no responsibility for any such determination.

(b) Subject to Section 14.02(e), before any Holder of a Note shall be entitled to convert a Note as set forth above, such Holder shall (i) in the case of a Global Note, comply with the procedures of the Depositary in effect at that time and, if required, pay funds equal to any Special Interest payable on the next Special Interest Payment Date to which such Holder is not entitled as set forth in Section 14.02(h) and (ii) in the case of a Physical Note (1) complete, manually sign and deliver an irrevocable notice to the Conversion Agent as set forth in the Form of Notice of Conversion (or a facsimile thereof) (a “**Notice of Conversion**”) at the office of the

Conversion Agent and state in writing therein the principal amount of Notes to be converted and the name or names (with addresses) in which such Holder wishes the certificate or certificates for any shares of Common Stock to be delivered upon settlement of the Conversion Obligation to be registered, (2) surrender such Notes, duly endorsed to the Company or in blank (and accompanied by appropriate endorsement and transfer documents), at the office of the Conversion Agent, (3) if required, furnish appropriate endorsements and transfer documents and (4) if required, pay funds equal to any Special Interest payable on the next Special Interest Payment Date to which such Holder is not entitled as set forth in Section 14.02(h). The Trustee (and, if different, the Conversion Agent) shall notify the Company of any conversion pursuant to this Article 14 on the Conversion Date for such conversion. No Notice of Conversion with respect to any Notes may be surrendered by a Holder thereof if such Holder has also delivered a Fundamental Change Repurchase Notice to the Company in respect of such Notes and has not validly withdrawn such Fundamental Change Repurchase Notice in accordance with Section 15.03.

If more than one Note shall be surrendered for conversion at one time by the same Holder, the Conversion Obligation with respect to such Notes shall be computed on the basis of the aggregate principal amount of the Notes (or specified portions thereof to the extent permitted thereby) so surrendered.

(c) A Note shall be deemed to have been converted immediately prior to the close of business on the date (the “ **Conversion Date** ”) that the Holder has complied with the requirements set forth in subsection (b) above. The Company shall pay or deliver, as the case may be, the consideration due in respect of the Conversion Obligation on the third Business Day immediately following the relevant Conversion Date, if the Company elects Physical Settlement, or on the third Business Day immediately following the last Trading Day of the relevant Observation Period, in the case of any other Settlement Method. If any shares of Common Stock are due to converting Holders, the Company shall issue or cause to be issued, and deliver to the Conversion Agent or to such Holder, or such Holder’s nominee or nominees, certificates or a book-entry transfer through the Depository for the full number of shares of Common Stock to which such Holder shall be entitled in satisfaction of the Company’s Conversion Obligation.

(d) In case any Note shall be surrendered for partial conversion, the Company shall execute and the Trustee shall authenticate and deliver to or upon the written order of the Holder of the Note so surrendered a new Note or Notes in authorized denominations in an aggregate principal amount equal to the unconverted portion of the surrendered Note, without payment of any service charge by the converting Holder but, if required by the Company or Trustee, with payment of a sum sufficient to cover any documentary, stamp or similar issue or transfer tax or similar governmental charge required by law or that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such conversion being different from the name of the Holder of the old Notes surrendered for such conversion.

(e) If a Holder submits a Note for conversion, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of any shares of Common Stock upon conversion, unless the tax is due because the Holder requests such shares to be issued in a name other than the Holder’s name, in which case the Holder shall pay that tax. The Conversion Agent may refuse to deliver the certificates representing the shares of Common Stock being

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issued in a name other than the Holder's name until the Trustee receives a sum sufficient to pay any tax that is due by such Holder in accordance with the immediately preceding sentence.

(f) Except as provided in Section 14.04, no adjustment shall be made for dividends on any shares of Common Stock issued upon the conversion of any Note as provided in this Article 14.

(g) Upon the conversion of an interest in a Global Note, the Trustee, or the Custodian at the direction of the Trustee, shall make a notation on such Global Note as to the reduction in the principal amount represented thereby. The Company shall notify the Trustee in writing of any conversion of Notes effected through any Conversion Agent other than the Trustee.

(h) Upon conversion, a Holder shall not receive any separate cash payment for accrued and unpaid interest, if any, except as set forth below. The Company's settlement of the full Conversion Obligation shall be deemed to satisfy in full its obligation to pay the principal amount of the Note and accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date. As a result, accrued and unpaid interest, if any, to, but not including, the relevant Conversion Date shall be deemed to be paid in full rather than canceled, extinguished or forfeited. Upon a conversion of Notes into a combination of cash and shares of Common Stock, any accrued and unpaid interest will be deemed to be paid first out of the cash paid upon such conversion. Notwithstanding the foregoing, if Notes are converted after the close of business on a Special Interest Record Date, Holders of such Notes as of the close of business on such Special Interest Record Date will receive the full amount of any Special Interest payable on such Notes on the corresponding Special Interest Payment Date notwithstanding the conversion. Notes surrendered for conversion during the period from the close of business on any Special Interest Record Date to the open of business on the immediately following Special Interest Payment Date must be accompanied by funds equal to the amount of any interest payable on the Notes so converted; provided that no such payment shall be required (1) for conversions following November 15, 2018, if Special Interest is payable on the Maturity Date; (2) if the Company has specified a Fundamental Change Repurchase Date that is after a Special Interest Record Date and on or prior to the Scheduled Trading Day immediately succeeding the corresponding Special Interest Payment Date; or (3) to the extent of any Defaulted Amounts, if any Defaulted Amounts exists at the time of conversion with respect to such Note. Therefore, for the avoidance of doubt, all Holders of record on November 15, 2018 (if and to the extent Special Interest is payable on the Maturity Date) and any Fundamental Change Repurchase Date as described in the immediately preceding sentence shall receive the full interest payment due on the Maturity Date or other applicable Special Interest Payment Date regardless of whether their Notes have been converted following such Special Interest Record Date.

(i) The Person in whose name the certificate for any shares of Common Stock delivered upon conversion is registered shall be treated as a stockholder of record as of the close of business on the relevant Conversion Date (if the Company elects to satisfy the related Conversion Obligation by Physical Settlement) or the last Trading Day of the relevant Observation Period (if the Company elects to satisfy the related Conversion Obligation by Combination Settlement), as the case may be. Upon a conversion of Notes, such Person shall no longer be a Holder of such Notes surrendered for conversion.

(j) The Company shall not issue any fractional share of Common Stock upon conversion of the Notes and shall instead pay cash in lieu of delivering any fractional share of Common Stock issuable upon conversion based on the Daily VWAP on the relevant Conversion Date (in the case of Physical Settlement) or based on the Daily VWAP on the last Trading Day of the relevant Observation Period (in the case of Combination Settlement). For each Note surrendered for conversion, if the Company has elected (or is deemed to have elected) Combination Settlement, the full number of shares that shall be issued upon conversion thereof shall be computed on the basis of the aggregate Daily Settlement Amounts for the relevant Observation Period and any fractional shares remaining after such computation shall be paid in cash.

Section 14.03 . *Increased Conversion Rate Applicable to Certain Notes Surrendered in Connection with Make-Whole Fundamental Changes.* (a) If a Make-Whole Fundamental Change occurs or becomes effective prior to the Maturity Date and a Holder elects to convert its Notes in connection with such Make-Whole Fundamental Change, the Company shall, under the circumstances described below, increase the Conversion Rate for the Notes so surrendered for conversion by a number of additional shares of Common Stock (the “ **Additional Shares** ”), as described below. A conversion of Notes shall be deemed for these purposes to be “in connection with” such Make-Whole Fundamental Change if the relevant Notice of Conversion is received by the Conversion Agent from, and including, the Effective Date of the Make-Whole Fundamental Change up to, and including, the Business Day immediately prior to the related Fundamental Change Repurchase Date (or, in the case of a Make-Whole Fundamental Change that would have been a Fundamental Change but for subclause (i) of the *proviso* in clause (b) of the definition thereof, the 35th Trading Day immediately following the Effective Date of such Make-Whole Fundamental Change).

(b) Upon surrender of Notes for conversion in connection with a Make-Whole Fundamental Change pursuant to Section 14.01(b)(iii), the Company shall, at its option, satisfy the related Conversion Obligation by Physical Settlement, Cash Settlement or Combination Settlement in accordance with Section 14.02 based on the Conversion Rate as increased to reflect the Additional Shares pursuant to the table below; *provided* , *however* , that if, at the effective time of a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Reference Property following such Make-Whole Fundamental Change is composed entirely of cash, for any conversion of Notes following the Effective Date of such Make-Whole Fundamental Change, the Conversion Obligation shall be calculated based solely on the Stock Price for the transaction and shall be deemed to be an amount of cash per \$1,000 principal amount of converted Notes equal to the Conversion Rate (including any adjustment for Additional Shares), *multiplied by* such Stock Price. In such event, the Conversion Obligation shall be determined and paid to Holders in cash on the third Business Day following the Conversion Date. The Company shall notify the Holders, the Trustee and the Conversion Agent (if other than the Trustee) of the Effective Date of any Make-Whole Fundamental Change no later than five Business Days after such Effective Date.

(c) The number of Additional Shares, if any, by which the Conversion Rate shall be increased shall be determined by reference to the table below, based on the date on which the Make-Whole Fundamental Change occurs or becomes effective (the “ **Effective Date** ”) and the price (the “ **Stock Price** ”) paid (or deemed to be paid) per share of the Common Stock in the

Make-Whole Fundamental Change. If the holders of the Common Stock receive in exchange for their Common Stock only cash in a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Stock Price shall be the cash amount paid per share. Otherwise, the Stock Price shall be the average of the Last Reported Sale Prices of the Common Stock over the five Trading Day period ending on, and including, the Trading Day immediately preceding the Effective Date of the Make-Whole Fundamental Change. The Board of Directors shall make appropriate adjustments to the Stock Price, in its good faith determination, to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Ex-Dividend Date of the event occurs, during such five consecutive Trading Day period.

(d) The Stock Prices set forth in the column headings of the table below shall be adjusted as of any date on which the Conversion Rate of the Notes is otherwise adjusted. The adjusted Stock Prices shall equal the Stock Prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the Conversion Rate immediately prior to such adjustment giving rise to the Stock Price adjustment and the denominator of which is the Conversion Rate as so adjusted. The number of Additional Shares set forth in the table below shall be adjusted in the same manner and at the same time as the Conversion Rate as set forth in Section 14.04.

Effective Date	Stock Price										
	\$35.62	\$37.50	\$40.00	\$42.50	\$45.00	\$53.43	\$60.00	\$75.00	\$100.00	\$125.00	\$150.00
November 26, 2013	9.3580	8.4634	7.3916	6.4825	5.7066	3.7995	2.8228	1.4998	0.5665	0.2178	0.0769
December 1, 2014	9.3580	8.6812	7.5359	6.5666	5.7417	3.7296	2.7138	1.3697	0.4694	0.1595	0.0463
December 1, 2015	9.3580	8.7294	7.5096	6.4807	5.6087	3.5062	2.4682	1.1456	0.3325	0.0894	0.0162
December 1, 2016	9.3580	8.5280	7.2291	6.1386	5.2203	3.0499	2.0210	0.8002	0.1652	0.0243	0.0001
December 1, 2017	9.3580	8.1192	6.6995	5.5128	4.5233	2.2731	1.3016	0.3397	0.0226	0.0000	0.0000
December 1, 2018	9.3580	7.9506	6.2839	4.8133	3.5061	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

(e) The exact Stock Prices and Effective Dates may not be set forth in the table above, in which case:

(i) if the Stock Price is between two Stock Prices in the table above or the Effective Date is between two Effective Dates in the table above, the number of Additional Shares by which the Conversion Rate shall be increased shall be determined by a straight-line interpolation between the number of Additional Shares set forth for the higher and lower Stock Prices and the earlier and later Effective Dates, as applicable, based on a 365-day year;

(ii) if the Stock Price is greater than \$150.00 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Conversion Rate; and

(iii) if the Stock Price is less than \$35.62 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Conversion Rate.

Notwithstanding the foregoing, in no event shall the Conversion Rate per \$1,000 principal amount of Notes exceed 28.0741 shares of Common Stock, subject to adjustment in the same manner as the Conversion Rate pursuant to Section 14.04.

(f) Nothing in this Section 14.03 shall prevent an adjustment to the Conversion Rate pursuant to Section 14.04 in respect of a Make-Whole Fundamental Change.

Section 14.04 . *Adjustment of Conversion Rate.* The Conversion Rate shall be adjusted from time to time by the Company if any of the following events occurs, except that the Company shall not make any adjustments to the Conversion Rate if Holders of the Notes participate (other than in the case of a share split or share combination), at the same time and upon the same terms as holders of the Common Stock and solely as a result of holding the Notes, in any of the transactions described in this Section 14.04, without having to convert their Notes, as if they held a number of shares of Common Stock equal to the Conversion Rate, *multiplied* by the principal amount (expressed in thousands) of Notes held by such Holder.

(a) If the Company exclusively issues shares of Common Stock as a dividend or distribution on all or substantially all shares of the outstanding Common Stock, or if the Company effects a share split or share combination, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{OS'}{OS_0}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately prior to the open of business on the Effective Date of such share split or share combination, as applicable;
- CR' = the Conversion Rate in effect immediately after the open of business on such Ex-Dividend Date or Effective Date;
- OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to the open of business on such Ex-Dividend Date or Effective Date; and
- OS' = the number of shares of Common Stock outstanding immediately after giving effect to such dividend, distribution, share split or share combination.

Any adjustment made under this Section 14.04(a) shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately after

the open of business on the Effective Date for such share split or share combination, as applicable. If any dividend or distribution of the type described in this Section 14.04(a) is declared but not so paid or made, or any share split or combination of the type described in this Section 14.04(a) is announced but the outstanding shares of Common Stock are not split or combined, as the case may be, the Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to pay such dividend or distribution, or not to split or combine the outstanding shares of Common Stock, as the case may be, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared or such share split or combination had not been announced.

(b) If the Company issues to all or substantially all holders of the outstanding Common Stock any rights, options or warrants entitling them, for a period of not more than 45 calendar days after the announcement date of such issuance, to subscribe for or purchase shares of the Common Stock at a price per share that is less than the average of the Last Reported Sale Prices of the Common Stock for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance, the Conversion Rate shall be increased based on the following formula:

$$CR' = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the open of business on the Ex- Dividend Date for such issuance;
- CR' = the Conversion Rate in effect immediately after the open of business on such Ex- Dividend Date;
- OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to the open of business on such Ex-Dividend Date;
- X = the total number of shares of Common Stock issuable pursuant to such rights, options or warrants; and
- Y = the number of shares of Common Stock equal to the aggregate price payable to exercise such rights, options or warrants, *divided by* the average of the Last Reported Sale Prices of the Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of the issuance of such rights, options or warrants.

Any increase made under this Section 14.04(b) shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the open of business on the Ex-Dividend Date for such issuance. To the extent that shares of the Common Stock are not delivered after the expiration of such rights, options or warrants, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of

only the number of shares of Common Stock actually delivered. If such rights, options or warrants are not so issued, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such Ex-Dividend Date for such issuance had not occurred.

For purposes of this Section 14.04(b) and Section 14.01(b)(ii)(A), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase shares of the Common Stock at less than such average of the Last Reported Sale Prices of the Common Stock for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement for such issuance, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Company for such rights, options or warrants and any amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board of Directors.

(c) If the Company distributes shares of its Capital Stock, evidences of its indebtedness, other assets or property of the Company or rights, options or warrants to acquire its Capital Stock or other securities of the Company, to all or substantially all holders of the outstanding Common Stock, excluding (i) dividends, distributions or issuances as to which an adjustment was effected pursuant to Section 14.04(a) or Section 14.04 (b), (ii) dividends or distributions paid exclusively in cash as to which an adjustment was effected pursuant to Section 14.04(d), (iii) distributions of Reference Property in a transaction described in Section 14.07 and (iv) Spin-Offs as to which the provisions set forth below in this Section 14.04(c) shall apply (any of such shares of Capital Stock, evidences of indebtedness, other assets or property or rights, options or warrants to acquire Capital Stock or other securities, the “**Distributed Property**”), then the Conversion Rate shall be increased based on the following formula:

$$CR' = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such distribution;
- CR' = the Conversion Rate in effect immediately after the open of business on such Ex-Dividend Date;
- SP<sub>0</sub> = the average of the Last Reported Sale Prices of the Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution; and
- FMV = the fair market value (as determined by the Board of Directors) of the Distributed Property with respect to each outstanding share of the Common Stock on the Ex-Dividend Date for such distribution.

Any increase made under the portion of this Section 14.04(c) above shall become effective immediately after the open of business on the Ex-Dividend Date for such distribution. If such

distribution is not so paid or made, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such distribution had not been declared. Notwithstanding the foregoing, if “FMV” (as defined above) is equal to or greater than “SP<sub>0</sub>” (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, in respect of each \$1,000 principal amount thereof, at the same time and upon the same terms as holders of the Common Stock receive the Distributed Property, the amount and kind of Distributed Property such Holder would have received if such Holder owned a number of shares of Common Stock equal to the Conversion Rate in effect on the Ex-Dividend Date for the distribution. If the Board of Directors determines the “FMV” (as defined above) of any distribution for purposes of this Section 14.04(c) by reference to the actual or when-issued trading market for any securities, it shall in doing so consider the prices in such market over the same period used in computing the Last Reported Sale Prices of the Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution.

With respect to an adjustment pursuant to this Section 14.04(c) where there has been a payment of a dividend or other distribution on the Common Stock of shares of Capital Stock of any class or series, or similar equity interest, of or relating to a Subsidiary or other business unit of the Company, that are, or, when issued, will be, listed or admitted for trading on a U.S. national securities exchange (a “**Spin-Off**”), the Conversion Rate shall be increased based on the following formula:

$$CR' = CR_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the end of the Valuation Period;

CR' = the Conversion Rate in effect immediately after the end of the Valuation Period;

FMV<sub>0</sub> = the average of the Last Reported Sale Prices of the Capital Stock or similar equity interest distributed to holders of the Common Stock applicable to one share of the Common Stock (determined by reference to the definition of Last Reported Sale Price as set forth in Section 1.01 as if references therein to Common Stock were to such Capital Stock or similar equity interest) over the first 10 consecutive Trading Day period after, and including, the Ex-Dividend Date for the Spin-Off (the “**Valuation Period**”); and

MP<sub>0</sub> = the average of the Last Reported Sale Prices of the Common Stock over the Valuation Period.

The adjustment to the Conversion Rate under the preceding paragraph shall occur on the last Trading Day of the Valuation Period; *provided* that in respect of any conversion of Notes during the Valuation Period, references in the portion of this Section 14.04(c) related to Spin-Offs with respect to 10 Trading Days shall be deemed to be replaced with such lesser number of Trading Days as have elapsed between the Ex-Dividend Date for such Spin-Off and the Conversion Date in determining the Conversion Rate. If the Ex-Dividend Date of the Spin-Off is after the 10th

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Trading Day immediately preceding, and including, the end of any Observation Period in respect of a conversion of Notes, references in this Section 14.04(c) related to Spin-Offs to 10 Trading Days will be deemed to be replaced, solely in respect of that conversion of Notes, with such lesser number of Trading Days as have elapsed from, and including, the Ex-Dividend Date for the Spin-Off to, and including, the last Trading Day of such Observation Period.

For purposes of this Section 14.04(c) (and subject in all respect to Section 14.11), rights, options or warrants distributed by the Company to all holders of the Common Stock entitling them to subscribe for or purchase shares of the Company's Capital Stock, including Common Stock (either initially or under certain circumstances), which rights, options or warrants, until the occurrence of a specified event or events ("**Trigger Event**"): (i) are deemed to be transferred with such shares of the Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of the Common Stock, shall be deemed not to have been distributed for purposes of this Section 14.04(c) (and no adjustment to the Conversion Rate under this Section 14.04(c) will be required) until the occurrence of the earliest Trigger Event, whereupon such rights, options or warrants shall be deemed to have been distributed and an appropriate adjustment (if any is required) to the Conversion Rate shall be made under this Section 14.04(c). If any such right, option or warrant, including any such existing rights, options or warrants distributed prior to the date of this Indenture, are subject to events, upon the occurrence of which such rights, options or warrants become exercisable to purchase different securities, evidences of indebtedness or other assets, then the date of the occurrence of any and each such event shall be deemed to be the date of distribution and Ex-Dividend Date with respect to new rights, options or warrants with such rights (in which case the existing rights, options or warrants shall be deemed to terminate and expire on such date without exercise by any of the holders thereof). In addition, in the event of any distribution (or deemed distribution) of rights, options or warrants, or any Trigger Event or other event (of the type described in the immediately preceding sentence) with respect thereto that was counted for purposes of calculating a distribution amount for which an adjustment to the Conversion Rate under this Section 14.04(c) was made, (1) in the case of any such rights, options or warrants that shall all have been redeemed or purchased without exercise by any holders thereof, upon such final redemption or purchase (x) the Conversion Rate shall be readjusted as if such rights, options or warrants had not been issued and (y) the Conversion Rate shall then again be readjusted to give effect to such distribution, deemed distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or purchase price received by a holder or holders of Common Stock with respect to such rights, options or warrants (assuming such holder had retained such rights, options or warrants), made to all holders of Common Stock as of the date of such redemption or purchase, and (2) in the case of such rights, options or warrants that shall have expired or been terminated without exercise by any holders thereof, the Conversion Rate shall be readjusted as if such rights, options and warrants had not been issued.

For purposes of Section 14.04(a), Section 14.04(b) and this Section 14.04(c), if any dividend or distribution to which this Section 14.04(c) is applicable also includes one or both of:

(A) a dividend or distribution of shares of Common Stock to which Section 14.04(a) is applicable (the "**Clause A Distribution**"); or

(B) a dividend or distribution of rights, options or warrants to which Section 14.04(b) is applicable (the “ **Clause B Distribution** ”),

then, in either case, (1) such dividend or distribution, other than the Clause A Distribution and the Clause B Distribution, shall be deemed to be a dividend or distribution to which this Section 14.04(c) is applicable (the “ **Clause C Distribution** ”) and any Conversion Rate adjustment required by this Section 14.04(c) with respect to such Clause C Distribution shall then be made, and (2) the Clause A Distribution and Clause B Distribution shall be deemed to immediately follow the Clause C Distribution and any Conversion Rate adjustment required by Section 14.04(a) and Section 14.04(b) with respect thereto shall then be made, except that, if determined by the Company (I) the “Ex-Dividend Date” of the Clause A Distribution and the Clause B Distribution shall be deemed to be the Ex-Dividend Date of the Clause C Distribution and (II) any shares of Common Stock included in the Clause A Distribution or Clause B Distribution shall be deemed not to be “outstanding immediately prior to the open of business on such Ex-Dividend Date or Effective Date” within the meaning of Section 14.04(a) or “outstanding immediately prior to the open of business on such Ex-Dividend Date” within the meaning of Section 14.04(b).

(d) If any cash dividend or distribution is made to all or substantially all holders of the outstanding Common Stock, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{SP_0}{SP_0 - C}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution;
- CR' = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for such dividend or distribution;
- SP<sub>0</sub> = the Last Reported Sale Price of the Common Stock on the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution; and
- C = the amount in cash per share the Company distributes to all or substantially all holders of the outstanding Common Stock.

Any increase pursuant to this Section 14.04(d) shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution. If such dividend or distribution is not so paid, the Conversion Rate shall be decreased, effective as of the date the Board of Directors determines not to make or pay such dividend or distribution, to be the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. Notwithstanding the foregoing, if “C” (as defined above) is equal to or greater than “SP<sub>0</sub>” (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, for each \$1,000 principal amount of Notes, at the same time and upon the same terms as holders

of shares of the Common Stock, the amount of cash that such Holder would have received if such Holder owned a number of shares of Common Stock equal to the Conversion Rate on the Ex-Dividend Date for such cash dividend or distribution.

(e) If the Company or any of its Subsidiaries make a payment in respect of a tender or exchange offer for the Common Stock, to the extent that the cash and value of any other consideration included in the payment per share of the Common Stock exceeds the average of the Last Reported Sale Prices of the Common Stock over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the Conversion Rate shall be increased based on the following formula:

$$CR_1 = CR_0 \times \frac{AC + (SP_1 \times OS_1)}{OS_0 \times SP_1}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect immediately prior to the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;
- CR<sub>1</sub> = the Conversion Rate in effect immediately after the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;
- AC = the aggregate value of all cash and any other consideration (as determined by the Board of Directors) paid or payable for shares of Common Stock purchased in such tender or exchange offer;
- OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to the purchase of all shares of Common Stock accepted for purchase or exchange in such tender or exchange offer);
- OS<sub>1</sub> = the number of shares of Common Stock outstanding immediately after the date such tender or exchange offer expires (after giving effect to the purchase of all shares of Common Stock accepted for purchase or exchange in such tender or exchange offer); and
- SP<sub>1</sub> = the average of the Last Reported Sale Prices of the Common Stock over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires.

The adjustment to the Conversion Rate under this Section 14.04(e) shall occur at the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires; *provided* that in respect of any conversion of Notes within the 10 Trading Days immediately following, and including, the

Trading Day next succeeding the date such tender or exchange offer expires, references in this Section 14.04(e) with respect to 10 Trading Days shall be deemed replaced with such lesser number of Trading Days as have elapsed between the date that such tender or exchange offer expires and the Conversion Date in determining the Conversion Rate. In addition, if the Trading Day next succeeding the date such tender or exchange offer expires is after the 10th Trading Day immediately preceding, and including, the end of any Observation Period in respect of a conversion of Notes, references in this Section 14.04(e) to 10 Trading Days shall be deemed to be replaced, solely in respect of that conversion of Notes, with such lesser number of Trading Days as have elapsed from, and including, the Trading Day next succeeding the date such tender or exchange offer expires to, and including, the last Trading Day of such Observation Period.

(f) Notwithstanding this Section 14.04 or any other provision of this Indenture or the Notes, if a Conversion Rate adjustment becomes effective on any Ex-Dividend Date, and a Holder that has converted its Notes on or after such Ex-Dividend Date and on or prior to the related Record Date would be treated as the record holder of the shares of Common Stock as of the related Conversion Date as described under Section 14.02(i) based on an adjusted Conversion Rate for such Ex-Dividend Date, then, notwithstanding the Conversion Rate adjustment provisions in this Section 14.04, the Conversion Rate adjustment relating to such Ex-Dividend Date shall not be made for such converting Holder. Instead, such Holder shall be treated as if such Holder were the record owner of the shares of Common Stock on an unadjusted basis and participate in the related dividend, distribution or other event giving rise to such adjustment.

(g) Except as stated herein, the Company shall not adjust the Conversion Rate for the issuance of shares of the Common Stock or any securities convertible into or exchangeable for shares of the Common Stock or the right to purchase shares of the Common Stock or such convertible or exchangeable securities.

(h) In addition to those adjustments required by clauses (a), (b), (c), (d) and (e) of this Section 14.04, and to the extent permitted by applicable law and subject to the applicable rules of any exchange on which any of the Company's securities are then listed, the Company from time to time may increase the Conversion Rate by any amount for a period of at least 20 Business Days if the Board of Directors determines that such increase would be in the Company's best interest. In addition, to the extent permitted by applicable law and subject to the applicable rules of any exchange on which any of the Company's securities are then listed, the Company may (but is not required to) increase the Conversion Rate to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock in connection with a dividend or distribution of shares of Common Stock (or rights to acquire shares of Common Stock) or similar event. Whenever the Conversion Rate is increased pursuant to either of the preceding two sentences, the Company shall mail to the Holder of each Note at its last address appearing on the Note Register a notice of the increase at least 15 days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

(i) Notwithstanding anything to the contrary in this Article 14, the Conversion Rate shall not be adjusted:

(i) upon the issuance of any shares of Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Company's securities and the investment of additional optional amounts in shares of Common Stock under any plan;

(ii) upon the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Company or any of the Company's Subsidiaries;

(iii) upon the issuance of any shares of the Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in clause (ii) of this subsection and outstanding as of the date the Notes were first issued

(iv) upon the repurchase of shares of Common Stock pursuant to an open-market share repurchase program or other buy-back transaction that is not a tender offer or exchange offer of the nature described in Section 14.04(e);

(v) solely for a change in the par value of the Common Stock; or

(vi) for accrued and unpaid interest, if any.

(j) The Company shall not be required to make an adjustment pursuant to clauses (a), (b), (c), (d) or (e) of this Section 14.04 unless such adjustment would result in a change of at least 1% of the then effective Conversion Rate. However, the Company shall carry forward any adjustment that the Company would otherwise have to make and take that adjustment into account in any subsequent adjustment. Notwithstanding the foregoing, all such carried-forward adjustments shall be made with respect to the Notes (i) in connection with any subsequent adjustment to the Conversion Rate of at least 1% of the Conversion Rate (when such carried-forward adjustments are taken into account) and (ii) (x) on the Conversion Date for any Notes (in the case of Physical Settlement) and (y) on each Trading Day of any Observation Period (in the case of Cash Settlement or Combination Settlement). All calculations and other determinations under this Article 14 shall be made by the Company and shall be made to the nearest one-ten thousandth (1/10,000) of a share.

(k) Whenever the Conversion Rate is adjusted as herein provided, the Company shall promptly file with the Trustee (and the Conversion Agent if not the Trustee) an Officer's Certificate setting forth the Conversion Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officer's Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Conversion Rate and may assume without inquiry that the last Conversion Rate of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Rate setting forth the adjusted Conversion Rate and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Rate to each Holder at its last address appearing on the Note Register of this Indenture. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(l) For purposes of this Section 14.04, the number of shares of Common Stock at any time outstanding shall not include shares of Common Stock held in the treasury of the Company so long as the Company does not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company, but shall include shares of Common Stock issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

Section 14.05 . *Adjustments of Prices.* Whenever any provision of this Indenture requires the Company to calculate the Last Reported Sale Prices, the Daily VWAPs, the Daily Conversion Values or the Daily Settlement Amounts over a span of multiple days (including an Observation Period and the period for determining the Stock Price for purposes of a Make-Whole Fundamental Change), the Company shall make appropriate adjustments to each to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Ex-Dividend Date of the event occurs, at any time during the period when the Last Reported Sale Prices, the Daily VWAPs, the Daily Conversion Values or the Daily Settlement Amounts are to be calculated.

Section 14.06 . *Shares to Be Fully Paid.* The Company shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient shares of Common Stock to provide for conversion of the Notes from time to time as such Notes are presented for conversion (assuming that at the time of computation of such number of shares, all such Notes would be converted by a single Holder and that Physical Settlement is applicable).

Section 14.07. *Effect of Recapitalizations, Reclassifications and Changes of the Common Stock.*

(a) In the case of:

- (i) any recapitalization, reclassification or change of the Common Stock (other than changes resulting from a subdivision or combination),
- (ii) any consolidation, merger or combination involving the Company,
- (iii) any sale, lease or other transfer to a third party of the consolidated assets of the Company and the Company's Subsidiaries substantially as an entirety or
- (iv) any statutory share exchange,

in each case, as a result of which the Common Stock would be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination thereof) (any such event, a “ **Merger Event** ”), then, at and after the effective time of such Merger Event, the right to convert each \$1,000 principal amount of Notes shall be changed into a right to convert such principal amount of Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that a holder of a number of shares of Common Stock equal to the Conversion Rate immediately prior to such Merger Event would have owned or been entitled to receive (the “ **Reference Property** ”, with each “ **unit of Reference Property** ” meaning the kind and amount of Reference Property that a holder of one share of Common Stock is entitled to receive) upon such Merger Event and, prior to or at the

effective time of such Merger Event, the Company or the successor or purchasing Person, as the case may be, shall execute with the Trustee a supplemental indenture permitted under Section 10.01(f) providing for such change in the right to convert each \$1,000 principal amount of Notes; *provided, however*, that at and after the effective time of the Merger Event (A) the Company shall continue to have the right to determine the form of consideration to be paid or delivered, as the case may be, upon conversion of Notes in accordance with Section 14.02 and (B) (I) any amount payable in cash upon conversion of the Notes in accordance with Section 14.02 shall continue to be payable in cash, (II) any shares of Common Stock that the Company would have been required to deliver upon conversion of the Notes in accordance with Section 14.02 shall instead be deliverable in the amount and type of Reference Property that a holder of that number of shares of Common Stock would have received in such Merger Event and (III) the Daily VWAP shall be calculated based on the value (as determined by the Board of Directors) of a unit of Reference Property.

If the Merger Event causes the Common Stock to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), then (i) the Reference Property into which the Notes will be convertible shall be deemed to be (x) the weighted average of the types and amounts of consideration received by the holders of Common Stock that affirmatively make such an election or (y) if no holders of Common Stock affirmatively make such an election, the types and amounts of consideration actually received by the holders of Common Stock, and (ii) the unit of Reference Property for purposes of the immediately preceding paragraph shall refer to the consideration referred to in clause (i) attributable to one share of Common Stock. If the holders of Common Stock receive only cash in such Merger Event, then for all conversions that occur after the effective date of such Merger Event (A) the consideration due upon conversion of each \$1,000 principal amount of Notes shall be solely cash in an amount equal to the Conversion Rate in effect on the Conversion Date (as may be increased by any Additional Shares pursuant to Section 14.03), *multiplied by* the price paid per share of Common Stock in such Merger Event and (B) the Company shall satisfy the Conversion Obligation by paying cash to converting Holders on the third Business Day immediately following the relevant Conversion Date. The Company shall notify Holders, the Trustee and the Conversion Agent (if other than the Trustee) of such weighted average as soon as practicable after such determination is made.

Such supplemental indenture described in the second immediately preceding paragraph shall provide for anti-dilution and other adjustments that shall be as nearly equivalent as is possible to the adjustments provided for in this Article 14. If, in the case of any Merger Event, the Reference Property includes shares of stock, securities or other property or assets (including cash or any combination thereof) of a Person other than the successor or purchasing corporation, as the case may be, in such Merger Event, then such supplemental indenture shall also be executed by such other Person and shall contain such additional provisions to protect the interests of the Holders of the Notes as the Board of Directors shall reasonably consider necessary by reason of the foregoing, including the provisions providing for the purchase rights set forth in Article 15.

(b) When the Company executes a supplemental indenture pursuant to subsection (a) of this Section 14.07, the Company shall promptly file with the Trustee an Officer's Certificate briefly stating the reasons therefor, the kind or amount of cash, securities or property or asset that

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will comprise a unit of Reference Property after any such Merger Event, any adjustment to be made with respect thereto and that all conditions precedent have been complied with, and shall promptly mail notice thereof to all Holders. The Company shall cause notice of the execution of such supplemental indenture to be mailed to each Holder, at its address appearing on the Note Register provided for in this Indenture, within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture.

(c) The Company shall not become a party to any Merger Event unless its terms are consistent with this Section 14.07. None of the foregoing provisions shall affect the right of a holder of Notes to convert its Notes into cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, as set forth in Section 14.01 and Section 14.02 prior to the effective date of such Merger Event.

(d) The above provisions of this Section shall similarly apply to successive Merger Events.

(e) Upon the consummation of any Merger Event, references to “Common Stock” shall be deemed to refer to any Reference Property that constitutes capital stock after giving effect to such Merger Event.

Section 14.08. *Certain Covenants*. (a) The Company covenants that all shares of Common Stock issued upon conversion of Notes will be fully paid and non-assessable by the Company and free from all taxes, liens and charges with respect to the issue thereof.

(b) The Company covenants that, if any shares of Common Stock to be provided for the purpose of conversion of Notes hereunder require registration with or approval of any governmental authority under any federal or state law before such shares of Common Stock may be validly issued upon conversion, the Company will, to the extent then permitted by the rules and interpretations of the Commission, secure such registration or approval, as the case may be.

(c) The Company further covenants that if at any time the Common Stock shall be listed on any national securities exchange or automated quotation system the Company will use its commercially reasonable efforts to list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, any Common Stock issuable upon conversion of the Notes.

Section 14.09. *Responsibility of Trustee*. The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Holder to determine the Conversion Rate (or any adjustment thereto) or whether any facts exist that may require any adjustment (including any increase) of the Conversion Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities, property or cash that may at any time be issued or delivered upon the conversion of any Note; and the Trustee and any other Conversion Agent make no representations with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to

issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of the Company contained in this Article. Without limiting the generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture entered into pursuant to Section 14.07 relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Holders upon the conversion of their Notes after any event referred to in such Section 14.07 or to any adjustment to be made with respect thereto, but, subject to the provisions of Section 7.01, may accept (without any independent investigation) as conclusive evidence of the correctness of any such provisions, and shall be protected in conclusively relying upon, the Officer's Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto. Neither the Trustee nor the Conversion Agent shall be responsible for determining whether any event contemplated by Section 14.01(b) has occurred that makes the Notes eligible for conversion or no longer eligible therefor until the Company has delivered to the Trustee and the Conversion Agent the notices referred to in Section 14.01(b) with respect to the commencement or termination of such conversion rights, on which notices the Trustee and the Conversion Agent may conclusively rely, and the Company agrees to deliver such notices to the Trustee and the Conversion Agent immediately after the occurrence of any such event or at such other times as shall be provided for in Section 14.01(b).

Section 14.10. *Notice to Holders Prior to Certain Actions* . In case of any:

(a) action by the Company or one of its Subsidiaries that would require an adjustment in the Conversion Rate pursuant to Section 14.04 or Section 14.11;

(b) Merger Event; or

(c) voluntary or involuntary dissolution, liquidation or winding-up of the Company or any of its Subsidiaries;

then, in each case (unless notice of such event is otherwise required pursuant to another provision of this Indenture), the Company shall cause to be filed with the Trustee and the Conversion Agent (if other than the Trustee) and to be mailed to each Holder at its address appearing on the Note Register, as promptly as possible but in any event at least 20 days prior to the applicable date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such action by the Company or one of its Subsidiaries or, if a record is not to be taken, the date as of which the holders of Common Stock of record are to be determined for the purposes of such action by the Company or one of its Subsidiaries, or (ii) the date on which such Merger Event, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such Merger Event, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such action by the Company or one of its Subsidiaries, Merger Event, dissolution, liquidation or winding-up.

Section 14.11 . *Stockholder Rights Plans*. If the Company has a stockholder rights plan in effect upon conversion of the Notes, each share of Common Stock, if any, issued upon such conversion shall be entitled to receive the appropriate number of rights, if any, and the certificates representing the Common Stock issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any such stockholder rights plan, as the same may be amended from time to time. However, if, prior to any conversion of Notes, the rights have separated from the shares of Common Stock in accordance with the provisions of the applicable stockholder rights plan so that the Holders would not be entitled to receive any rights in respect of Common Stock, if any, issuable upon conversion of the Notes, the Conversion Rate shall be adjusted at the time of separation as if the Company distributed to all or substantially all holders of the outstanding Common Stock Distributed Property as provided in Section 14.04(c), subject to readjustment in the event of the expiration, termination or redemption of such rights.

Section 14.12 . *Limit on Issuance of Shares of Common Stock Upon Conversion*. Notwithstanding anything to the contrary in this Indenture, if an event occurs that would result in an increase in the Conversion Rate by an amount in excess of limitations imposed by any shareholder approval rules or listing standards of any national or regional securities exchange that are applicable to the Company, the Company will, at its option, either obtain stockholder approval of any issuance of Common Stock upon conversion of the Notes in excess of such limitations or pay cash in lieu of delivering any shares of Common Stock otherwise deliverable upon conversions in excess of such limitations based on the Daily VWAP on each Trading Day of the relevant Observation Period, in the case of Combination Settlement, or the relevant Conversion Date, in the case of Physical Settlement, in respect of which, in lieu of delivering shares of Common Stock, the Company pays cash pursuant to this Section 14.12.

## ARTICLE 15 REPURCHASE OF NOTES AT OPTION OF HOLDERS

Section 15.01. *Intentionally Omitted*.

Section 15.02 . *Repurchase at Option of Holders Upon a Fundamental Change*. (a) If a Fundamental Change occurs at any time, each Holder shall have the right, at such Holder's option, to require the Company to repurchase for cash all of such Holder's Notes, or any portion thereof that is equal to \$1,000 or a multiple of \$1,000, on the date (the "**Fundamental Change Repurchase Date**") specified by the Company that is not less than 20 calendar days or more than 35 calendar days following the date of the Fundamental Change Company Notice at a repurchase price equal to 100% of the principal amount thereof, *plus* accrued and unpaid Special Interest thereon, if any, to, but excluding, the Fundamental Change Repurchase Date (the "**Fundamental Change Repurchase Price**"), unless the Fundamental Change Repurchase Date falls after a Special Interest Record Date but on or prior to the Special Interest Payment Date to which such Special Interest Record Date relates, in which case the Company shall instead pay the full amount of accrued and unpaid Special Interest, if any, to Holders of record at the close of business on such Special Interest Record Date, and the Fundamental Change Repurchase Price shall be equal to 100% of the principal amount of Notes to be repurchased pursuant to this Article 15.

(b) Repurchases of Notes under this Section 15.02 shall be made, at the option of the Holder thereof, upon:

(i) delivery to the Paying Agent by a Holder of a duly completed notice (the “**Fundamental Change Repurchase Notice**”) in the form set forth in Attachment 2 to the Form of Note attached hereto as Exhibit A, if the Notes are Physical Notes, or in compliance with the Depository’s procedures for surrendering interests in Global Notes, if the Notes are Global Notes, in each case on or before the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date; and

(ii) delivery of the Notes, if the Notes are Physical Notes, to the Paying Agent at any time after delivery of the Fundamental Change Repurchase Notice (together with all necessary endorsements for transfer) at the Corporate Trust Office of the Paying Agent, or book-entry transfer of the Notes, if the Notes are Global Notes, in compliance with the procedures of the Depository, in each case such delivery being a condition to receipt by the Holder of the Fundamental Change Repurchase Price therefor.

The Fundamental Change Repurchase Notice in respect of any Notes to be repurchased shall state:

(i) in the case of Physical Notes, the certificate numbers of the Notes to be delivered for repurchase;

(ii) the portion of the principal amount of Notes to be repurchased, which must be \$1,000 or a multiple thereof; and

(iii) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

*provided, however*, that if the Notes are Global Notes, the Fundamental Change Repurchase Notice must comply with appropriate Depository procedures.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Repurchase Notice contemplated by this Section 15.02 shall have the right to withdraw, in whole or in part, such Fundamental Change Repurchase Notice at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 15.03.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Repurchase Notice or written notice of withdrawal thereof.

(c) On or before the 20th calendar day after the occurrence of a Fundamental Change, the Company shall provide to all Holders of Notes and the Trustee and the Paying Agent (in the case of a Paying Agent other than the Trustee) a notice (the “**Fundamental Change Company Notice**”) of the occurrence of the Fundamental Change and of the repurchase right at the option of the Holders arising as a result thereof. In the case of Physical Notes, such notice shall be by

first class mail or, in the case of Global Notes, such notice shall be delivered in accordance with the applicable procedures of the Depositary. Each Fundamental Change Company Notice shall specify:

- (i) the events causing the Fundamental Change;
- (ii) the date of the Fundamental Change;
- (iii) the last date on which a Holder may exercise the repurchase right pursuant to this Article 15;
- (iv) the Fundamental Change Repurchase Price;
- (v) the Fundamental Change Repurchase Date;
- (vi) the name and address of the Paying Agent and the Conversion Agent, if applicable;
- (vii) if applicable, the Conversion Rate and any adjustments to the Conversion Rate;
- (viii) that the Notes with respect to which a Fundamental Change Repurchase Notice has been delivered by a Holder may be converted only if the Holder withdraws the Fundamental Change Repurchase Notice in accordance with the terms of this Indenture;
- (ix) the procedures that Holders must follow to require the Company to repurchase their Notes.

No failure of the Company to give the foregoing notices and no defect therein shall limit the Holders' repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 15.02.

At the Company's request, the Trustee shall give such notice in the Company's name and at the Company's expense; *provided, however*, that, in all cases, the text of such Fundamental Change Company Notice shall be prepared by the Company.

(d) Notwithstanding the foregoing, no Notes may be repurchased by the Company on any date at the option of the Holders upon a Fundamental Change if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes). The Paying Agent will promptly return to the respective Holders thereof any Physical Notes held by it during the acceleration of the Notes (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes), or any instructions for book-entry transfer of the Notes in compliance with the procedures of the Depositary shall be deemed to have been canceled, and, upon such return or cancellation, as the case may be, the Fundamental Change Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 15.03. *Withdrawal of Fundamental Change Repurchase Notice* . (a) A Fundamental Change Repurchase Notice may be withdrawn (in whole or in part) by means of a written notice of withdrawal delivered to the Paying Agent in accordance with this Section 15.03 at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date, specifying:

(i) the principal amount of the Notes with respect to which such notice of withdrawal is being submitted,

(ii) if Physical Notes have been issued, the certificate number of the Note in respect of which such notice of withdrawal is being submitted, and

(iii) the principal amount, if any, of such Note that remains subject to the original Fundamental Change Repurchase Notice, which portion must be in principal amounts of \$1,000 or a multiple of \$1,000;

*provided , however ,* that if the Notes are Global Notes, the notice must comply with appropriate procedures of the Depository.

Section 15.04 . *Deposit of Fundamental Change Repurchase Price* . (a) The Company will deposit with the Trustee (or other Paying Agent appointed by the Company, or if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 4.04) on or prior to 11:00 a.m., New York City time, on the Fundamental Change Repurchase Date an amount of money sufficient to repurchase all of the Notes to be repurchased at the appropriate Fundamental Change Repurchase Price. Subject to receipt of funds and/or Notes by the Trustee (or other Paying Agent appointed by the Company), payment for Notes surrendered for repurchase (and not withdrawn prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date) will be made on the later of (i) the Fundamental Change Repurchase Date ( *provided* the Holder has satisfied the conditions in Section 15.02) and (ii) the time of book-entry transfer or the delivery of such Note to the Trustee (or other Paying Agent appointed by the Company) by the Holder thereof in the manner required by Section 15.02 by mailing checks for the amount payable to the Holders of such Notes entitled thereto as they shall appear in the Note Register; *provided , however ,* that payments to the Depository shall be made by wire transfer of immediately available funds to the account of the Depository or its nominee. The Trustee shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Fundamental Change Repurchase Price.

(b) If by 11:00 a.m. New York City time, on the Fundamental Change Repurchase Date, the Trustee (or other Paying Agent appointed by the Company) holds money sufficient to make payment on all the Notes or portions thereof that are to be repurchased on such Fundamental Change Repurchase Date, then, with respect to the Notes that have been properly surrendered for repurchase and have not been validly withdrawn in accordance with the provisions of this Indenture, (i) such Notes will cease to be outstanding, (ii) interest, if and to the extent any interest is payable on such date, will cease to accrue on such Notes (whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the Trustee

or Paying Agent) and (iii) all other rights of the Holders of such Notes will terminate (other than the right to receive the Fundamental Change Repurchase Price).

(c) Upon surrender of a Note that is to be repurchased in part pursuant to Section 15.02, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Note in an authorized denomination equal in principal amount to the unreurchased portion of the Note surrendered.

Section 15.05. *Covenant to Comply with Applicable Laws Upon Repurchase of Notes* . In connection with any repurchase offer, the Company will, if required:

(a) comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act;

(b) file a Schedule TO or any other required schedule under the Exchange Act; and

(c) otherwise comply with all applicable federal and state securities laws in connection with any offer by the Company to repurchase the Notes;

in each case, so as to permit the rights and obligations under this Article 15 to be exercised in the time and in the manner specified in this Article 15.

#### ARTICLE 16 N O O P T I O N A L R E D E M P T I O N

Section 16.01. *No Optional Redemption* . The Notes shall not be redeemable by the Company at its option prior to the Maturity Date, and no sinking fund is provided for the Notes.

#### ARTICLE 17 M I S C E L L A N E O U S P R O V I S I O N S

Section 17.01 . *Provisions Binding on Company's Successors* . All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind its successors and assigns whether so expressed or not.

Section 17.02 . *Official Acts by Successor Corporation* . Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or Officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation or other entity that shall at the time be the lawful sole successor of the Company.

Section 17.03 . *Addresses for Notices, Etc.* Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders on the Company shall be deemed to have been sufficiently given or made, for all purposes if given or served by being deposited postage prepaid by registered or certified mail in a post office

letter box addressed (until another address is filed by the Company with the Trustee) to Yahoo! Inc., 701 First Avenue, Sunnyvale, California 94089, (fax: (408) 349-3510); Attention: General Counsel. Any notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed to the Corporate Trust Office or sent electronically in PDF format.

The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder shall be mailed to it by first class mail, postage prepaid, at its address as it appears on the Note Register and shall be sufficiently given to it if so mailed within the time prescribed; *provided* that notices given to Holders of Global Notes may be given through the facilities of the Depository.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, pdf, facsimile transmission or other similar unsecured electronic methods. If the party elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding whether such instructions conflict or are inconsistent with a subsequent written instruction. The party providing electronic instructions agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Section 17.04. *Governing Law; Jurisdiction* . THIS INDENTURE AND EACH NOTE, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS INDENTURE AND EACH NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

The Company irrevocably consents and agrees, for the benefit of the Holders from time to time of the Notes and the Trustee, that any legal action, suit or proceeding against it with respect to obligations, liabilities or any other matter arising out of or in connection with this Indenture or the Notes may be brought in the courts of the State of New York or the courts of the United States, in each case located in the Borough of Manhattan, New York City, New York and,

until amounts due and to become due in respect of the Notes have been paid, hereby irrevocably consents and submits to the non-exclusive jurisdiction of each such court *in personam* , generally and unconditionally with respect to any action, suit or proceeding for itself in respect of its properties, assets and revenues.

The Company irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Indenture brought in the courts of the State of New York or the courts of the United States, in each case, located in the Borough of Manhattan, New York City, New York and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

Section 17.05. *Evidence of Compliance with Conditions Precedent; Certificates and Opinions of Counsel to Trustee* . Upon any application, request or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and, upon written request by the Trustee, an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with.

Each Officer's Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture (other than the Officer's Certificates provided for in Section 4.08) shall include:

- (a) a statement that the person signing such certificate or opinion has read such covenant or conditions and the definitions herein relating thereto;
- (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
- (c) a statement that, in the opinion of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (d) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 17.06. *Legal Holidays* . In any case where any Special Interest Payment Date, Fundamental Change Repurchase Date or Maturity Date is not a Business Day, then any action to be taken on such date need not be taken on such date, but may be taken on the next succeeding Business Day with the same force and effect as if taken on such date, and no Special Interest, if and to the extent any Special Interest is otherwise payable on such date, shall accrue in respect of the delay.

Section 17.07. *No Security Interest Created* . Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform

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Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction.

Section 17.08 . *Benefits of Indenture*. Nothing in this Indenture or in the Notes, expressed or implied, shall give to any Person, other than the Holders, the parties hereto, any Paying Agent, any Conversion Agent, any authenticating agent, any Note Registrar and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 17.09 . *Table of Contents, Headings, Etc*. The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 17.10 . *Authenticating Agent*. The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Section 2.04, Section 2.05, Section 2.06, Section 2.07, Section 10.04 and Section 15.04 as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes “by the Trustee” and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee’s certificate of authentication. Such authenticating agent shall at all times be a Person eligible to serve as trustee hereunder pursuant to Section 7.08.

Any corporation or other entity into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation or other entity succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor corporation or other entity is otherwise eligible under this Section 17.10, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor corporation or other entity.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee may appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Holders as the names and addresses of such Holders appear on the Note Register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services as agreed in writing although the Company may terminate the authenticating agent, if it determines such agent's fees to be unreasonable.

The provisions of Section 7.01(j), Section 7.03, Section 7.04, Section 8.03 and this Section 17.10 shall be applicable to any authenticating agent.

If an authenticating agent is appointed pursuant to this Section 17.10, the Notes may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

\_\_\_\_\_,  
as Authenticating Agent, certifies that this is one of the  
Notes described in the within-named Indenture.

By: \_\_\_\_\_  
Authorized Officer

Section 17.11 . *Execution in Counterparts*. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 17.12 . *Severability*. In the event any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired.

Section 17.13 . *Waiver of Jury Trial*. EACH OF THE COMPANY AND THE TRUSTEE, AND EACH HOLDER OF A NOTE BY ITS ACCEPTANCE THEREOF, HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 17.14 . *Force Majeure*. In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

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Section 17.15 . *Calculations* . Except as otherwise provided herein, the Company shall be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the Last Reported Sale Prices of the Common Stock, the Daily VWAPs, the Daily Conversion Values, the Daily Settlement Amounts, any accrued interest payable on the Notes and the Conversion Rate of the Notes. The Company shall make all these calculations in good faith and, absent manifest error, the Company's calculations shall be final and binding on Holders of Notes. The Company shall provide a schedule of its calculations to each of the Trustee and the Conversion Agent, and each of the Trustee and Conversion Agent is entitled to rely conclusively upon the accuracy of the Company's calculations without independent verification. The Trustee will forward the Company's calculations to any Holder of Notes upon the request of that Holder at the sole cost and expense of the Company.

Section 17.16. *U.S.A. Patriot Act*. The parties hereto acknowledge that in accordance with Section 326 of the U.S.A. Patriot Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to this Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the U.S.A. Patriot Act.

[ *Remainder of page intentionally left blank* ]

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IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

YAHOO! INC.

By: /s/ Ken Goldman

Name: Ken Goldman

Title: Chief Financial Officer

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as Trustee

By: /s/ Julie Hoffman-Ramos

Name: Julie Hoffman-Ramos

Title: Vice President

[FORM OF FACE OF NOTE]

[INCLUDE FOLLOWING LEGEND IF A GLOBAL NOTE]

[UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), TO YAHOO! INC. (THE “COMPANY”) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREUNDER IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

[INCLUDE FOLLOWING LEGEND IF A RESTRICTED SECURITY]

[THIS SECURITY AND THE COMMON STOCK, IF ANY, ISSUABLE UPON CONVERSION OF THIS SECURITY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER:

(1) REPRESENTS THAT IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, AND

(2) AGREES FOR THE BENEFIT OF YAHOO! INC. (THE “COMPANY”) THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE DATE THAT IS THE LATER OF (X) ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THERETO AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, OR

(B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, OR

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(C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, OR

(D) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH CLAUSE (2)(D) ABOVE, THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.]

Yahoo! Inc.

0.00% Convertible Senior Note due 2018

No. RA-[ • ]

Initially \$[ • ]

CUSIP No. 984332 AE6  
ISIN No. US984332AE65

Yahoo! Inc., a corporation duly organized and validly existing under the laws of the State of Delaware (the “**Company**,” which term includes any successor corporation or other entity under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to CEDE & CO., or registered assigns, the principal sum as set forth in the “Schedule of Exchanges of Notes” attached hereto, which amount, taken together with the principal amounts of all other outstanding Notes, shall not, unless permitted by the Indenture, exceed \$1,250,000,000 in aggregate at any time (or \$1,437,500,000 if the Initial Purchasers exercise their over-allotment option in full as set forth in the Purchase Agreement), in accordance with the rules and procedures of the Depository, on December 1, 2018, and interest, if any, thereon as set forth below.

This Note shall bear no regular cash interest, and the principal amount of this Note shall not accrete. Any interest on this Note shall be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of actual days elapsed over a 30-day month. Any Special Interest on this Note is payable semi-annually in arrears on each June 1 and December 1, if and to the extent any Special Interest shall accrue and be payable on such Special Interest Payment Date pursuant to the within-mentioned Indenture, to Holders of record at the close of business on the preceding May 15 and November 15 (whether or not such day is a Business Day), respectively. Special Interest will be payable as set forth in Section 4.06(d), Section 4.06(e) and Section 6.03 of the within-mentioned Indenture, and any reference to interest on, or in respect of, any Note therein shall be deemed to refer solely to Special Interest if, in such context, Special Interest is, was or would be payable pursuant to any of such Section 4.06(d), Section 4.06(e) or Section 6.03 or any interest on any Defaulted Amounts payable as set forth in Section 2.03(c) in the within-mentioned Indenture.

Any Defaulted Amounts shall not accrue interest unless Special Interest was payable on the required payment date, in which case such payments shall accrue interest per annum at the then-applicable Special Interest rate, from, and including, such relevant payment date to, but excluding, the date on which such Defaulted Amounts shall have been paid by the Company, at its election, in accordance with Section 2.03(c) of the Indenture.

The Company shall pay the principal of and interest, if any, on this Note, if and so long as such Note is a Global Note, in immediately available funds in lawful money of the United States at the time to the Depository or its nominee, as the case may be, as the registered Holder of such Note. As provided in and subject to the provisions of the Indenture, the Company shall pay the principal of any Notes (other than Notes that are Global Notes) at the office or agency designated by the Company for that purpose. The Company has initially designated the Trustee as its Paying Agent and Note Registrar in respect of the Notes and its agency in New York, New

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York, as a place where Notes may be presented for payment or for registration of transfer and exchange.

Reference is made to the further provisions of this Note set forth on the reverse hereof, including, without limitation, provisions giving the Holder of this Note the right to convert this Note into cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, on the terms and subject to the limitations set forth in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

**This Note, and any claim, controversy or dispute arising under or related to this Note, shall be construed in accordance with and governed by the laws of the State of New York.**

In the case of any conflict between this Note and the Indenture, the provisions of the Indenture shall control and govern.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

*[ Remainder of page intentionally left blank ]*

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IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

YAHOO! INC.

By: \_\_\_\_\_  
Name:  
Title:

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A. as Trustee, certifies that this is one of  
the Notes described in the within-named Indenture.

By: \_\_\_\_\_  
Authorized Signatory

[FORM OF REVERSE OF NOTE]

Yahoo! Inc.  
0.00% Convertible Senior Note due 2018

This Note is one of a duly authorized issue of Notes of the Company, designated as its 0.00% Convertible Senior Notes due 2018 (the “**Notes**”), initially limited to the aggregate principal amount of \$1,250,000,000 (as increased by an amount equal to the aggregate principal amount of any additional Notes purchased by the Initial Purchasers pursuant to the exercise of their over-allotment option as set forth in the Purchase Agreement) all issued or to be issued under and pursuant to an Indenture dated as of November 26, 2013 (the “**Indenture**”), between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the Holders of the Notes. Additional Notes may be issued in an unlimited aggregate principal amount, subject to certain conditions specified in the Indenture. Capitalized terms used in this Note and not defined in this Note shall have the respective meanings set forth in the Indenture.

In case certain Events of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of, and any Special Interest on, all Notes may be declared, by either the Trustee or Holders of at least 25% in aggregate principal amount of Notes then outstanding, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions and certain exceptions set forth in the Indenture.

Subject to the terms and conditions of the Indenture, the Company will make all payments and deliveries in respect of the Fundamental Change Repurchase Price on the Fundamental Change Repurchase Date and the principal amount on the Maturity Date, as the case may be, to the Holder who surrenders a Note to a Paying Agent to collect such payments in respect of the Note. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts.

The Indenture contains provisions permitting the Company and the Trustee in certain circumstances, without the consent of the Holders of the Notes, and in certain other circumstances, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures modifying the terms of the Indenture and the Notes as described therein. It is also provided in the Indenture that, subject to certain exceptions, the Holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the Holders of all of the Notes waive any past Default or Event of Default under the Indenture and its consequences.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay or deliver, as the case may be, the principal (including the Fundamental Change Repurchase Price, if applicable) of, any accrued and unpaid interest on, and the consideration due upon

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conversion of, this Note at the place, at the respective times, at the rate and in the lawful money herein prescribed.

The Notes are issuable in registered form without coupons in denominations of \$1,000 principal amount and multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations, without payment of any service charge but, if required by the Company or Trustee, with payment of a sum sufficient to cover any transfer or similar tax that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such exchange of Notes being different from the name of the Holder of the old Notes surrendered for such exchange.

The Notes are not subject to redemption through the operation of any sinking fund or otherwise.

Upon the occurrence of a Fundamental Change, the Holder has the right, at such Holder's option, to require the Company to repurchase for cash all of such Holder's Notes or any portion thereof (in principal amounts of \$1,000 or multiples thereof) on the Fundamental Change Repurchase Date at a price equal to the Fundamental Change Repurchase Price.

Subject to the provisions of the Indenture, the Holder hereof has the right, at its option, during certain periods and upon the occurrence of certain conditions specified in the Indenture, prior to the close of business on the second Scheduled Trading Day immediately preceding the Maturity Date, to convert any Notes or portion thereof that is \$1,000 or a multiple thereof, into cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, at the Conversion Rate specified in the Indenture, as adjusted from time to time as provided in the Indenture.

Terms used in this Note and defined in the Indenture are used herein as therein defined.

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## ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM = as tenants in common

UNIF GIFT MIN ACT = Uniform Gifts to Minors Act

CUST = Custodian

TEN ENT = as tenants by the entirety

JT TEN = joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.



[FORM OF NOTICE OF CONVERSION]

To: Yahoo! Inc.

To: The Bank of New York Mellon Trust Company, N.A.  
101 Barclay Street  
New York, New York 10286  
Attention: Corporate Trust Division – Corporate Finance Unit

The undersigned registered owner of this Note hereby exercises the option to convert this Note, or the portion hereof (that is \$1,000 principal amount or a multiple thereof) below designated, into cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, in accordance with the terms of the Indenture referred to in this Note, and directs that any cash payable and any shares of Common Stock issuable and deliverable upon such conversion, together with any cash for any fractional share, and any Notes representing any unconverted principal amount hereof, be issued and delivered to the registered Holder hereof unless a different name has been indicated below. If any shares of Common Stock or any portion of this Note not converted are to be issued in the name of a Person other than the undersigned, the undersigned will pay all documentary, stamp or similar issue or transfer taxes, if any in accordance with Section 14.02(d) and Section 14.02(e) of the Indenture. Any amount required to be paid to the undersigned on account of any interest accompanies this Note.

Dated: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Signature(s)

\_\_\_\_\_  
Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if shares of Common Stock are to be issued, or

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Notes are to be delivered, other than to and in the name of the registered holder.

Fill in for registration of shares if to be issued, and Notes if to be delivered, other than to and in the name of the registered holder:

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(Name)

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(Street Address)

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(City, State and Zip Code)

Please print name and address

Principal amount to be converted (if less than all):

\$ \_\_\_\_\_,000

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

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Social Security or Other Taxpayer  
Identification Number

[FORM OF FUNDAMENTAL CHANGE REPURCHASE NOTICE]

To: Yahoo! Inc.

To: The Bank of New York Mellon Trust Company, N.A.  
101 Barclay Street  
New York, New York 10286  
Attention: Corporate Trust Division – Corporate Finance Unit

The undersigned registered owner of this Note hereby acknowledges receipt of a notice from Yahoo! Inc. (the “ **Company** ”) as to the occurrence of a Fundamental Change with respect to the Company and specifying the Fundamental Change Repurchase Date and requests and instructs the Company to pay to the registered holder hereof in accordance with Section 15.02 of the Indenture referred to in this Note (1) the entire principal amount of this Note, or the portion thereof (that is \$1,000 principal amount or a multiple thereof) below designated, and (2) if such Fundamental Change Repurchase Date does not fall during the period after a Special Interest Record Date and on or prior to the Scheduled Trading Day immediately succeeding the corresponding Special Interest Payment Date, accrued and unpaid Special Interest, if any, thereon to, but excluding, such Fundamental Change Repurchase Date.

In the case of Physical Notes, the certificate numbers of the Notes to be repurchased are as set forth below:

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature(s)

\_\_\_\_\_  
Social Security or Other Taxpayer  
Identification Number

Principal amount to be repurchased (if less than all):  
\$ \_\_\_\_\_,000

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

## [FORM OF ASSIGNMENT AND TRANSFER]

The Bank of New York Mellon Trust Company, N.A.  
as Trustee and Registrar  
101 Barclay Street  
New York, New York 10286  
Attention: Corporate Trust Division – Corporate Finance Unit

For value received \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto \_\_\_\_\_ (Please insert social security or Taxpayer Identification Number of assignee) the within Note, and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer the said Note on the books of the Company, with full power of substitution in the premises.

In connection with any transfer of the within Note occurring prior to the Resale Restriction Termination Date, as defined in the Indenture governing such Note, the undersigned confirms that such Note is being transferred:

- To Yahoo! Inc. or a subsidiary thereof; or
- Pursuant to a registration statement that has become or been declared effective under the Securities Act of 1933, as amended; or
- Pursuant to and in compliance with Rule 144A under the Securities Act of 1933, as amended; or
- Pursuant to and in compliance with Rule 144 under the Securities Act of 1933, as amended, or any other available exemption from the registration requirements of the Securities Act of 1933, as amended.

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Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature(s)

\_\_\_\_\_  
Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if Notes are to be delivered, other than to and in the name of the registered holder.

NOTICE: The signature on the assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

## Subsidiaries of Yahoo! Inc.

<u>Name of Entity</u>	<u>Jurisdiction of Formation</u>	<u>Economic Interest (if not 100%)</u>
5to1, Inc.	Delaware	
Actionality Deutschland GmbH	Germany	
Actionality, Inc.	Delaware	
Admovate, Inc.	Delaware	
Citizen Sports, Inc.	Delaware	
Cloud Party, Inc.	Delaware	
Dapper (Israel) Limited	Israel	
Dill, Inc.	Delaware	
EvtLive, Inc.	Delaware	
Genome, Inc.	Delaware	
GhostBird Software Inc.	Canada	
Instant IO, Inc.	Delaware	
interclick, inc.	Delaware	
IntoNow, Inc.	Delaware	
IQ Engines, Inc.	Delaware	
Java SNV Holdings LLC	Delaware	
KR3 Services Korea Yuhan Hoesa	Korea	
Lexity, Inc.	Delaware	
LookFlow, Inc.	Delaware	
Maktoob.com Inc.	British Virgin Islands	
Milewise, Inc.	Delaware	
MSKYNET, Inc.	Delaware	
Overture Asia-Pac Services K.K.	Japan	
Overture Korea Yuhan Hoesa	Korea	
Overture Search Services (Asia) Limited	Ireland	
Overture Search Services (Ireland) Limited	Ireland	
Overture Search Services Holdco (Ireland) Limited	Cayman Islands	
PlayerScale, LLC	Delaware	
PT Yahoo Indonesia	Indonesia	
Qwiki, Inc.	Delaware	
Right Media LLC	Delaware	
Rockmelt, Inc.	Delaware	
Rondee, Inc.	Delaware	
SkyPhrase, Inc.	Delaware	
Summly Incorporated	Delaware	
Summly Limited	UK	
ThumbsUp Labs, Inc.	Delaware	
Todoroo Inc.	Delaware	
Tomfoolery, Inc.	Delaware	
Tumblr, Inc.	Delaware	
Whereonearth Limited	UK	
Xobni Corporation	Delaware	
Yahoo de Colombia S.A.S.	Columbia	
Yahoo de Mexico, SA de CV	Mexico	
Yahoo India Private Limited	India	
Yahoo Software Development India Private Limited	India	
Yahoo Software Research and Development (Beijing) Co., Ltd.	China	
Yahoo! 390 GmbH	Germany	
Yahoo! Asia Pacific Pte. Ltd.	Singapore	
Yahoo! Australia & NZ (Holdings) Pty Limited	Australia	50%
Yahoo! Digital Media (Content) Pty Limited	Australia	50%
Yahoo!7 Communications Australia Pty Limited	Australia	50%
Yahoo!7 Money Hound Pty Ltd.	Australia	50%
Yahoo!7 Pty Limited	Australia	50%
Yahoo!7 Travel Pty Limited	Australia	50%

<u>Name of Entity</u>	<u>Jurisdiction of Formation</u>	<u>Economic Interest (if not 100%)</u>
Spreets Pty Limited	Australia	50%
TotalTravel.com Pty Limited	Australia	50%
Yahoo! New Zealand Limited	New Zealand	50%
Yahoo! Canada Co.	Canada	
Yahoo! Cayman Asia Holdings Limited	Cayman Islands	
Yahoo! CV, LLC	Delaware	
Yahoo! de Argentina SRL	Argentina	
Yahoo! Deutschland GmbH	Germany	
Yahoo! Deutschland Services GmbH	Germany	
Yahoo! Digital Marketing Limited	Taiwan	
Yahoo! do Brasil Internet Ltda	Brazil	
Yahoo! Domain Services, Inc.	Delaware	
Yahoo! Egypt Services, a Limited Liability Company	Egypt	
Yahoo! EMEA Limited	Ireland	
Yahoo! Europe Limited	UK	
Yahoo! France Holdings SAS	France	
Yahoo! France SAS	France	
Yahoo! Hispanic Americas, LLC	Delaware	
Yahoo! Hong Kong Holdings Limited	Hong Kong	
Yahoo! Hong Kong Limited	Hong Kong	
Yahoo! Hungary Labs Kft.	Hungary	
Yahoo! Iberia S.L.	Spain	
Yahoo! International Services Holdings, Inc.	Delaware	
Yahoo! International Services, Inc.	Delaware	
Yahoo! Israel Labs Ltd.	Israel	
Yahoo! Italia S.r.l.	Italy	
Yahoo! Jordan Services PSC	Jordan	
Yahoo! Korea Yuhan Hoesa	Korea	
Yahoo! Malaysia Sdn. Bhd.	Malaysia	
Yahoo! Mauritius Holdings Limited	Mauritius	
Yahoo! Middle East FZ-LLC	United Arab Emirates	
Yahoo! Netherlands B.V.	Netherlands	
Yahoo! Netherlands Holdings C. V.	Netherlands	
Yahoo! Philippines Services Inc.	Philippines	
Yahoo! Realty Inc.	California	
Yahoo! Sàrl	Switzerland	
Yahoo! Saudi Arabia Services Limited	Saudi Arabia	
Yahoo! Search Marketing Australia Pty Limited	Australia	
Yahoo! Singapore Digital Marketing Pte. Ltd.	Singapore	
Yahoo! Switzerland Server Services Sàrl	Switzerland	
Yahoo! Taiwan Holdings Limited	Hong Kong	
Yahoo! Taiwan Inc.	Taiwan	
Yahoo! Technologies Norway AS	Norway	
Yahoo! UK Limited	UK	
Yahoo! Vietnam Company Limited	Vietnam	
Zimbra Software Asia Pacific Private Limited	India	

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-191123, No. 333-191122, No. 333-190495, No. 333-186976, 333-179782, No. 333-174943, No. 333-174942, No. 333-170933, No. 333-168296, No. 333-166712, No. 333-163853, No. 333-161808, No. 333-161806, No. 333-149417, No. 333-149416, No. 333-147125, No. 333-147124, No. 333-145046, No. 333-145044, No. 333-140917, No. 333-138422, No. 333-132226, No. 333-127322, No. 333-126581, No. 333-120999, No. 333-118093, No. 333-118088, No. 333-118067, No. 333-112596, No. 333-109914, No. 333-104137, No. 333-39105, No. 333-46492, No. 333-54426, No. 333-56781, No. 333-60828, No. 333-66067, No. 333-76995, No. 333-79675, No. 333-80227, No. 333-81635, No. 333-83770, No. 333-89948, and No. 333-93497), and the Registration Statement on Form S-4 (No. 333-62694) of Yahoo! Inc. of our report dated February 28, 2014 relating to the consolidated financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
San Jose, California  
February 28, 2014

**Certification of Chief Executive Officer Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Marissa A. Mayer, certify that:

1. I have reviewed this Form 10-K of Yahoo! Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2014

By: \_\_\_\_\_ /s/ MARISSA A. MAYER  
 Marissa A. Mayer  
 Chief Executive Officer

**Certification of Chief Financial Officer Pursuant to  
Securities Exchange Act Rules 13a-14(a) and 15d-14(a)  
as Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Ken Goldman, certify that:

1. I have reviewed this Form 10-K of Yahoo! Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 28, 2014

By: \_\_\_\_\_ / s/ **KEN GOLDMAN**  
**Ken Goldman**  
**Chief Financial Officer**

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

In connection with the Annual Report on Form 10-K of Yahoo! Inc. (the "Company") for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Marissa A. Mayer, as Chief Executive Officer of the Company, and Ken Goldman, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, to the best of her or his knowledge, respectively, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/ s / M A R I S S A A . M A Y E R

**Name:** \_\_\_\_\_  
**Title:** Marissa A. Mayer  
**Dated:** Chief Executive Officer  
February 28, 2014

/ s / K E N G O L D M A N

**Name:** \_\_\_\_\_  
**Title:** Ken Goldman  
**Dated:** Chief Financial Officer  
February 28, 2014

The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filing.