

YAHOO!

Q3'13 FINANCIAL HIGHLIGHTS

October 15, 2013

This presentation contains forward-looking statements concerning the expected financial performance of Yahoo! Inc. and its consolidated subsidiaries (“we,” “Yahoo” or the “Company”) and Yahoo’s strategic and operational plans. Risks and uncertainties may cause actual results to differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, acceptance by users of new products and services (including, without limitation, products and services for mobile devices and alternative platforms); Yahoo’s ability to compete with new or existing competitors; reduction in spending by, or loss of, advertising customers; risks associated with the Search and Advertising Services and Sales Agreement (the “Search Agreement”) between Yahoo and Microsoft Corporation (“Microsoft”); risks related to Yahoo’s regulatory environment; Yahoo’s ability to protect its intellectual property and the value of its brands; adverse results in litigation; security breaches; interruptions or delays in the provision of Yahoo’s services; risks related to Yahoo’s international operations; risks related to joint ventures and the integration of acquisitions; dependence on third parties for technology, services, content, and distribution; and general economic conditions. All information in this presentation is as of October 15, 2013. Yahoo does not intend, and undertakes no duty, to update this information to reflect subsequent events or circumstances; however, Yahoo may update its business outlook, or any portion thereof, at any time in its discretion. More information about potential risk factors that could affect Yahoo’s business and financial results is included in Yahoo’s filings with the Securities and Exchange Commission (“SEC”) including its Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which is available on the SEC’s web site at www.sec.gov.

Throughout this presentation, we have rounded numbers as appropriate. In this presentation, “year-over-year” (or YOY) refers to the change from the corresponding period in the prior fiscal year to the specified period in the specified year; and “quarter-over-quarter” (or QOQ) refers to the change from the immediately preceding fiscal quarter to the specified quarter.

We periodically review and refine our methodologies for monitoring, gathering, and counting paid clicks and number of ads sold, and for calculating price-per-click and price-per-ad. Based on this process, from time to time we may update such methodologies.

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Definitions and Non-GAAP Financial Measures

This presentation includes the following defined terms and non-GAAP financial measures:

- **Adjusted EBITDA** is defined as net earnings 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 other gains, losses, and expenses that we do not believe are indicative of our ongoing results.
- **Display revenue ex-TAC** is defined as GAAP display revenue less display TAC. **Search revenue ex-TAC** is defined as GAAP search revenue less search TAC. **Other revenue ex-TAC** is defined as GAAP other revenue less other TAC.
- **Free cash flow** is defined as net cash provided by (used in) operating activities (adjusted to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net and dividends received from equity investees.
- **Net earnings** is defined as GAAP net income attributable to Yahoo! Inc.
- **Non-GAAP EPS (or non-GAAP net earnings per share) – diluted** is defined as non-GAAP net earnings divided by diluted shares outstanding.
- **Non-GAAP net earnings** is defined as net earnings excluding certain gains, losses, expenses, and their related tax effects, that we do not believe are indicative of our ongoing results and further adjusted to exclude stock-based compensation expense and its related tax effects.
- **Non-GAAP operating income** is defined as GAAP income from operations excluding certain gains, losses, and expenses that we do not believe are indicative of our ongoing operating results and further adjusted to exclude stock-based compensation expense.
- **Non-GAAP total operating expenses** is defined as GAAP total operating expenses excluding TAC and certain other expenses that we do not believe are indicative of our ongoing operating expenses and further adjusted to exclude stock-based compensation expense.
- **Revenue ex-TAC** is defined as GAAP revenue less TAC.
- **TAC** refers to traffic acquisition costs. TAC consists of payments to third-party entities that have integrated Yahoo's advertising offerings into their Websites or other offerings ("Affiliates") and payments made to companies that direct consumer and business traffic to Yahoo Properties.
- **Total operating expenses less TAC** is defined as GAAP total operating expenses excluding TAC.

Commencing in Q1'13, (1) stock-based compensation expense has been excluded from non-GAAP operating income and non-GAAP total operating expenses, and (2) stock-based compensation expense and its related tax effects have been excluded from non-GAAP net earnings and non-GAAP EPS-diluted. Prior period amounts have been revised to conform to the current presentation.

Please refer to the Appendix for reconciliations of the non-GAAP financial measures to the GAAP financial measures the Company considers most comparable.

In addition, certain margin information is presented on a non-GAAP basis:

- **Adjusted EBITDA margin ex-TAC** is calculated as adjusted EBITDA divided by revenue ex-TAC.
- **Income from operations margin ex-TAC** is calculated as income from operations divided by revenue ex-TAC;
- **Net margin ex-TAC** is calculated as net earnings divided by revenue ex-TAC; and
- **Non-GAAP operating income margin ex-TAC** is calculated as non-GAAP operating income divided by revenue ex-TAC.

Please refer to the Appendix for presentations of the most comparable margins calculated on a GAAP basis.

Please refer to the Company's earnings release for definitions of other terms appearing in this presentation, and for more information regarding the Company's non-GAAP financial measures.

Key Takeaways from Q3'13

- Revenue ex-TAC of \$1,081 million decreased 1% in the quarter on a YOY basis.
- Search revenue ex-TAC of \$426 million increased 3% in the quarter on a YOY basis.
- Adjusted EBITDA of \$331 million decreased 19% in the quarter on a YOY basis.
- Non-GAAP operating income of \$173 million decreased 27% in the quarter on a YOY basis.
- We repurchased 59 million shares of stock at an average price of \$28.53 for \$1,685 million in the third quarter.

Financials and Key Metrics at a Glance

\$ in millions, except per share amounts	Q3'12	Q3'13	YOY
GAAP revenue	\$1,202	\$1,139	(5%)
Revenue ex-TAC	\$1,089	\$1,081	(1%)
Adjusted EBITDA	\$408	\$331	(19%)
Income from operations <i>Income from operations margin ex-TAC</i>	\$152 14%	\$93 9%	(39%) (500bps)
Non-GAAP operating income <i>Non-GAAP operating income margin ex-TAC</i>	\$238 22%	\$173 16%	(27%) (600bps)
Earnings in equity interests	\$175	\$233	33%
Net earnings <i>Net margin ex-TAC</i>	\$3,160 N/M	\$297 27%	(91%) N/M
EPS attributable to Yahoo! Inc. – diluted	\$2.64	\$0.28	(89%)
Non-GAAP EPS – diluted	\$0.39	\$0.34	(13%)
Shares used in per share calculation – diluted	1,195	1,042	(13%)
Acquisition of property and equipment, net	\$140	\$78	(44%)
Free cash flow	\$920	\$249	(73%)
Cash and marketable securities	\$9,427	\$3,215	(66%)
Number of employees (at end of quarter)	12,000	12,300	3%

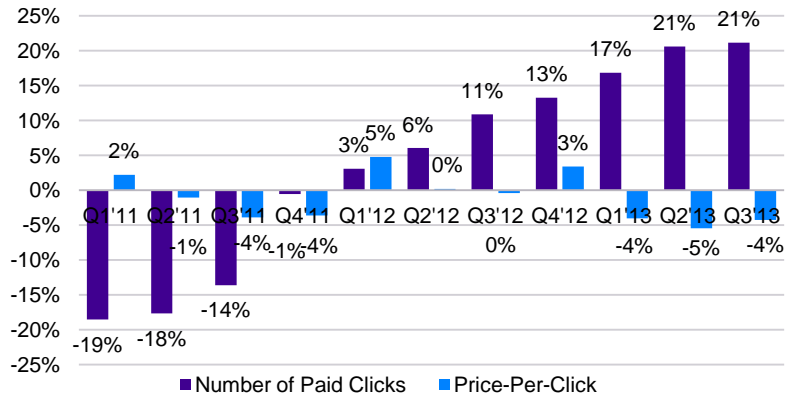
N/M – Not meaningful

Note: Results in Q3'12 were positively impacted by a net gain of \$2,755 million (or \$2.31 per diluted share) related to the sale of Alibaba Group shares, and negatively impacted by restructuring charges of \$25 million.

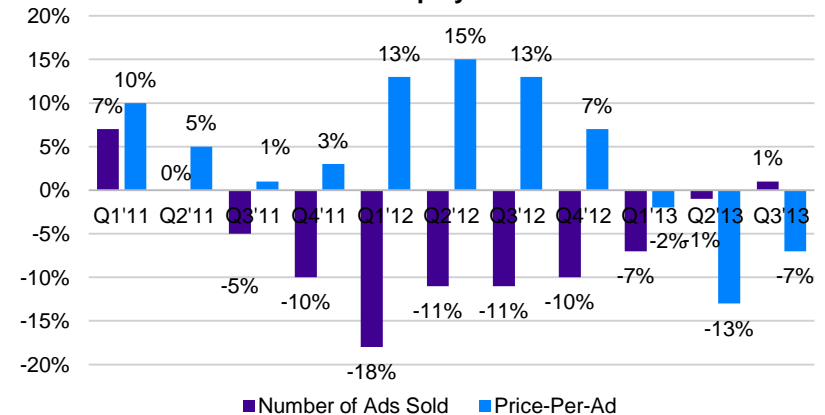
Search and Display Metrics (excluding Korea)*

YOY % Growth	Q1'11	Q2'11	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Global Search⁽¹⁾											
Number of Paid Clicks ⁽²⁾	(19%)	(18%)	(14%)	(1%)	3%	6%	11%	13%	17%	21%	21%
Price-per-Click ("PPC") ⁽³⁾	2%	(1%)	(4%)	(4%)	5%	0%	0%	3%	(4%)	(5%)	(4%)
Global Display^{(1) (4)}											
Number of Ads Sold ⁽⁵⁾	7%	0%	(5%)	(10%)	(18%)	(11%)	(11%)	(10%)	(7%)	1%	1%
Price-per-Ad ("PPA") ⁽⁶⁾	10%	5%	1%	3%	13%	15%	13%	7%	(2%)	(13%)	(7%)

Global Search Trends



Global Display Trends



*Due to the closure of the Korea business in Q4'12, metrics on this page exclude the Korea market for all periods. Commencing this quarter, a) impressions and revenue associated with our new stream ad units are included in the display metrics; b) The revenue and volume associated with other display advertisements sold on a price-per-click basis have been excluded from our search metrics (and continue to be excluded from our display metrics); and c) the Microsoft RPS guarantee has been excluded from the calculation of Price-Per-Click. Prior period amounts have been revised to conform to the current presentation.

(1) Source: Internal data excluding China and Japan (where Yahoo-branded sites are operated by third-party licensees).

(2) "Paid Clicks" are clicks by end-users on sponsored search listings on Yahoo Properties and Affiliate sites.

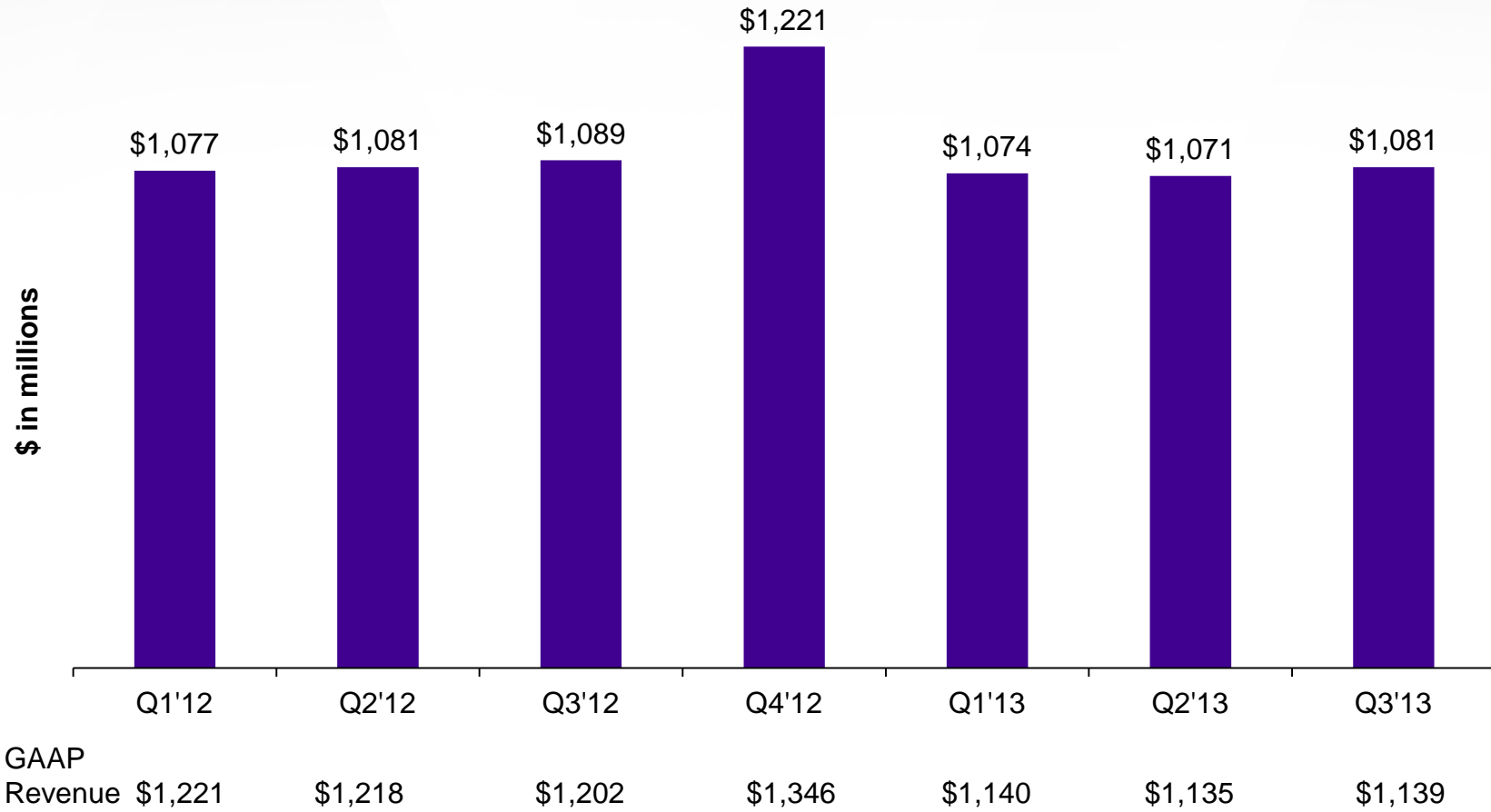
(3) Price-per-Click is calculated as gross search revenue (before TAC), excluding the Microsoft RPS guarantee, divided by the number of Paid Clicks.

(4) Display metrics include data for graphical, sponsorship, and stream ad units on Yahoo Properties (including mobile). Limited to data from the U.S., U.K., France, Germany, Spain, Italy, Taiwan, Hong Kong, Southeast Asia, and India.

(5) "Ads Sold" consist of display ad impressions for paying advertisers on Yahoo Properties.

(6) Price-per-Ad is calculated as display revenue from Yahoo Properties divided by the number of Ads Sold.

Revenue ex-TAC Trends



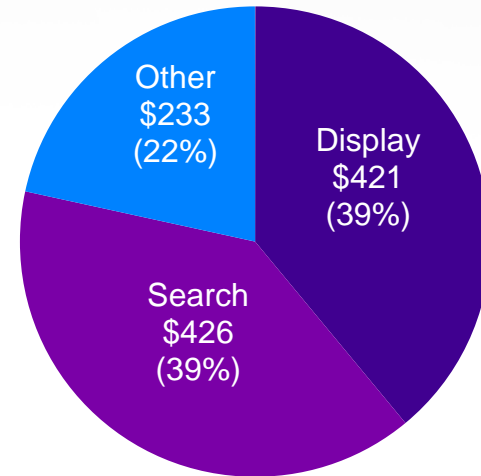
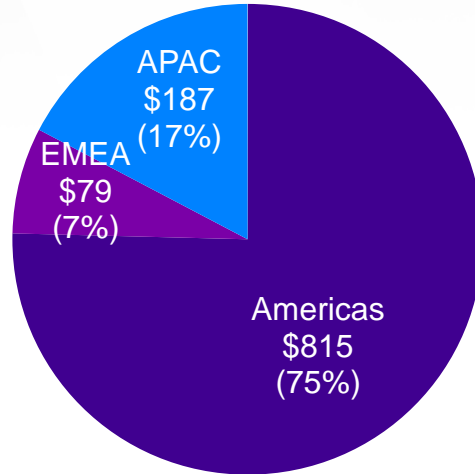
Revenue ex-TAC by Geography & Source

\$ in millions

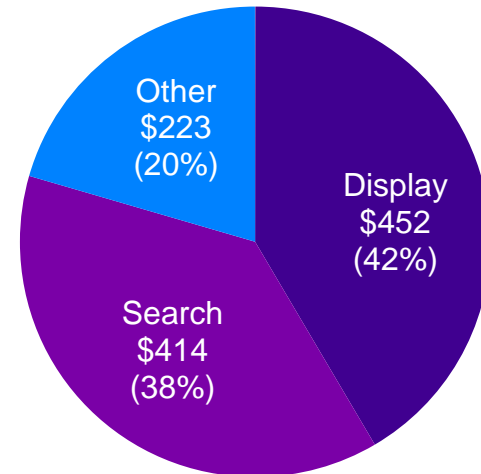
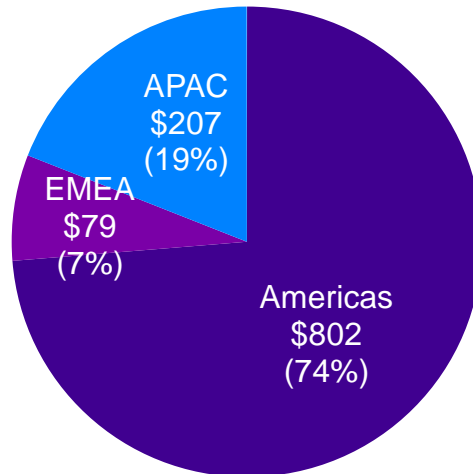
Geography

Source

Q3'13 = \$1,081



Q3'12 = \$1,089



Revenue ex-TAC by Source

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Display revenue ex-TAC YOY Growth	\$454 (4%)	\$473 1%	\$452 0%	\$520 (5%)	\$402 (11%)	\$423 (11%)	\$421 (7%)
Search revenue ex-TAC YOY Growth	\$384 8%	\$385 4%	\$414 11%	\$427 14%	\$409 6%	\$403 5%	\$426 3%
YOY Growth in search click revenue ⁽¹⁾	8%	6%	10%	17%	12%	14%	16%
Other revenue ex-TAC YOY Growth	\$240 1%	\$222 (7%)	\$223 (10%)	\$273 10%	\$264 10%	\$245 10%	\$233 4%
Total revenue ex-TAC YOY Growth	\$1,077 1%	\$1,081 0%	\$1,089 2%	\$1,221 4%	\$1,074 0%	\$1,071 (1%)	\$1,081 (1%)

(1) "Search click revenue" is gross search revenue (before TAC) based on internal data, excluding China and Japan (where Yahoo-branded sites are operated by third-party licensees), Korea and the Microsoft RPS guarantee.

Geographic Segment Data

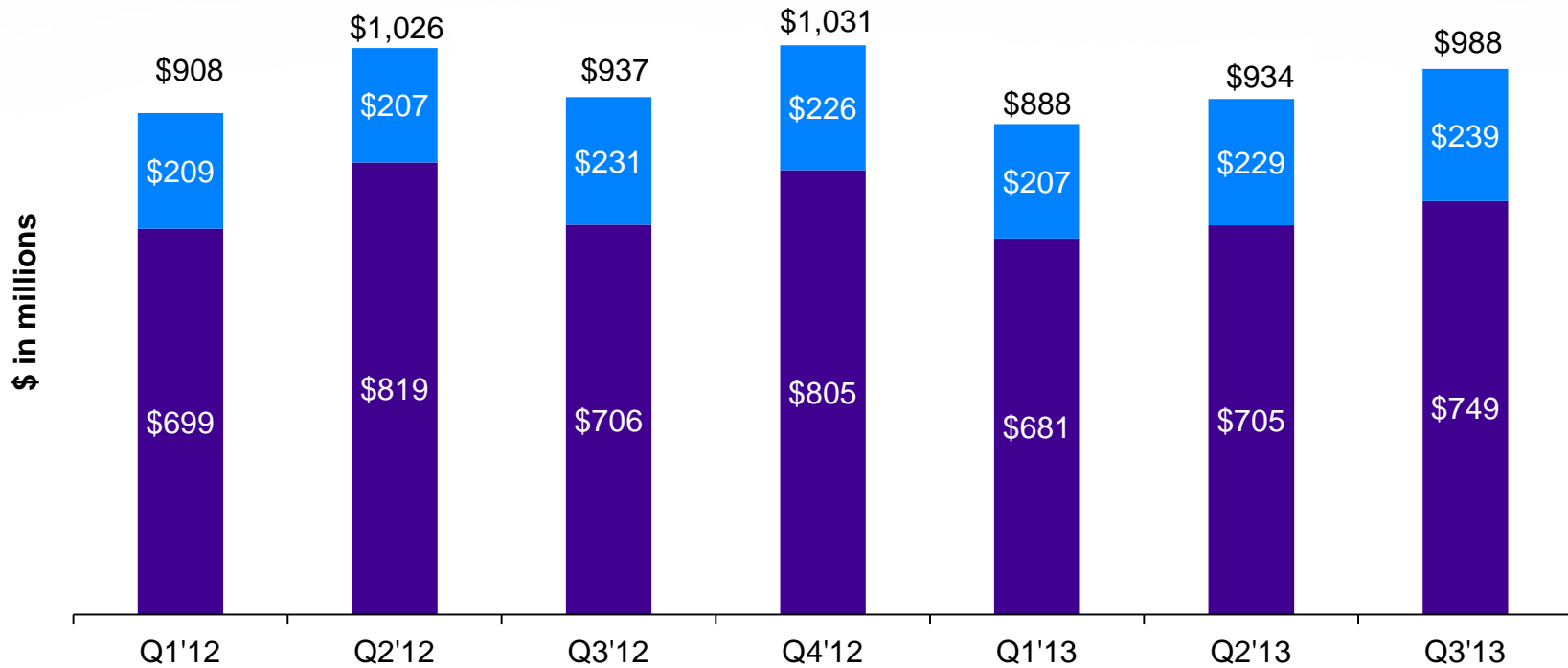
\$ in millions	Q3'12	Q3'13	YOY
Americas			
Revenue ex-TAC	\$802	\$815	2%
Direct costs ⁽¹⁾	<u>\$189</u>	<u>\$171</u>	(10%)
Contribution	\$613	\$643	5%
Americas contribution margin ⁽²⁾	76%	79%	300bps
EMEA (Europe, Middle East, and Africa)			
Revenue ex-TAC	\$79	\$79	0%
Direct costs ⁽¹⁾	<u>\$39</u>	<u>\$40</u>	2%
Contribution	\$40	\$39	(2%)
EMEA contribution margin ⁽²⁾	50%	50%	0bps
Asia Pacific (APAC)			
Revenue ex-TAC	\$207	\$187	(10%)
Direct costs ⁽¹⁾	<u>\$56</u>	<u>\$48</u>	(16%)
Contribution	\$151	\$139	(8%)
Asia Pacific contribution margin ⁽²⁾	73%	75%	200bps

(1) Direct costs for each segment include cost of revenue (excluding TAC) and other operating expenses that are directly attributable to the segment.

(2) Contribution margin is calculated as contribution divided by revenue ex-TAC for each segment.

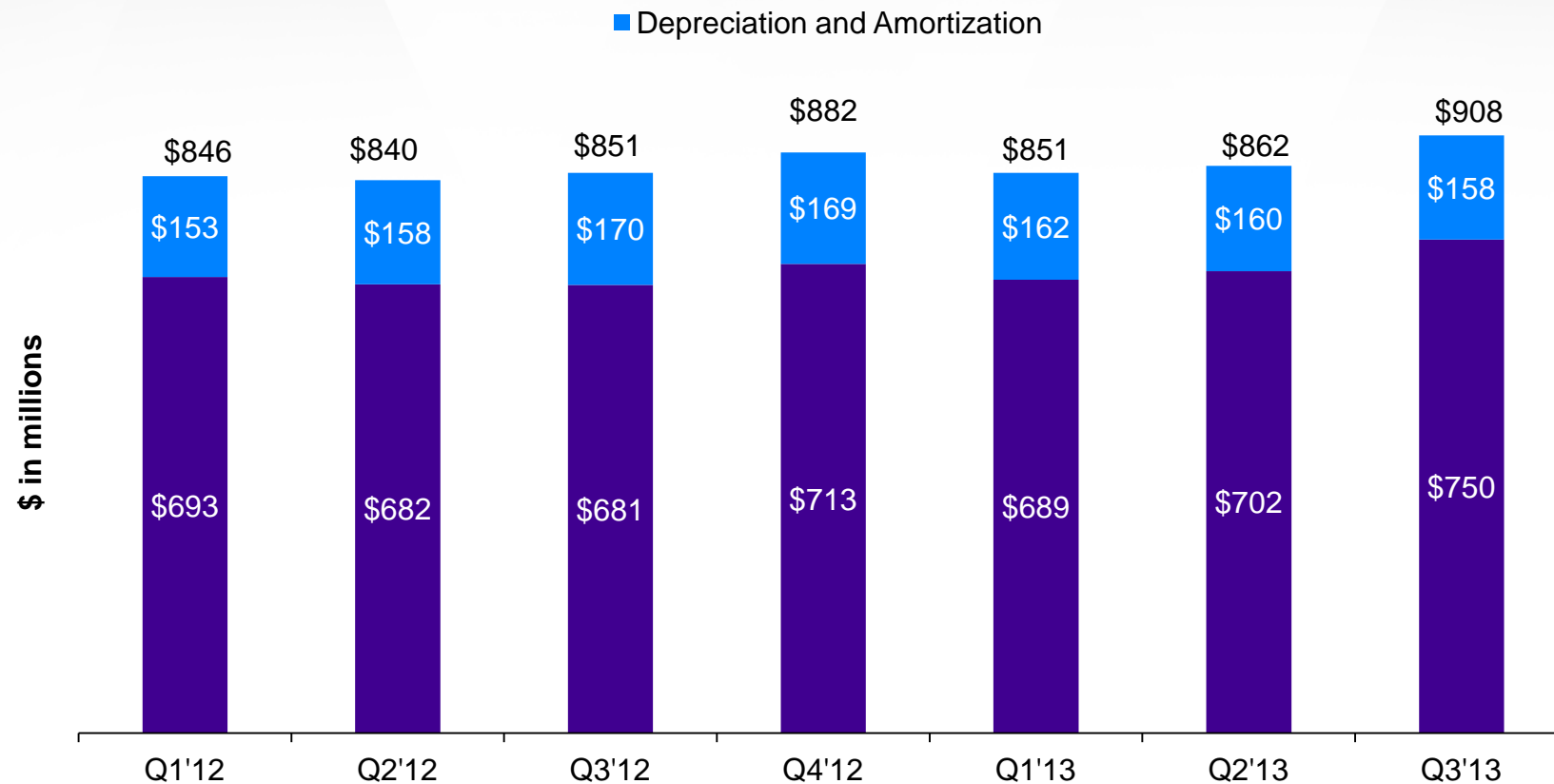
Total Operating Expenses less TAC

■ Depreciation, Amortization, and Stock-based compensation

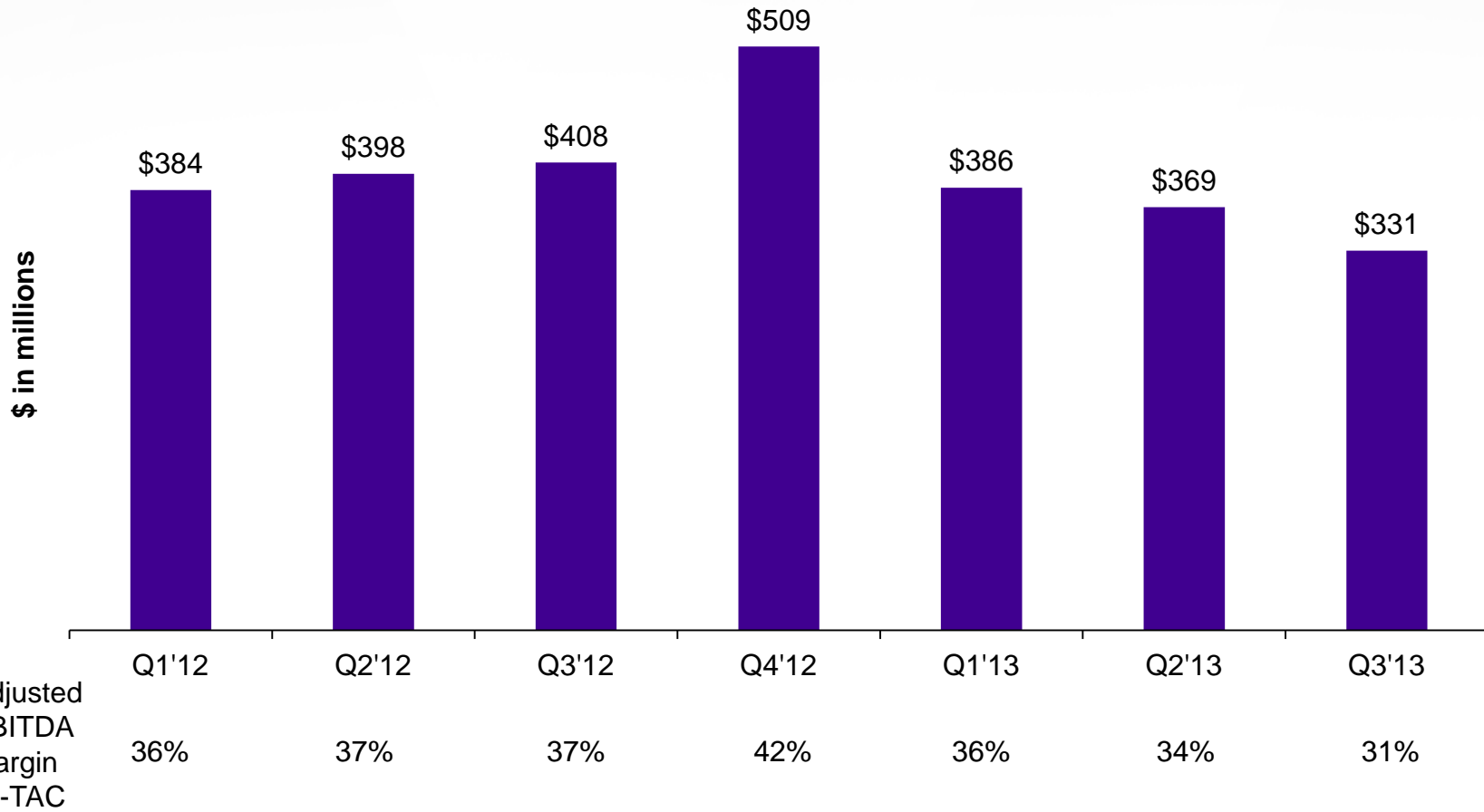


Note: Total operating expenses less TAC includes items the Company does not consider indicative of its ongoing operating expenses. Please see Appendix Table 4.

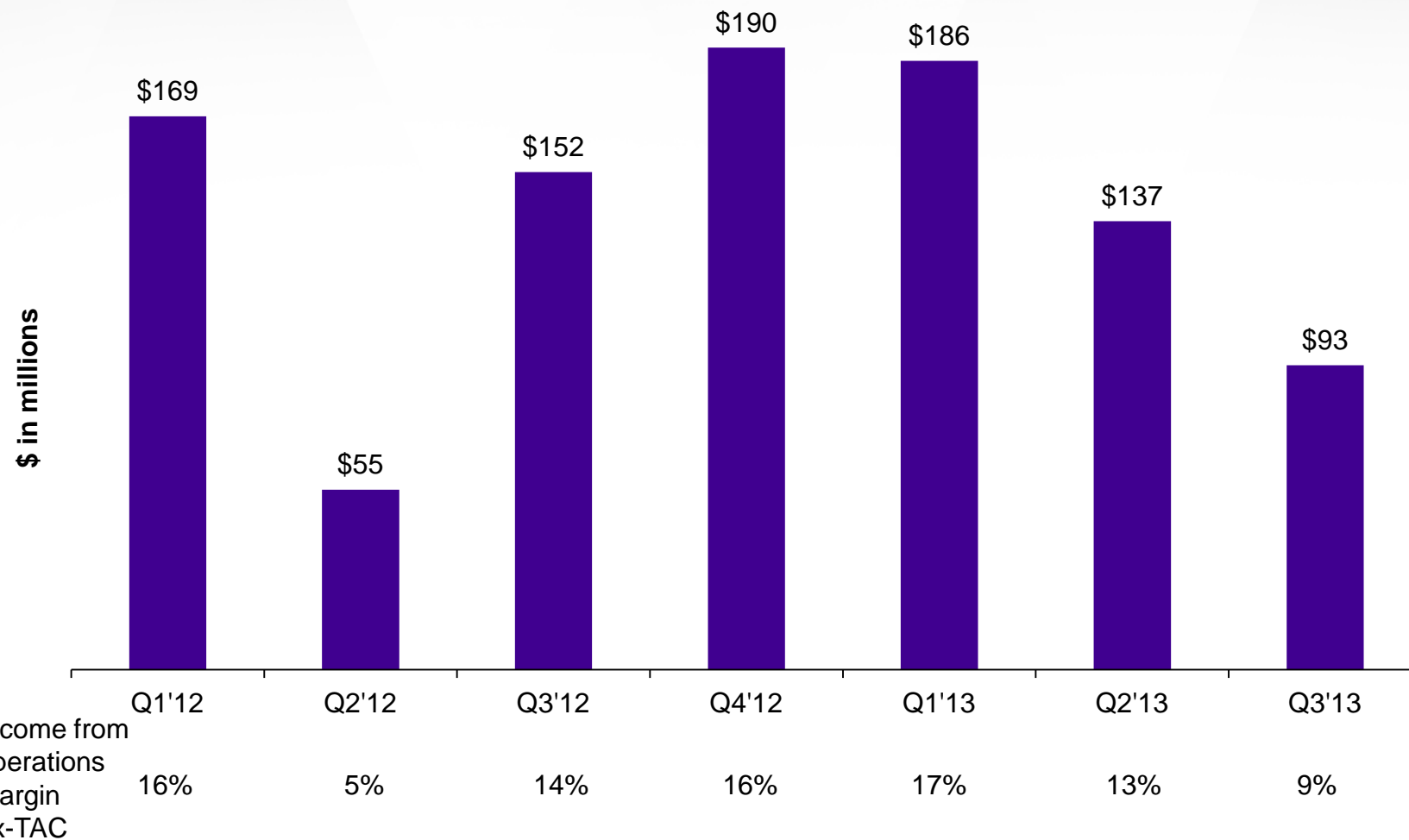
Non-GAAP Total Operating Expenses



Adjusted EBITDA

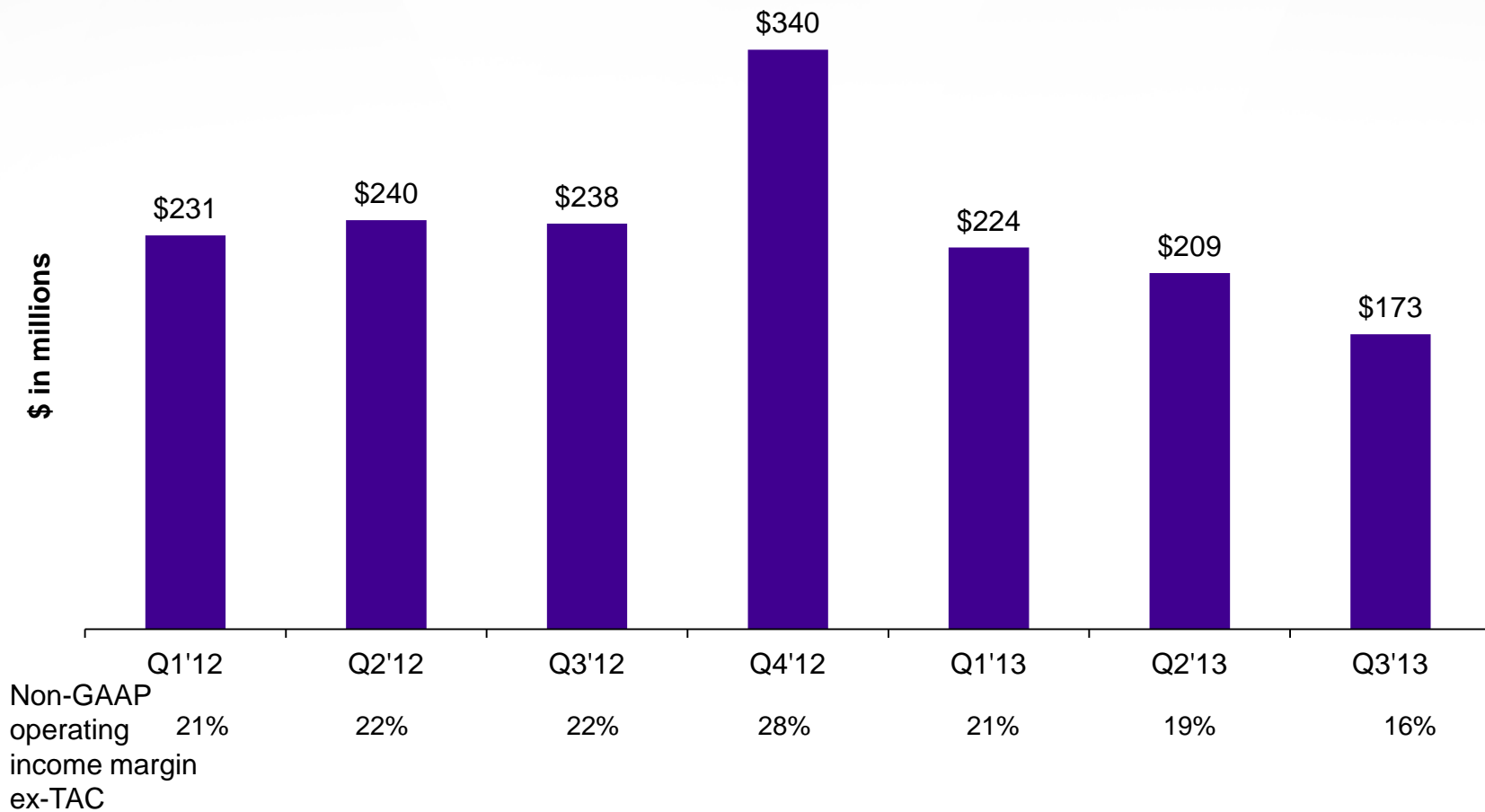


GAAP Income from Operations



Note: Income from operations includes items the Company does not consider indicative of its ongoing operating results. Please see Appendix Table 6.

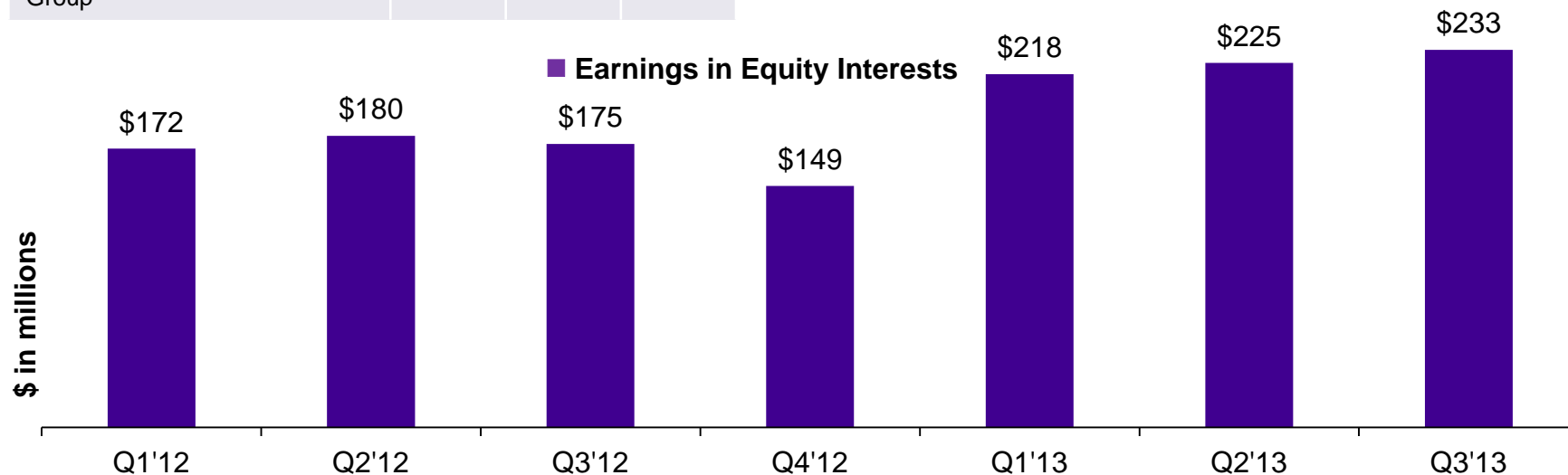
Non-GAAP Operating Income



Earnings in Equity Interests*

Alibaba Group (~24% Ownership)	April - June		
\$ in millions	2012	2013	YOY
Revenue	\$1,077	\$1,737	61%
Gross profit	\$740	\$1,288	74%
Income from operations	\$372	\$856	130%
Net Income	\$293	\$717	145%
Net income attributable to ordinary shareholders of Alibaba Group	\$273	\$707	159%

Yahoo Japan (~35% Ownership)	April - June		
\$ in millions	2012	2013	YOY
Revenue	\$1,037	\$992	(4%)
Gross profit	\$877	\$818	(7%)
Income from operations	\$513	\$490	(5%)
Net Income	\$316	\$365	15%
Net income attributable to Yahoo Japan	\$315	\$362	15%



*The Company currently owns approximately 24% of Alibaba Group and approximately 35% of Yahoo Japan. The Company records its share of their results, any related amortization expense, and in the case of Alibaba Group any related tax impact, one quarter in arrears within earnings in equity interests in the condensed consolidated statements of income.

Note: The financial information presented in the tables above is derived from the financial statements of Alibaba Group (prepared under U.S. GAAP) and Yahoo Japan (prepared under Japanese GAAP). The Company adjusted the Yahoo Japan financial information to address differences between Japanese GAAP and U.S. GAAP that materially impact the presented amounts. Earnings from our equity interest in Yahoo Japan were recorded using an average exchange rate of 98.53 USD/JPY and 80.16 USD/JPY for the periods Apr-June 2013 and Apr-June 2012, respectively.

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Key Balance Sheet Metrics

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Assets							
Cash and marketable securities	\$2,652	\$2,401	\$9,427 ⁽¹⁾	\$6,022	\$5,395	\$4,791	\$3,215
Accounts receivable, net	\$942	\$1,041	\$954	\$1,008	\$944	\$942	\$844
Alibaba Group preference shares	–	–	\$803	\$816	\$831	–	–
Property and equipment, net	\$1,727	\$1,664	\$1,671	\$1,686	\$1,613	\$1,580	\$1,536
Total assets	\$14,963	\$14,658	\$20,414	\$17,103	\$16,491	\$16,226	\$14,906
Liabilities and Equity							
Current deferred revenue	\$179	\$177	\$309	\$297	\$308	\$295	\$294
Total current liabilities	\$1,070	\$1,077	\$3,506	\$1,290	\$1,139	\$1,178	\$1,193
Total equity	\$12,860	\$12,516	\$15,606	\$14,606	\$14,186	\$13,859	\$12,546
Total liabilities and equity	\$14,963	\$14,658	\$20,414	\$17,103	\$16,491	\$16,226	\$14,906
Market value of approximately 35% ownership in Yahoo Japan (at 9/30/13) ⁽²⁾							\$11,406
Value of approximately 24% ownership in Alibaba Group based on September 2012 transaction ⁽³⁾							\$8,100

(1) Cash and marketable securities was positively impacted by Yahoo's receipt of proceeds from the sale of Alibaba Group shares in Q3'12.

(2) Pre-tax market value is based on public market share price for Yahoo Japan on September 30, 2013.

(3) Pre-tax value is based on \$15.50 price per share at which Alibaba Group sold common equity to third-party purchasers in its most recent round of common equity funding (September 2012).

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Key Cash Flow Highlights

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Net cash provided by operating activities, as adjusted	\$297	\$275	\$1,046 ⁽¹⁾	\$366 ⁽²⁾	\$219	\$331	\$298
Acquisition of property and equipment, net	\$110	\$106	\$140	\$150	\$70	\$82	\$78
Dividends received from equity investees	–	\$84	–	–	\$12	\$123	–
Excess tax benefits from stock-based awards	\$8	\$9	\$14	\$5	\$13	\$6	\$29
Free cash flow, as adjusted ⁽³⁾	\$196	\$93	\$920 ⁽¹⁾	\$221 ⁽⁴⁾	\$150	\$131	\$249
Acquisitions, net of cash acquired	–	–	–	\$6	\$10	\$1,014	\$163
Repurchases of common stock	\$71	\$456	\$190	\$1,451	\$775	\$653	\$1,685

(1) Includes a payment of \$550 million from Alibaba Group in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement with Alibaba Group.

(2) Including a cash tax payment of \$2.3 billion related to the sale of Alibaba Group shares, GAAP net cash provided by (used in) operating activities for Q4'12 was (\$1.9) billion.

(3) See Appendix Table 7 for calculation of free cash flow, as adjusted.

(4) Including a cash tax payment of \$2.3 billion related to the sale of Alibaba Group shares, free cash flow for Q4'12 was (\$2,045) million. See Appendix Table 7.

Business Outlook

\$ in millions	Q4'13 Current Outlook	FY2013 Current Outlook
Revenue ex-TAC	\$1,180 - \$1,220	\$4,400 - \$4,450
Adjusted EBITDA	\$400 - \$420	\$1,480 - \$1,500
Non-GAAP operating income	\$240 - \$260	\$840 - \$860

Note: The above business outlook is based on information and expectations as of October 15, 2013. Yahoo does not intend, and undertakes no duty, to update this business outlook to reflect subsequent events or circumstances; however, Yahoo may update this business outlook or any portion thereof at any time at its discretion.

Appendix

Table 1 – Revenue ex-TAC by Segment

Reconciliations of GAAP Revenue to Revenue ex-TAC

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Americas							
GAAP revenue	\$836	\$822	\$844	\$960	\$842	\$829	\$851
TAC	<u>(43)</u>	<u>(46)</u>	<u>(41)</u>	<u>(52)</u>	<u>(38)</u>	<u>(37)</u>	<u>(36)</u>
Revenue ex-TAC	\$793	\$776	\$802	\$908	\$805	\$791	\$815
EMEA							
GAAP revenue	\$134	\$128	\$96	\$114	\$95	\$97	\$89
TAC	<u>(46)</u>	<u>(34)</u>	<u>(17)</u>	<u>(17)</u>	<u>(12)</u>	<u>(11)</u>	<u>(10)</u>
Revenue ex-TAC	\$88	\$94	\$79	\$97	\$83	\$86	\$79
Asia Pacific							
GAAP revenue	\$251	\$268	\$262	\$272	\$203	\$209	\$199
TAC	<u>(55)</u>	<u>(57)</u>	<u>(54)</u>	<u>(56)</u>	<u>(17)</u>	<u>(16)</u>	<u>(12)</u>
Revenue ex-TAC	\$196	\$211	\$207	\$217	\$186	\$193	\$187
Worldwide							
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139
TAC	<u>(144)</u>	<u>(137)</u>	<u>(113)</u>	<u>(125)</u>	<u>(66)</u>	<u>(64)</u>	<u>(58)</u>
Revenue ex-TAC	\$1,077	\$1,081	\$1,089	\$1,221	\$1,074	\$1,071	\$1,081

Table 2 – Revenue Details

Reconciliations of GAAP Revenue to Revenue ex-TAC by Source

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
Display							
GAAP display revenue	\$511	\$535	\$506	\$591	\$455	\$472	\$470
YOY growth	(2%)	2%	1%	(3%)	(11%)	(12%)	(7%)
Display TAC	<u>(57)</u>	<u>(62)</u>	<u>(54)</u>	<u>(70)</u>	<u>(53)</u>	<u>(49)</u>	<u>(49)</u>
Display revenue ex-TAC	\$454	\$473	\$452	\$520	\$402	\$423	\$421
Search							
GAAP search revenue	\$470	\$461	\$473	\$482	\$425	\$418	\$435
YOY growth	3%	(1%)	1%	4%	(10%)	(9%)	(8%)
Search TAC	<u>(87)</u>	<u>(75)</u>	<u>(58)</u>	<u>(55)</u>	<u>(16)</u>	<u>(15)</u>	<u>(9)</u>
Search revenue ex-TAC	\$384	\$385	\$414	\$427	\$409	\$403	\$426
Other							
GAAP other revenue	\$240	\$222	\$223	\$273	\$261	\$245	\$234
YOY growth	1%	(7%)	(10%)	10%	9%	11%	5%
Other TAC	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>3</u>	<u>(1)</u>	<u>(1)</u>
Other revenue ex-TAC	\$240	\$222	\$223	\$273	\$264	\$245	\$233
Total							
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139
YOY growth	1%	(1%)	(1%)	2%	(7%)	(7%)	(5%)
TAC	<u>(144)</u>	<u>(137)</u>	<u>(113)</u>	<u>(125)</u>	<u>(66)</u>	<u>(64)</u>	<u>(58)</u>
Revenue ex-TAC	\$1,077	\$1,081	\$1,089	\$1,221	\$1,074	\$1,071	\$1,081

Table 3 – Revenue and Direct Costs by Segment

\$ in millions	Q3'12	Q3'13
Revenue by segment:		
Americas	\$844	\$851
EMEA	96	89
Asia Pacific	<u>262</u>	<u>199</u>
Total revenue	\$1,202	\$1,139
TAC	<u>(113)</u>	<u>(58)</u>
Total revenue ex-TAC	\$1,089	\$1,081
Direct costs by segment:		
Americas	\$189	\$171
EMEA	39	40
Asia Pacific	56	48
Global operating costs ⁽¹⁾	396	491
Restructuring charges (reversals), net	25	(1)
Depreciation and amortization	170	158
Stock-based compensation expense	<u>61</u>	<u>81</u>
Income from operations	\$152	\$93

(1) 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.

Table 4 – Total Operating Expenses

Reconciliations of GAAP Total Operating Expenses to Total Operating Expenses less TAC, and to Non-GAAP Total Operating Expenses

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP total operating expenses	\$1,052	\$1,163	\$1,050	\$1,156	\$954	\$998	\$1,046
Less: Traffic acquisition costs	<u>(144)</u>	<u>(137)</u>	<u>(113)</u>	<u>(125)</u>	<u>(66)</u>	<u>(64)</u>	<u>(58)</u>
Total operating expenses less TAC	\$908	\$1,026	\$937	\$1,031	\$888	\$934	\$988
Less: Restructuring charges (reversals), net	6	129	25	(7) ⁽¹⁾	(7)	4	(1)
Less: Deal costs related to the sale of Alibaba Group shares	–	7	–	–	–	–	–
Less: Costs associated with the Korea business and its closure	–	–	–	99	–	–	–
Less: Stock-based compensation expense	<u>56</u>	<u>50</u>	<u>61</u>	<u>57</u>	<u>45</u>	<u>68</u>	<u>81</u>
Non-GAAP total operating expenses	\$846	\$840	\$851	\$882	\$851	\$862	\$908

(1) For Q4'12, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in the line "Costs associated with the Korea business and its closure."

Table 5 – Adjusted EBITDA

Reconciliation of GAAP Net Earnings to Adjusted EBITDA

\$ in thousands	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP net earnings	\$286,343	\$226,631	\$3,160,238	\$272,267	\$390,285	\$331,150	\$296,656
(a) Depreciation and amortization	153,248	157,739	169,511	168,769	162,092	160,489	158,216
(b) Stock-based compensation expense	55,966	49,571	61,366	57,462	44,605	68,136	80,726
(c) Restructuring charges, net	5,717	129,092	24,727	(6,794) ⁽¹⁾	(7,062)	3,578	(576)
(d) Other income, net	(2,278)	(20,175)	(4,607,656) ⁽²⁾	(17,730)	(17,072)	(23,606)	(5,370)
(e) Provision for income taxes	56,419	26,523	1,774,094	83,007	29,736	50,267	31,891
(f) Earnings in equity interests	(172,243)	(179,991)	(175,265)	(148,939)	(217,588)	(224,690)	(232,756)
(g) Net income attributable to noncontrolling interests	1,135	1,825	778	1,385	609	3,858	2,338
(h) Deal costs related to the sale of Alibaba Group shares	-	6,500	-	-	-	-	-
(i) Costs associated with the Korea business and its closure	-	-	-	99,485	-	-	-
Adjusted EBITDA	\$384,307	\$397,715	\$407,793	\$508,912	\$385,605	\$369,182	\$331,125
Adjusted EBITDA margin ex-TAC	36%	37%	37%	42%	36%	34%	31%
GAAP net margin ⁽³⁾	23%	19%	N/M	20%	34%	29%	26%

N/M – Not meaningful

(1) For Q4'12, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (i).

(2) Q3'12 includes a \$4.6 billion gain on the sale of Alibaba Group shares.

(3) GAAP net margin is calculated as GAAP net earnings divided by GAAP revenue.

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Table 6 – Non-GAAP Operating Income

Reconciliation of GAAP Income from Operations to Non-GAAP Operating Income

\$ in thousands	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP income from operations	\$169,376	\$54,813	\$152,189	\$189,990	\$185,970	\$136,979	\$92,759
(a) Restructuring charges, net	5,717	129,092	24,727	(6,794) ⁽¹⁾	(7,062)	3,578	(576)
(b) Deal costs related to the sale of Alibaba Group shares	–	6,500	–	–	–	–	–
(c) Costs associated with the Korea business and its closure	–	–	–	99,485	–	–	–
(d) Stock-based compensation expense	<u>55,966</u>	<u>49,571</u>	<u>61,366</u>	<u>57,462</u>	<u>44,605</u>	<u>68,136</u>	<u>80,726</u>
Non-GAAP operating income	\$231,059	\$239,976	\$238,282	\$340,143	\$223,513	\$208,693	\$172,909
GAAP operating income margin	14%	5%	13%	14%	16%	12%	8%
Non-GAAP operating income margin ⁽²⁾	19%	20%	20%	25%	20%	18%	15%
Non-GAAP operating income margin ex-TAC	21%	22%	22%	28%	21%	19%	16%

(1) For Q4'12, this amount excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (c).

(2) Non-GAAP operating income margin is calculated as Non-GAAP operating income divided by GAAP revenue.

Table 7 – Free Cash Flow

Reconciliation of GAAP Cash Flow from Operating Activities to Free Cash Flow and to Free Cash Flow, as adjusted

\$ in millions	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP net cash provided by (used in) operating activities	\$297	\$275	\$1,046⁽¹⁾	(\$1,900)	\$219	\$331	\$298
Excess tax benefits from stock-based awards	8	9	14	5	13	6	29
Acquisition of property and equipment, net	(110)	(106)	(140)	(150)	(70)	(82)	(78)
Dividends received from equity investees	=	(84)	=	=	(12)	(123)	=
Free cash flow	\$196	\$93	\$920⁽¹⁾	(\$2,045)	\$150	\$131	\$249
Tax payment on sale of Alibaba Group shares	=	=	=	2,266	=	=	=
Free cash flow, as adjusted	\$196	\$93	\$920⁽¹⁾	\$221	\$150	\$131	\$249

(1) Includes a cash payment of \$550 million from Alibaba Group in satisfaction of certain future royalty payments under the existing technology and intellectual property license agreement with Alibaba Group.

Table 8 – Non-GAAP Net Earnings Per Share

Reconciliation of GAAP Net Earnings and GAAP Net Earnings Per Share – Diluted to Non-GAAP Net Earnings and Non-GAAP Net Earnings Per Share – Diluted

\$ in millions; except per share amounts	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP net earnings	\$286	\$227	\$3,160	\$272	\$390	\$331	\$297
Adjustments	47	136	(2,690)	141	30	55	62
Non-GAAP net earnings	\$334	\$363	\$470	\$413	\$420	\$386	\$358
GAAP revenue	\$1,221	\$1,218	\$1,202	\$1,346	\$1,140	\$1,135	\$1,139
GAAP net margin ⁽¹⁾	23%	19%	N/M	20%	34%	29%	26%
Non-GAAP net margin ⁽²⁾	27%	30%	39%	31%	37%	34%	31%
GAAP net earnings per share – diluted	\$0.23	\$0.18	\$2.64	\$0.23	\$0.35	\$0.30	\$0.28
Non-GAAP net earnings per share – diluted	\$0.27	\$0.30	\$0.39	\$0.35	\$0.38	\$0.35	\$0.34
Diluted shares outstanding	1,226	1,222	1,195	1,168	1,108	1,095	1,042

N/M – Not meaningful

(1) GAAP net margin is calculated as GAAP net earnings divided by GAAP revenue.

(2) Non-GAAP net margin is calculated as non-GAAP net earnings divided by GAAP revenue.

Note: All per share amounts are based on fully diluted share counts. Please refer to Appendix Table 9 for details on adjustments.

Table 9 – Non-GAAP Net Earnings

Reconciliation of GAAP Net Earnings to Non-GAAP Net Earnings, with Details on Adjustments

\$ in thousands	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13
GAAP net earnings	\$286,343	\$226,631	\$3,160,238	\$272,267	\$390,285	\$331,150	\$296,656
(a) Restructuring charges, net	5,717	129,092	24,727	(6,794) ⁽¹⁾	(7,062)	3,578	(576)
(b) Deal costs related to the sale of Alibaba Group shares	–	6,500	–	–	–	–	–
(c) Gain related to sale of Alibaba Group shares	–	–	(4,603,322)	–	–	–	–
(d) Costs associated with the Korea business and its closure	–	–	–	99,485	–	–	–
(e) Stock-based compensation expense	55,966	49,571	61,366	57,462	44,605	68,136	80,726
(f) To adjust the provision for income taxes to exclude the tax impact of items (a) - (e)	(14,444)	(49,212)	1,827,093	(9,100)	(7,646)	(16,995)	(18,354)
Non-GAAP net earnings	\$333,582	\$362,582	\$470,102	\$413,320	\$420,182	\$385,869	\$358,452

(1) Q4'12 excludes the restructuring charges related to the closure of the Korea business of \$83 million, which are included in item (d).

Table 10 – Business Outlook Reconciliations

\$ in millions	Q4'13 Current Outlook	FY2013 Current Outlook
Revenue ex-TAC		
GAAP Revenue	\$1,240 - \$1,290	\$4,650 - \$4,710
Less: TAC	<u>\$60 - \$70</u>	<u>\$250 - \$260</u>
Revenue ex-TAC	\$1,180 - \$1,220	\$4,400 - \$4,450
Adjusted EBITDA⁽¹⁾:		
Depreciation and amortization	\$160	\$640
Stock-based compensation	\$90 - \$95	\$285 - \$290
Non-GAAP operating income:		
GAAP income from operations	\$150 - \$165	\$555 - \$570
Excluding: Stock-based compensation	<u>\$90 - \$95</u>	<u>\$285 - \$290</u>
Non-GAAP operating income	\$240 - \$260	\$840 - \$860

(1) Yahoo has not reconciled its adjusted EBITDA outlook to the comparable forward-looking GAAP financial measure, net earnings, because it is unable to provide a forward-looking estimate of certain reconciling items between net earnings and adjusted EBITDA, including: other income, net; provision for income taxes; earnings in equity interests; and net income attributable to noncontrolling interests. Certain factors that are materially significant to Yahoo's ability to estimate these items are out of the Company's control and/or cannot be reasonably predicted. Accordingly, a reconciliation to net earnings is not available without unreasonable effort.

Table 11 – Additional Reconciliations

- **Non-GAAP Tax Rate** – On a GAAP basis in Q3'13, provision for income taxes was \$32 million and tax rate was 32%. Excluding the effect of stock-based compensation (which lowered provision for income taxes by \$81 million) and net restructuring charge reversals (which increased provision for income taxes by \$1 million) in Q3'13, provision for income taxes, as adjusted, would have been \$50 million and tax rate, as adjusted, would have been 28% on a non-GAAP basis.