

Yahoo Reports Second Quarter 2014 Results

Written by Australian Business

SUNNYVALE, Calif.--([BUSINESS WIRE](#))--Yahoo! Inc. (NASDAQ: YHOO) today reported results for the quarter ended June 30, 2014.

PercentChange

GAAP revenue	\$1,135 million	\$1,
Revenue ex-TAC	\$1,071 million	\$1,
GAAP income from operations	\$137 million	\$38
Non-GAAP income from operations	\$209 million	\$19
GAAP net earnings per diluted share	\$0.30	\$0.
Non-GAAP net earnings per diluted share	\$0.35	\$0.

"Our top priority is revenue growth and by that measure, we are not satisfied with our Q2 results. While several areas showed strength, their growth was offset by declines. Yahoo Search, for example, had a strong quarter, growing 6% year-over-year on a revenue ex-TAC basis and 19% year-over-year in search click-driven revenue. Our social, mobile, video and native areas also grew with significant momentum, collectively gaining nearly 90% year-over-year. However, display remains an area of investment and transition. In Q2, we saw display revenue decline, further highlighting the fact that we need to work

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faster to ameliorate the negative trends. I believe we can and will do better moving forward," said Yahoo CEO Marissa Mayer. "Overall, I remain confident in Yahoo's future, our strategy, and our return to long-term growth."

GAAP revenue was \$1,084 million for the second quarter of 2014, a 4 percent decrease from the second quarter of 2013. Revenue excluding traffic acquisition costs ("revenue ex-TAC") was \$1,040 million for the second quarter of 2014, a 3 percent decrease compared to the second quarter of 2013.

Adjusted EBITDA for the second quarter of 2014 was \$340 million, an 8 percent decrease compared to the second quarter of 2013.

GAAP income from operations was \$38 million for the second quarter of 2014 (which included restructuring charges of \$53 million and pre-tax gains from sales of patents of \$62 million), a 72 percent decrease from the second quarter of 2013 (which included restructuring charges of \$4 million). Non-GAAP income from operations was \$194 million for the second quarter of 2014 compared to \$209 million in the second quarter of 2013.

GAAP net earnings for the second quarter of 2014 was \$270 million (which included restructuring charges of \$33 million, net of tax, and gains from sales of patents of \$43 million, net of tax), a 19 percent decrease compared to \$331 million in the second quarter of 2013 (which included restructuring charges of \$2 million, net of tax). Non-GAAP net earnings for the second quarter of 2014 was \$382 million, a 1 percent decrease from the same period of 2013.

GAAP net earnings per diluted share was \$0.26 in the second quarter of 2014 (which included restructuring charges of \$0.03 per diluted share and gains on sales of patents of \$0.04 per diluted share), compared to \$0.30 in the second quarter of 2013. Non-GAAP net earnings per diluted share was \$0.37 for the second quarter of 2014, compared to \$0.35 in the second quarter of 2013.

Business Highlights

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- Yahoo requested and Alibaba Group agreed to an amendment to the share repurchase agreement that reduces the maximum number of shares that Yahoo is required to sell in connection with Alibaba's initial public offering from 208 million shares to 140 million shares.
- Yahoo continued to launch new products and improve existing properties in the second quarter, innovating for the daily habits of users around the world. The Company launched the Yahoo Aviate intelligent homescreen; Yahoo News Digest for Android, international and Canadian editions; Yahoo Screen for Android; a new version of Yahoo Mail for iPhone and Android; Flickr for iPhone, iPod Touch, and Android; a new Flickr experience on Apple TV; and three new digital magazines powered by Tumblr: Yahoo Travel, Yahoo Movies, and Yahoo Beauty. Notably, Yahoo's recently launched News Digest won the Apple Design Award 2014.
- In the advertising space, Yahoo introduced image-rich native ads designed to be mobile-first, seamlessly integrated with content, and targeted to the right consumer to drive results -- all available through Yahoo Gemini. Yahoo also extended stream ads globally and announced Tumblr sponsored posts are now promoted across the Yahoo network.
- Yahoo continued to strengthen its editorial content by investing in the first two original comedies in the Company's new lineup of long-form shows: "Other Space" and "Sin City Saints." The Company also announced that Season 6 of "Community" is coming to Yahoo Screen, as well as the new Live Nation Channel on Yahoo Screen, which will produce the largest collection of U.S. concert live streams on the web.
- Yahoo Sports' focus during the second quarter was on football: both the U.S. and the European varieties. Yahoo Sports launched Fantasy Football for iOS and Android leveraging original content from both Yahoo Sports Fantasy experts and NFL writers. The Company also launched Yahoo Sports World Football Pick'em as World Cup 2014 kicked off. In collaboration with Yahoo Global Sports Ambassador Jose Mourinho, the Company designed the #Special1s campaign on Tumblr to identify 10 World Cup superstar fans.
- Shareholders elected four new board members this quarter: David Filo, Co-Founder and Chief Yahoo; Charles Schwab, Chairman of The Charles Schwab Corporation; H. Lee Scott, Jr., former President, Chief Executive Officer, and director of Walmart; and Dr. Jane Shaw, former director and Chairman of the Board of Intel Corporation and current director of McKesson Corporation.

Second Quarter 2014 Financial Highlights

Display:

- GAAP display revenue was \$436 million for the second quarter of 2014, an 8

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percent decrease compared to \$472 million for the second quarter of 2013.

- Display revenue ex-TAC was \$394 million for the second quarter of 2014, a 7 percent decrease compared to \$423 million for the second quarter of 2013.
- The number of Ads Sold increased approximately 24 percent compared to the second quarter of 2013.
- Price-per-Ad decreased approximately 24 percent compared to the second quarter of 2013.

Search:

- GAAP search revenue was \$428 million for the second quarter of 2014, a 2 percent increase compared to \$418 million for the second quarter of 2013 (which included the Microsoft RPS guarantee).
- Search revenue ex-TAC was \$428 million for the second quarter of 2014, a 6 percent increase compared to \$403 million for the second quarter of 2013 (which included the Microsoft RPS guarantee).
- The number of Paid Clicks increased approximately 3 percent compared to the second quarter of 2013.
- Price-per-Click increased approximately 15 percent compared to the second quarter of 2013.

Cash Balance:

- Cash, cash equivalents, and investments in marketable securities were \$4.3 billion as of June 30, 2014 compared to \$5 billion as of December 31, 2013, a decrease of \$0.7 billion.
- During the second quarter of 2014, Yahoo repurchased approximately 21 million shares for \$719 million.

“We are pleased to announce today that we have entered into an amendment to the share repurchase agreement with Alibaba, reducing the number of shares that Yahoo is required to sell at the IPO from 208 million shares to 140 million shares. In addition, we are aware that there has been much discussion around the allocation of the Alibaba IPO proceeds,” said Ken Goldman, CFO of Yahoo. “We would like to take this opportunity to let our investors know that we are committed to return at least half of the after-tax IPO proceeds to shareholders, in line with our overarching commitment to maximizing shareholder value through prudent capital allocation.”

Live Stream

Yahoo will live stream a video broadcast of the Company's second quarter 2014 financial results at 2 p.m. Pacific Time/5 p.m. Eastern Time today. The live stream will be broadcast from Yahoo's Sunnyvale studio and will be available exclusively on Yahoo Finance at finance.yahoo.com. The Company will provide its business outlook for the third quarter during the presentation. Supplemental financial information can be accessed through the Company's Investor Relations website at investor.yahoo.net.

The video will be archived after the event at investor.yahoo.net and will be available for 90 days following the broadcast.

Non-GAAP Financial Measures

This press release and its attachments include the following financial measures defined as non-GAAP financial measures by the Securities and Exchange Commission ("SEC"): revenue ex-TAC; adjusted EBITDA; non-GAAP income from operations; non-GAAP net earnings; non-GAAP net earnings per share - diluted; and free cash flow.

Revenue ex-TAC is GAAP revenue less traffic acquisition costs. Adjusted EBITDA, non-GAAP income from operations, non-GAAP net earnings and non-GAAP net earnings per share - diluted, exclude from the most comparable GAAP financial measures certain gains, losses, and expenses that we do not believe are indicative of ongoing results, and exclude stock-based compensation expense. Adjusted EBITDA also excludes taxes, depreciation, amortization of intangible assets, other income, net (which includes interest), earnings in equity interests, and net income attributable to noncontrolling interests. Free cash flow is GAAP net cash provided by operating activities (adjusted to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net and dividends received from equity investees.

These measures may be different than non-GAAP financial measures used by other companies. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in

accordance with generally accepted accounting principles (“GAAP”). Explanations of the Company’s non-GAAP financial measures and reconciliations of these financial measures to the GAAP financial measures the Company considers most comparable are included in the accompanying “Note to Unaudited Condensed Consolidated Financial Statements,” “Supplemental Financial Data and GAAP to Non-GAAP Reconciliations,” and “GAAP to Non-GAAP Reconciliations.”

About Yahoo

Yahoo is focused on making the world’s daily habits inspiring and entertaining. By creating highly personalized experiences for our users, we keep people connected to what matters most to them, across devices and around the world. In turn, we create value for advertisers by connecting them with the audiences that build their businesses. Yahoo is headquartered in Sunnyvale, California, and has offices located throughout the Americas, Asia Pacific (APAC) and the Europe, Middle East and Africa (EMEA) regions. For more information, visit the pressroom (pressroom.yahoo.net) or the Company's blog (yahoo.tumblr.com).

“Affiliates” refers to the third-party entities that have integrated Yahoo’s advertising offerings into their Websites or other offerings (those Websites and other offerings, “Affiliate sites”).

“Net earnings” means net income attributable to Yahoo! Inc., and “net earnings per diluted share” means net income attributable to Yahoo! Inc. common stockholders per share – diluted.

“Ads Sold” consist of display ad impressions for paying advertisers on Yahoo Properties.

“Paid Clicks” are clicks by end-users on sponsored search listings on Yahoo Properties and Affiliate sites.

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“Price-per-Ad” is defined as display revenue from Yahoo Properties divided by our total number of Ads Sold.

“Price-per-Click” is defined as search revenue divided by our total number of Paid Clicks.

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-Ad and Price-per-Click.

Additional information about how “Ads Sold,” “Paid Clicks,” “Price-per-Ad,” and “Price-per-Click” are defined and calculated is included under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, which is on file with the SEC and available on the SEC’s website at www.sec.gov.

“Search Agreement” refers to the Search and Advertising Services and Sales Agreement between Yahoo and Microsoft Corporation, as amended.

“Search click-driven revenue” or “Search click revenue” is gross search revenue (before TAC) excluding the Microsoft RPS guarantee.□□

“TAC” refers to traffic acquisition costs. TAC consists of payments to Affiliates and payments made to companies that direct consumer and business traffic to Yahoo Properties.

“Yahoo Properties” refers to the online properties and services that Yahoo provides to users.

This press release contains forward-looking statements concerning Yahoo’s expected

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financial performance and Yahoo's strategic and operational plans (including, without limitation, the quotations from management). 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 Agreement with Microsoft Corporation; risks related to acquiring or developing compelling content; risks related to joint ventures and the integration of acquisitions; risks relating to possible impairment of goodwill or other assets; risks related to fluctuations in foreign currency exchange rates; 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 the calculation of our key operational metrics; dependence on third parties for technology, services, content, and distribution; and general economic conditions. All information set forth in this press release and its attachments is as of July 15, 2014. Yahoo does not intend, and undertakes no duty, to update this information to reflect subsequent events or circumstances. More information about potential factors that could affect the Company's business and financial results is included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, which are on file with the SEC and available on the SEC's website at www.sec.gov. Additional information will also be set forth in those sections in Yahoo's Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, which will be filed with the SEC in the third quarter of 2014.

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Yahoo! Inc.

Unaudited Condensed Consolidated Balance Sheets (in thousands)

December 31,

June 30,

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2013

2014

ASSETS

Current assets:

Cash and cash equivalents	\$	2,077,590	\$
Short-term marketable securities	1,330,304	1,629,869	
Accounts receivable, net	979,559	824,472	
Prepaid expenses and other current assets	638,404	588,822	
Total current assets	5,025,857	4,157,749	
Long-term marketable securities	1,589,500	1,566,120	
Property and equipment, net	1,488,518	1,470,272	
Goodwill	4,679,648	4,693,656	
Intangible assets, net	417,808	364,332	
Other long-term assets	177,281	175,872	
Investments in equity interests	3,426,347	4,028,812	

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Total assets	\$	16,804,959	\$
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$	138,031	\$
Accrued expenses and other current liabilities	1,071,762	784,345	
Deferred revenue	294,499	287,508	
Total current liabilities	1,340,312	1,193,786	
Convertible notes	1,110,585	1,140,112	
Long-term deferred revenue	258,904	186,348	
Capital lease and other long-term liabilities	116,605	153,511	
Deferred and other long-term tax liabilities	245,966	1,052,541	
Total liabilities	3,674,362	3,726,298	
Total Yahoo! Inc. stockholders' equity	13,074,909	12,691,988	
Noncontrolling interests	55,688	38,527	
Total equity	13,130,597	12,730,515	
Total liabilities and equity	\$	16,804,959	\$

Yahoo! Inc.

Unaudited Condensed Consolidated Statements of Income
(in thousands, except per share amounts)

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	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	2013
Revenue	\$	1,135,244	\$
Operating expenses:			
Cost of revenue - traffic acquisition costs	64,316		43,826
Cost of revenue - other	271,262		271,148
Sales and marketing	279,738		292,817
Product development	246,198		303,659

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General and administrative	135,039	128,019
Amortization of intangibles	8,084	15,164
Gains on sales of patents	(9,950)	
Restructuring charges (reversals), net	3,578	
Total operating expenses	998,265	
Income from operations	136,979	38,437
Other income (expense), net	23,606	

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Income before income taxes and earnings in equity interests	168,585	24,848
Provision for income taxes	(50,267)	)
Earnings in equity interests	224,690	
Net income	335,008	272,557
Less: Net income attributable to noncontrolling interests	(4,858)	)
Net income attributable to Yahoo Inc.		331,150

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

Shares used in per share calculation - 1,091,694

Stock-based compensation expense by function:

Cost of revenue - other \$ 3,029

\$

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Sales and marketing	23,775	33,380
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Product development	20,537	39,507
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General and administrative	20,795	26,349
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Supplemental Financial Data:

Revenue ex-TAC	\$	1,070,928	\$
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Adjusted EBITDA	\$	369,182	\$
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Free cash flow	\$	131,400	\$
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(1)

The impact of outstanding stock awards

Yahoo! Inc.

Unaudited Condensed Consolidated Statements of Cash Flows (in thousands)

	Three Months Ended	Six Months Ended	
	June 30,	June 30,	
	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$	335,008	\$
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	141,426		116,446
Amortization of intangible assets	19,067		30,414
Accretion of convertible notes discount			14,860

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Stock-based compensation expense	68,136		102,445
Non-cash restructuring (credits) charges			(7,031
Loss from sale of investments, assets, and other, net	1,270		15,117
Gains from sales of patents	(9,950	)	
Earnings in equity interests	(224,690	)	
Dividend income related to Alibaba Group Limited Preference Shares	(15,475	)	
Tax benefits from stock-based awards	188		19,161
Excess tax benefits from stock-based awards	(5,706	)	

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Deferred income taxes	(7,839	)	
Dividends received from equity investments	43,058		83,685
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	657		55,725
Prepaid expenses and other	(48,431	)	
Accounts payable	11,381		(29,567
Accrued expenses and other liabilities	(7,183	)	
Deferred revenue	(50,089	)	

Net cash provided by operating activities 630,828

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of property and equipment (82,176)

Purchases of marketable securities (763,009)

Proceeds from sales of marketable securities 1,017,246 212,028

Proceeds from maturities of marketable securities 179,306 408,356

Proceeds related to the redemption of 2014 Group Preference Shares -

Purchases of intangible assets (924)

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Proceeds from settlement of derivative hedge contracts	170,457
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Payments for settlement of derivative contracts	(17,700)
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Acquisitions, net of cash acquired	(1,014,010)
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Equity investments	-	-
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Proceeds from sales of patents	-	1,500
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Other investing activities, net	(652)	)
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Net cash provided by (used in) investing activities	246,572
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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of common stock	84,760
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Repurchases of common stock	(652,750)
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Excess tax benefits from stock-based compensation	19,544
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Tax withholdings related to net share settlements of restricted stock units	(7,148)
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Distributions to noncontrolling interests	(22,344)
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Other financing activities, net	(1,373)
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Net cash used in financing activities (593,881)

Effect of exchange rate changes on cash and cash equivalents (15,229)

Net change in cash and cash equivalents (612,410)

Cash and cash equivalents, beginning of period 1,746,663

Cash and cash equivalents, end of period 1,142,223

Yahoo! Inc. Note to Unaudited Condensed Consolidated Financial Statements

This press release and its attachments include the non-GAAP financial measures of revenue excluding traffic acquisition costs ("revenue ex-TAC"); adjusted EBITDA; non-GAAP income from operations; non-GAAP net earnings; non-GAAP net earnings per diluted share; and free cash flow, which are reconciled to revenue; net income attributable to Yahoo! Inc. (in the case of adjusted EBITDA and non-GAAP net earnings); income from operations; net income attributable to Yahoo! Inc. common stockholders per share – diluted; and net cash provided by operating activities, which we believe are the most comparable GAAP measures. We use these non-GAAP financial measures for internal managerial purposes and to facilitate period-to-period comparisons. We describe limitations specific to each non-GAAP financial measure below. Management generally compensates for limitations in the use of non-GAAP financial measures by relying on comparable GAAP financial measures and providing investors with a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure or measures. Further, management uses non-GAAP financial measures only in addition to and in conjunction with results presented in accordance with GAAP. We believe that these non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provide a more complete understanding of factors and trends affecting our business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, revenue, net income attributable to Yahoo! Inc., income from operations, net income attributable to Yahoo! Inc. common stockholders per share – diluted, and net cash provided by operating activities calculated in accordance with GAAP.

Revenue ex-TAC is a non-GAAP financial measure defined as GAAP revenue less TAC. TAC consists of payments made to third-party entities that have integrated our advertising offerings into their Websites or other offerings (those Websites and other offerings, "Affiliate sites") and payments made to companies that direct consumer and business traffic to Yahoo's online properties and services ("Yahoo Properties"). Based on the terms of the Search Agreement with Microsoft, 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. Yahoo reports the net revenue it receives under the Search Agreement as revenue and no longer presents the associated TAC. Accordingly, for the current period Yahoo reports GAAP revenue associated with the Search Agreement on a net (after TAC) basis rather than a gross basis. For the 2013 comparison period, revenue from markets that had not yet transitioned to Microsoft's

platform was recorded on a gross basis, and the associated TAC was recorded as a part of operating expenses. We present revenue ex-TAC to provide investors a metric used by the Company for evaluation and decision-making purposes 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 the Company, and therefore it may not enhance the comparability of our results to other companies in our industry who have similar business 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 includes TAC in non-transitioned markets.

Adjusted EBITDA is 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 other gains, losses, and expenses that we do not believe are indicative of our ongoing results. Yahoo presents 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 the Company's workforce; adjusted EBITDA also excludes 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, and these items may represent a reduction or increase in cash available to us; and adjusted EBITDA is a measure that may be unique to the Company, 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.

Non-GAAP income from operations is defined as 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. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions

involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand the impact of stock-based compensation expense on income from operations. We consider non-GAAP income from operations to be a profitability measure which facilitates the forecasting of our operating results for future periods and allows for the comparison of our results to historical periods. A limitation of non-GAAP income from operations is that it does not include all items that impact our income from operations for the period. Management compensates for this limitation by also relying on the comparable GAAP financial measure of income from operations which includes the gains, losses, and expenses that are excluded from non-GAAP income from operations.

Non-GAAP net earnings is defined as net income attributable to Yahoo! Inc. 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. Because of the variety of equity awards used by companies, the varying methodologies for determining stock-based compensation expense, and the subjective assumptions involved in those determinations, we believe excluding stock-based compensation expense enhances the ability of management and investors to understand the impact of stock-based compensation expense on net income and net income per share. We consider non-GAAP net earnings and non-GAAP net earnings per diluted share to be profitability measures which facilitate the forecasting of our results for future periods and allow for the comparison of our results to historical periods. A limitation of non-GAAP net earnings and non-GAAP net earnings per diluted share is that they do not include all items that impact our net income and net income per diluted share for the period. Management compensates for this limitation by also relying on the comparable GAAP financial measures of net income attributable to Yahoo! Inc. and net income attributable to Yahoo! Inc. common stockholders per share - diluted, both of which include the gains, losses, expenses and related tax effects that are excluded from non-GAAP net earnings and non-GAAP net earnings per diluted share.

Free cash flow is a non-GAAP financial measure defined as net cash provided by operating activities (adjusted to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net and dividends received from equity investees. 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 the Company's 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 this limitation by also relying on the net change in cash and cash equivalents as presented in the Company's unaudited condensed consolidated statements of cash flows prepared in accordance with GAAP

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which incorporates all cash movements during the period.

Yahoo! Inc.

Supplemental Financial Data and GAAP to Non-GAAP Reconciliations (in thousands)

	Three Months Ended	Six Months Ended	
	June 30,	June 30,	
	2013	2014	2013
Revenue for groups of similar services:			
Display	\$	471,742	\$
Search	418,202		428,418
Other	245,300		
Total revenue	\$	1,135,244	

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Revenue excluding traffic acquisition costs ("revenue ex-TAC") for groups of similar servi

GAAP display revenue	\$	471,742	\$
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TAC associated with display revenue (48,610	)
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Display revenue ex-TAC	\$	423,132
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GAAP search revenue	\$	418,202	\$
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TAC associated with search revenue (14,931	)
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Search revenue ex-TAC	\$	403,271
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Other GAAP revenue	\$	245,300
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\$

TAC associated with other GAAP revenue	(775)	)
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Other revenue ex-TAC	\$	244,525
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Revenue ex-TAC:

GAAP revenue	\$	1,135,244	\$
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TAC	(64,316	)
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Revenue ex-TAC	\$	1,070,928
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Revenue ex-TAC by segment:

Americas:

GAAP revenue	\$	828,537	\$
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TAC	(37,120	)
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Revenue ex-TAC	\$	791,417
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EMEA:

GAAP revenue	\$	97,387
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\$

TAC	(11,372	)
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Revenue ex-TAC	\$	86,015
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Asia Pacific:

GAAP revenue	\$	209,320	\$
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TAC	(15,824	)
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Revenue ex-TAC	\$	193,496
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Total revenue ex-TAC	\$	1,070,928
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Direct costs by segment⁽²⁾				:
Americas	\$	186,019		\$
EMEA	41,913		38,536	
Asia Pacific	49,432		45,249	
Global operating costs⁽³⁾		424,382		
Restructuring charges (reversals), net⁽³⁾			52,621	
Depreciation and amortization	160,489		146,860	
Stock-based compensation expense	68,136			

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Income from operations	\$	136,979
-------------------------------	-----------	----------------

Reconciliation of net income attributable to Yahoo! Inc. to	adjusted EBITDA:
--	-------------------------

Net income attributable to Yahoo! Inc.	331,150
---	----------------

\$

Depreciation and amortization	160,489	146,860
--------------------------------------	----------------	----------------

Stock-based compensation expense	68,136	102,445
---	---------------	----------------

Restructuring charges (reversals), net	3,578	52,621
---	--------------	---------------

Other income (expense), net	(23,606)	)
------------------------------------	-----------------	----------

Provision for income taxes	50,267	8,143
-----------------------------------	---------------	--------------

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Earnings in equity interests	(224,690	)
------------------------------	----------	---

Net income attributable to noncontrolling interests	1,958
---	-------

Adjusted EBITDA	\$	369,182
-----------------	----	---------

Reconciliation of net cash provided by operating activities to	free cash flow:
--	-----------------

Net cash provided by operating activities	\$	330,828
---	----	---------

\$

Acquisition of property and equipment	(82,176	)
---------------------------------------	---------	---

Dividends received from equity investments (123,058)

Excess tax benefits from stock-based awards 5,766

Free cash flow \$ 131,400

(2) Direct costs for each segment include cost of revenue-other, as
 (3) Global operating costs include product development, service

Yahoo! Inc.

GAAP to Non-GAAP Reconciliations
 (in thousands, except per share amounts)

	Three Months Ended June 30, 2013	2014
GAAP income from operations	\$ 136,979	\$

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(a)	Restructuring charges, net	3,578
(b)	Stock-based compensation expense	68,136

Non-GAAP income from operations\$208,693

GAAP net income attributable to Yahoo! Inc.331,150\$

(a)	Restructuring charges, net	3,578
(b)	Stock-based compensation expense	68,136

(c) To adjust the provision for income taxes, exclude the tax impact of the stock-based compensation expense\$16,095

Non-GAAP net earnings\$385,869

GAAP net income attributable to Yahoo! Inc. common stockholders\$0.30per share, diluted

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Non-GAAP net earnings^(a) per share - diluted \$ 0.35

Shares used in per share calculation - 1,091,694

**Six Months Ended
June 30,
2013**

2014

GAAP income from operations \$ 322,949 \$

(a) Restructuring (reversals) charges, net (3,484)

(b) Stock-based compensation expense 112,741

Non-GAAP income from operations \$ 432,206

GAAP net income attributable to Yahoo! Inc. 721,435

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					\$
(a)	Restructuring (reversals) charges, net	(3,484		)	
(b)	Stock-based compensation	112,741			
(c)	To adjust the provision for income taxes, exclude the tax impact of	(24,641		)	
	Non-GAAP net earnings	\$	806,051		
	GAAP net income attributable to Yahoo! Inc. common stockholders	\$	610,695	per share - diluted	0.65
	Non-GAAP net earnings	\$	806,051	per share - diluted	0.73
	Shares used in per share calculation - diluted		1,101,695		

(1)

The impact of outstanding stock awards of entities in which the

(4) **The impact of outstanding stock awards of entities in which the**

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